

## IAS 19 *Employee Benefits*

as issued at 1 January 2012. Includes IFRSs with an effective date after 1 January 2012 but not the IFRSs they will replace.

*This extract has been prepared by IFRS Foundation staff and has not been approved by the IASB. For the requirements reference must be made to International Financial Reporting Standards.*

*Employee benefits* are all forms of consideration given by an entity in exchange for service rendered by employees or for the termination of employment.

The objective of this Standard is to prescribe the accounting and disclosure for employee benefits. The Standard requires an entity to recognise:

- (a) a liability when an employee has provided service in exchange for employee benefits to be paid in the future; and
- (b) an expense when the entity consumes the economic benefit arising from service provided by an employee in exchange for employee benefits.

This Standard shall be applied by an employer in accounting for all employee benefits, except those to which IFRS 2 *Share-based Payment* applies.

### Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service.

When an employee has rendered service to an entity during an accounting period, the entity shall recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- (a) as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, an entity shall recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund.
- (b) as an expense, unless another IFRS requires or permits the inclusion of the benefits in the cost of an asset (see, for example, IAS 2 *Inventories* and IAS 16 *Property, Plant and Equipment*).

## Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits and short-term employee benefits) that are payable after the completion of employment. Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees. Post-employment benefit plans are classified as either defined contribution plans or defined benefit plans, depending on the economic substance of the plan as derived from its principal terms and conditions.

### Post-employment benefits: defined contribution plans

Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. Under defined contribution plans the entity's legal or constructive obligation is limited to the amount that it agrees to contribute to the fund. Thus, the amount of the post-employment benefits received by the employee is determined by the amount of contributions paid by an entity (and perhaps also the employee) to a post-employment benefit plan or to an insurance company, together with investment returns arising from the contributions. In consequence, actuarial risk (that benefits will be less than expected) and investment risk (that assets invested will be insufficient to meet expected benefits) fall, in substance, on the employee.

When an employee has rendered service to an entity during a period, the entity shall recognise the contribution payable to a defined contribution plan in exchange for that service:

- (a) as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the end of the reporting period, an entity shall recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund.
- (b) as an expense, unless another IFRS requires or permits the inclusion of the contribution in the cost of an asset (see, for example, IAS 2 *Inventories* and IAS 16 *Property, Plant and Equipment*).

### Post-employment benefits: defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans. Under defined benefit plans:

- (a) the entity's obligation is to provide the agreed benefits to current and former employees; and
- (b) actuarial risk (that benefits will cost more than expected) and investment risk fall, in substance, on the entity. If actuarial or investment experience are worse than expected, the entity's obligation may be increased.

Accounting by an entity for defined benefit plans involves the following steps:

- (a) determining the deficit or surplus. This involves:
  - (i) using an actuarial technique, the projected unit credit method, to make a reliable estimate of the ultimate cost to the entity of the benefit that employees have earned in return for their service in the

current and prior periods. This requires an entity to determine how much benefit is attributable to the current and prior periods and to make estimates (actuarial assumptions) about demographic variables (such as employee turnover and mortality) and financial variables (such as future increases in salaries and medical costs) that will affect the cost of the benefit;

- (ii) discounting that benefit in order to determine the present value of the defined benefit obligation and the current service cost;
- (iii) deducting the fair value of any plan assets from the present value of the defined benefit obligation;
- (b) determining the amount of and the net defined benefit liability (asset) as the amount of the deficit or surplus determined in (a), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling.
- (c) determining amounts to be recognised in profit and loss:
  - (i) current service cost.
  - (ii) any past service cost and gain or loss on settlement.
  - (iv) net interest on the net defined benefit liability (asset).
- (d) determining the remeasurements of the net defined benefit liability (asset), to be recognised in other comprehensive income, comprising:
  - (i) actuarial gains and losses;
  - (ii) return on plan assets, excluding amounts included in net interest on the net defined benefit liability (asset); and
  - (iii) any change in the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability (asset).

Where an entity has more than one defined benefit plan, the entity applies these procedures for each material plan separately.

## **Other long-term employee benefits**

Other long-term employee benefits are all employee benefits other than short-term employee benefits, post-employment benefits and termination benefits.

The Standard requires a simplified method of accounting for other long-term employee benefits. Unlike the accounting required for post-employment benefits, this method does not recognise remeasurements in other comprehensive income..

## **Termination benefits**

Termination benefits are employee benefits provided in exchange for the termination of an employee's employment as a result of either:

- (a) an entity's decision to terminate an employee's employment before the normal retirement date; or
- (b) an employee's decision to accept an offer of benefits in exchange for the termination of employment.

An entity shall recognise a liability and expense for termination benefits at the earlier of the following dates:

- (a) when the entity can no longer withdraw the offer of those benefits; and
- (b) when the entity recognises costs for a restructuring that is within the scope of IAS 37 and involves the payment of termination benefits.