Accounting for employee benefits (pas 19)

Sociology, Empowerment

REACTION PAPER The Seminar about “ Accounting for Employee Benefits (PAS 19)” was held at Multi-Purpose Hall of Engineering Building last July 20, 2012. The speaker for this event was Mr. Ysmael Acosta. At first I was really curious about that seminar of what topic does the speaker would discuss. When the seminar goes on, there are some topic that are really interesting and some are not quite clear for me.

Sometimes it makes me feel bored when listening to him because he really speak very fast, that’s why I can’t understand him very well. For now, I would like to discuss those topics that makes me interested. Employee Benefits outlines the accounting requirements for employee benefits, including short-term benefits (like wages and salaries, annual leave), post-employment benefits such as retirement benefits, other long-term benefits (like long service leave) and termination benefits.

The standard establishes the principle that the cost of providing employee benefits should be recognised in the period in which the benefit is earned by the employee, rather than when it is paid or payable, and outlines how each category of employee benefits are measured, providing detailed guidance in particular about post-employment benefits. The basic principle of PAS 19 is the cost of providing employee benefits should be recognised in the period in which the benefit is earned by the employee, rather than when it is paid or payable.

The objective of “ PAS 19” as I remembered correctly, is to prescribe the accounting and disclosure for employee benefits (that is, all forms of consideration given by an entity in exchange for service rendered by employees). The principle underlying all of the detailed requirements of the

Standard is that the cost of providing employee benefits should be recognised in the period in which the benefit is earned by the employee, rather than when it is paid or payable. The scope of PAS 19 applies to wages and salaries; compensated absences (paid vacation and sick leave); profit sharing plans; bonuses; medical and ife insurance benefits during employment; housing benefits; free or subsidised goods or services given to employees; pension benefits; post-employment medical and life insurance benefits; long-service or sabbatical leave; 'jubilee' benefits; deferred compensation programmes; and termination benefits. As time goes by, there are changes and ammendments on the PAS 19. From the simple Exposure Draft E16 Accounting for Retirement Benefits in Financial Statements of Employers (April 1980) to The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction last June 16, 2011.

This issue tells that the accounting for employee benefits, particularly pensions and other post-retirement benefits, has long been a complex and difficult area and initial plans for a full review of pension accounting had to be deferred in light of competing priorities, ultimately leaving the IASB to proceed alone on improving specific aspects of the existing requirements of IAS 19. Prior to the amendment, IAS 19 permitted choices on how to account for actuarial gains and losses on pensions and similar items, including the so-called 'corridor approach' which resulted the deferral of gains and losses.

The Exposure Draft proposed eliminating the use of the 'corridor' approach and instead mandating all remeasurement impacts be recognised in OCI (with the remainder in profit or loss) – and in fact had proposed extending these requirements to all long-term employee benefits (e. g. certain long service leave schemes). The final amendments make the OCI presentation changes inrespectof pensions (and similar items) only, but all other long term benefits are required to be measured in the same way even though changes in the recognised amount are fully reflected in profit or loss.

Also changed in PAS 19 is the treatment for termination benefits, specifically the point in time when an entity would recognise a liability for termination benefits. The final amendments do not adopt the equivalent US-GAAP requirements verbatim (which requires individual employees to be notified), but the recognition timeframe may be extended in some cases. Finally, various other amendments to IAS 19 may have impacts in particular areas.

For instance, employee benefits not settled wholly before twelve months after the end of the annual reporting period would be captured as an 'other long term benefit' rather than a 'short term benefit', and whilst presented as a current item in the statement of financial position, would be measured differently under the amendments. PAS 19 requires an entity to determine the rate used to discount employee benefits with reference to market yields on high quality corporate bonds. However, when there is no deep market in corporate bonds, an entity is required to use market yields on government bonds instead.

The global financial crisis has led to a widening of the spread between yields on corporate bonds and yields on government bonds. As a result, entities with similar employee benefit obligations may report them at very different amounts. If adopted, the amendments would ensure that the comparability of financial statements is maintained across jurisdictions, regardless of whether there is a deep market for high quality corporate bonds. Time flew very fast. This seminar taught us so many things that we can use in the near future. Though there is not enough time to discuss everything, we still accomplished a lot.