IFRS Accounting

Educational Module 28
Employee Benefits

IFRS for SMEs®

Accounting Standard

Third Edition

International Accounting Standards Board

IFRS® Foundation
Supporting Material for the
IFRS for SMEs® Accounting Standard

including the full text of
Section 28 *Employee Benefits* of the
IFRS for SMEs Accounting Standard issued by
the International Accounting Standards Board in February 2025

with extensive explanations, self-assessment questions and case studies

Contents

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The requirements of Section 28 *Employment Benefits* of the *IFRS for SMEs* Accounting Standard are set out in this module and shown with grey shading. Appendix B of the *IFRS for SMEs* Accounting Standard contains the glossary (Glossary) and is part of the requirements. Terms defined in the Glossary are reproduced in **bold type** the first time they appear in the text of Section 28.

This module has been prepared by International Accounting Standards Board (IASB) technical staff. The educational notes and examples inserted by the staff are not shaded. These educational notes and examples do not form part of the *IFRS for SMEs* Accounting Standard and have not been approved by the IASB.

INTRODUCTION

IFRS for SMEs® Accounting Standard

The *IFRS for SMEs* Accounting Standard (Standard) is intended for use by entities that publish general purpose financial statements and that do not have public accountability (referred to as small and medium-sized entities—see Section 1 *Small and Medium-sized Entities* of the Standard).

The objective of general purpose financial statements is to provide information about a reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity.

More information about the Standard and its supporting materials is available on the IFRS Foundation website: www.ifrs.org.

This module

This education module supports the requirements for accounting for employee benefits in accordance with Section 28 *Employee Benefits* of the Standard. The module:

- provides explanations and examples to improve understanding of the requirements in Section 28;
- identifies the significant judgements required in accounting for employee benefits in accordance with Section 28;
- includes questions designed to test your understanding of the requirements in Section 28; and
- includes case studies that provide a practical opportunity to apply the requirements in Section 28.

After completing the module, you should be able:

- to identify four types of employee benefits accounted for in accordance with Section 28—short-term employee benefits, post-employment benefits, other long-term employee benefits and termination benefits;
- to identify when and how to recognise the cost of employee benefits;
- to measure employee benefits;

- to present and disclose employee benefits in financial statements; and
- to demonstrate an understanding of the significant judgements that are required in accounting for employee benefits.

Which version of the Standard does the module refer to?

Any reference in this module to 'the *IFRS for SMEs* Accounting Standard' is to the third edition of the Standard, issued in February 2025.

Introduction to the requirements

Section 28 sets out the requirements for employee benefits (other than share-based payments, which are within the scope of Section 26 *Share-based Payment* of the Standard). These requirements ensure that an entity provides users of its financial statements with information about the cost of its employee benefits, and related assets and liabilities.

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees. An entity recognises as an expense the cost of all employee benefits to which its employees have become entitled as a result of service rendered to the entity in the current or past reporting periods, unless another section of the Standard requires the cost to be recognised as part of the cost of an asset (for example, Section 13 *Inventories* or Section 17 *Property, Plant and Equipment* of the Standard).

Liabilities for short-term employee benefits are measured at undiscounted amounts. Liabilities for post-employment defined benefit plans and other long-term employee benefits are measured by subtracting the fair value at the reporting date of plan assets (if any) from the present value of obligations under defined benefit plans (or other long-term employee benefit schemes) at the reporting date. Obligations to pay termination benefits are measured at the best estimate of the expenditure that would be required to settle the obligation at the reporting date.

The section also specifies the disclosures an entity is required to make about employee benefits.

What has changed in the third edition of the Standard?

The IASB updated Section 28 by:

- clarifying that an entity is required to assess the depth of the market in high quality corporate bonds at a currency level;
- clarifying that an entity using the simplified approach set out in paragraph 28.19 measures the defined benefit obligation at the current termination amount, assuming all the entity's employees terminate their employment at the reporting date;
- amending the requirements on the timing of the recognition of termination benefits to align them with the requirements on the recognition of restructuring costs in Section 21 *Provisions and Contingencies*; and
- amending the disclosure requirements.

REQUIREMENTS AND EXAMPLES

Scope of this section

28.1 **Employee benefits** are all forms of consideration given by an entity in exchange for service rendered by employees, including directors and management. This section applies to all employee benefits, except for **share-based payment transactions**, which are covered by Section 26 *Share-based Payment*. Employee benefits covered by this section will be one of the following four types:

(a) short-term employee benefits, which are employee benefits (other than **termination benefits**) that are wholly due within twelve months after the end of the period in which the employees render the related service;

(b) **post-employment benefits**, which are employee benefits (other than termination benefits) that are payable after the completion of employment;

(c) other long-term employee benefits, which are employee benefits (other than post-employment benefits and termination benefits) that are not wholly due within twelve months after the end of the period in which the employees render the related service; and

(d) termination benefits, which are employee benefits payable as a result of either:

(i) an entity's decision to terminate an employee's employment before the normal retirement date; or

(ii) an employee's decision to accept an offer of benefits in exchange for termination of employment.

28.2 Employee benefits also include share-based payment transactions by which employees receive **equity** instruments (such as shares or share options) or **cash** or other **assets** of the entity in amounts that are based on the price of the entity's shares or other equity instruments of the entity. An entity shall apply Section 26 in accounting for share-based payment transactions.

Educational notes

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees. They include benefits provided to either employees or their dependants and are settled by payments (or the provision of goods or services) directly to the employees; to their spouses, children or other dependants; or to others, such as insurance companies. An employee might provide services to an entity on a full-time, part-time, permanent, casual or temporary basis. In this section, employees include directors and other management personnel.

General recognition principle for all employee benefits

28.3 An entity shall recognise the cost of all employee benefits to which its employees have become entitled as a result of service rendered to the entity during the **reporting period**:

(a) as a **liability**, after deducting amounts that have been paid either directly to the employees or as a contribution to an employee benefit fund. If the amount paid exceeds the obligation arising from service before the **reporting date**, an entity shall recognise that excess as an asset to the extent that the prepayment will lead to a reduction in future payments or a cash refund.

(b) as an **expense**, unless another section of this Standard requires the cost to be recognised as part of the cost of an asset such as **inventories** or **property, plant and equipment**.

Examples—General recognition principle for employee benefits

Ex 1 On 1 January 20X2 an SME paid one of its employees CU1,000 for work performed in December 20X1.[1] All goods manufactured by the employee in December were sold to the SME's customers by 31 December 20X1.

At 31 December 20X1 the SME recognises a liability of CU1,000 (accrual of employee benefits) for the amount due to the employee and an expense of the same amount (part of cost of goods sold—see paragraph 13.20 of Section 13 *Inventories*).

Ex 2 The facts are the same as in Example 1. However, in this example, the goods manufactured in December were in the SME's inventories at 31 December 20X1.

At 31 December 20X1 the SME recognises a liability of CU1,000 (accrual of employee benefits) for the amount due to the employee and recognises the cost of the employee benefits in the cost of inventories.

Ex 3 The facts are the same as in Example 1. However, in this example, the employee manufactured an item of equipment that the SME will use in manufacturing goods in future periods.

At 31 December 20X1 the SME recognises a liability of CU1,000 (accrual of employee benefits) for the amount due to the employee and recognises the benefits in the cost of the equipment (an asset) in accordance with paragraph 17.10(b) of Section 17 *Property, Plant and Equipment*.

Note: The amount of the employee benefit recognised in the cost of the asset will, in future periods, be recognised in profit or loss as depreciation expense over the useful life of the asset, or as an impairment loss, or in the gain or loss on derecognition of the item of equipment (see Section 17).

1 In this example, and in all other examples in this module, monetary amounts are denominated in currency units (CU).

Short-term employee benefits

Examples

28.4 Short-term employee benefits include items such as:

(a) wages, salaries and social security contributions;

(b) short-term compensated absences (such as paid annual leave and paid sick leave) when the absences are expected to occur within twelve months after the end of the period in which the employees render the related employee service;

(c) profit-sharing and bonuses payable within twelve months after the end of the period in which the employees render the related service; and

(d) non-monetary benefits (such as medical care, housing, cars and free or subsidised goods or services) for current employees.

Measurement of short-term benefits

28.5 When an employee has rendered service to an entity during the reporting period, the entity shall measure the amounts recognised in accordance with paragraph 28.3 at the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service.

Educational notes

No actuarial assumptions are required to measure short-term employee benefits.

Examples—Short-term employee benefits

Ex 4 **On 31 December 20X1 an SME paid its employees CU1,000,000 (after withholding CU400,000 of taxes deducted from the employees' remuneration to be paid by the SME on behalf of the employees to the tax authorities) for work done in December 20X1. On 1 January 20X2 the SME paid to the tax authority the CU400,000 deducted from its employees' remuneration.**

On 2 January 20X2 the SME paid a further CU20,000 to the tax authority. This tax is an obligation of the SME and is calculated based on its December 20X1 payroll.

In December 20X1 the SME recognises short-term employee benefits of CU1,400,000 (CU1,000,000 paid to employees and CU400,000 paid on behalf of its employees to the tax authorities).

The CU20,000 payroll tax levied directly on the SME is not an employee benefit because it is not consideration given by the SME in exchange for services rendered by its employees.

The following entries are made:

31 December 20X1

Dr	Profit or loss		CU1,400,000	
	Cr	Cash		CU1,000,000
	Cr	Liability (accrued expense)		CU400,000

To recognise the short-term employee benefits incurred in December 20X1.

Dr	Profit or loss		CU20,000	
	Cr	Liability (accrued expense)		CU20,000

To recognise the tax levied on the SME's payroll for December 20X1.

1 January 20X2

Dr	Liability (accrued expense)		CU400,000	
	Cr	Cash		CU400,000

To recognise the settlement of the taxes collected from the SME's employees accrued in 20X1.

2 January 20X2

Dr	Liability (accrued expense)		CU20,000	
	Cr	Cash		CU20,000

To recognise the settlement of the payroll tax levied on the SME.

Ex 5 **An SME's employees are each entitled to five days of paid sick leave per year. Unused sick leave is carried forward for one calendar year.**

The sick leave is a short-term employee benefit because the paid absence is required to occur within 12 months after the end of the period in which the employees render the related employee service.

Ex 6 **A profit-sharing plan requires an SME to pay a specified proportion of its profit for the year to employees who serve throughout the year. This payment is required to be made within 12 months after the end of the period in which the employees render the related employee service.**

The profit-sharing plan is a short-term employee benefit because the profit share is due to the employees who served throughout the year within 12 months after the end of the period.

Ex 7 **An SME provides its expatriate employees with housing that it rents from independent third parties.**

The expatriate housing scheme is a short-term employee benefit because the housing benefit is due in the period in which the employees render the related employee service.

Examples—Not short-term employee benefits

Ex 8 **The facts are the same as in Example 5. However, in this example, unused sick leave is carried forward for three calendar years. Many employees accumulate more than 10 days of unused sick leave.**

The sick leave is not a short-term employee benefit because the paid absence is not due to be paid wholly within 12 months after the end of the period in which the employees render the related employee service. The sick leave is accounted for in the same way as other long-term employee benefits (see paragraphs 28.29–28.30).

Ex 9 **A profit-sharing plan requires an SME to pay a specified proportion of its cumulative profit for a five-year period to employees who serve throughout that period.**

The profit-sharing plan is not a short-term employee benefit because the profit share is not due to be paid wholly within 12 months after the end of the period in which the employees render the related employee service. The profit-sharing plan is accounted for in the same way as other long-term employee benefits (see paragraphs 28.29–28.30).

Recognition and measurement—short-term compensated absences

28.6 An entity may compensate employees for absence for various reasons including annual vacation leave and sick leave. Some short-term compensated absences accumulate—they can be carried forward and used in future periods if the employee does not use the current period's entitlement in full. Examples include annual vacation leave and sick leave. An entity shall recognise the expected cost of **accumulating compensated absences** when the employees render service that increases their entitlement to future compensated absences. The entity shall measure the expected cost of accumulating compensated absences at the undiscounted additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the end of the reporting period. The entity shall present this amount as a current liability at the reporting date.

28.7 An entity shall recognise the cost of other (non-accumulating) compensated absences when the absences occur. The entity shall measure the cost of non-accumulating compensated absences at the undiscounted amount of salaries and wages paid or payable for the period of absence.

Educational notes

An entity might remunerate employees for absence for various reasons including vacation leave, sickness and short-term disability leave, maternity or paternity leave, jury service and military service. Entitlement to such paid absences is either accumulating (see paragraph 28.6) or non-accumulating (see paragraph 28.7).

Examples—Accumulating paid absences

Ex 10 An SME's employees are each entitled to five days of paid sick leave per year. Unused sick leave is carried forward for one calendar year. Sick leave is taken first out of any balance brought forward from the previous year and then out of the current year's entitlement, or first in, first out (FIFO).

The SME does not anticipate a future saving due to unused sick leave expiring.

At 1 January 20X1 the SME's obligation for sick leave (current liability) was measured as CU2,600.

At 31 December 20X1 the SME's sick leave records were:

Employee	*Wage rate (per working day in 20X1) CU*	*Accumulated sick leave days due on 1 January 20X1*	*Days of sick leave earned in 20X1*	*Days of sick leave taken in 20X1*	*Percentage wage increase effective from 1 January 20X2*
1	400	4.5	5	2	5%
2	310	2	5	3	2%
3	250	0	5	9	2%
4	180	1	5	4.5	6%

At 31 December 20X1 the SME's liability for sick leave is CU3,651 (CU2,100 for Employee 1 + CU1,265 for Employee 2 + CU286 for Employee 4), calculated as follows:

- Employee 1—CU2,100 = current wage rate per working day (CU400) × 1.05 expected increase in salary × 5 (maximum) days due at 31 December 20X1 and expected to be taken in 20X2.
- Employee 2—CU1,265 = current wage rate per working day (CU310) × 1.02 expected increase in salary × 4 days due at 31 December 20X1 and expected to be taken in 20X2.
- Employee 3—CU0 = current wage rate per working day (CU250) × 1.02 expected increase in salary × 0 days due at 31 December 20X1.
- Employee 4—CU286 = current wage rate per working day (CU180) × 1.06 expected increase in salary × 1.5 days due at 31 December 20X1 and expected to be taken in 20X2.

The SME recognises the change in the sick leave liability as follows:

Dr	Profit or loss (or assets—see paragraph 28.3(b))	CU1,051[a]	
Cr	Short-term paid absences (sick leave)		CU1,051

(a) CU3,651 sick leave liability as at 31 December 20X1 – CU2,600 sick leave liability as at 1 January 20X1.

Ex 11 The facts are the same as in Example 10. However, in this example, the employee receives payment from the SME for sick leave not taken within 12 months after the end of the period in which the employee renders the related service. The SME pays the employee for such unused sick leave on the last day of the year following the year in which the employee rendered the service.

On 31 December 20X1 the SME pays Employee 1 CU1,000 = wage rate per working day (CU400) × 2.5 days of vested sick leave accrued in 20X0 that was unused at 31 December 20X1.

At 31 December 20X1 the SME's liability for sick leave is CU3,651 (CU2,100 for Employee 1 + CU1,265 for Employee 2 + CU286 for Employee 4).

The following entries are made:

31 December 20X1

Dr	Short-term paid absences (sick leave)	CU1,000[a]	
Cr	Cash		CU1,000

To recognise the settlement of the obligation for sick leave not taken.

Dr	Profit or loss (or assets—see paragraph 28.3(b))	CU2,051[b]	
Cr	Short-term paid absences (sick leave)		CU2,051

To recognise the change in the sick leave liability.

(a) CU400 wage rate per working day × 2.5 days of vested sick leave accrued in 20X0 that was unused at 31 December 20X1.

(b) CU3,651 sick leave liability as at 31 December 20X1 – CU1,600 (CU2,600 sick leave liability at 1 January 20X1 – CU1,000 settled on 31 December 20X1).

Ex 12 **An SME has 100 employees, who are each entitled to five days of paid sick leave per year. Unused sick leave is carried forward for one calendar year. Sick leave is taken first out of the current year's entitlement and then out of any balance brought forward from the previous year—or last in, first out. At 31 December 20X1 the average unused entitlement is two days per employee. Based on past experience, the SME expects 92 employees to take no more than five days of paid sick leave in 20X2, and the remaining eight employees to take an average of six and a half days each.**

The SME expects to pay for 12 days of sick pay earned in the prior year, reflecting the unused entitlement accumulated at 31 December 20X1 (one and a half days each, for the eight employees expected to use more than they earned in the current year). This amount is calculated as six and a half days of expected sick leave minus 20X2 sick leave entitlement of five days for each of the eight employees. Therefore, the SME recognises a liability equal to 12 days of sick pay.

Examples—Non-accumulating paid absences

Ex 13 **The facts are the same as in Example 10. However, in this example, sick leave cannot be carried forward to the next calendar year.**

At 31 December 20X1 the SME has no liability for sick leave because all unused sick leave expires at the end of each calendar year.

Ex 14 **The facts are the same as in Example 12. However, in this example, sick leave cannot be carried forward to the next calendar year.**

At 31 December 20X1 the SME has no liability for sick leave because all unused sick leave expires at the end of each calendar year.

Ex 15 **An SME's employees are each entitled to 25 days of holiday leave per year. Unused holiday leave vests at the end of each calendar year. Employees are paid for all vested holiday leave in the month following the end of a calendar year at the previous year's salary rates.**

At 1 January 20X1 the SME's obligation for holiday leave vested at the end of 20X0 (current liability) was measured as CU2,600.

At 31 December 20X1 the SME's holiday leave records were:

Employee	*Wage rate (per working day in 20X0) CU*	*Vested holiday leave days on 1 January 20X1*[(a)]	*Days of holiday leave taken in 20X1*	*Percentage wage increase effective from 1 January 20X1*
1	400	4.5	20	5%
2	310	2	22	2%
3	250	0	25	2%
4	180	1	10	6%

[(a)] Settled in cash on 31 January 20X1.

On 31 January 20X1 the SME pays its employees CU2,600 (CU1,800 for Employee 1 + CU620 for Employee 2 + CU180 for Employee 4) for vested holiday leave.

- Employee 1—CU1,800 = wage rate per working day (CU400) × 4.5 days of vested non-accumulating holiday leave at 31 December 20X0.
- Employee 2—CU620 = wage rate per working day (CU310) × 2 vested days of non-accumulating holiday leave at 31 December 20X0.
- Employee 3—CU0 = wage rate per working day (CU250) × 0 days of vested non-accumulating holiday leave at 31 December 20X0.
- Employee 4—CU180 = wage rate per working day (CU180) × 1 day of vested non-accumulating holiday leave at 31 December 20X0.

On 31 January 20X1 the SME recognises the settlement of the non-accumulating paid holiday leave as follows:

Dr	Short-term paid absences (holiday leave)	CU2,600	
	Cr Cash		CU2,600

At 31 December 20X1 the SME's liability for holiday leave is CU5,911 (CU2,100 for Employee 1 + CU949 for Employee 2 + CU2,862 for Employee 4).

- Employee 1—CU2,100 = wage rate per working day (CU400) × 1.05 expected increase in salary × 5 vested days of non-accumulating holiday leave at 31 December 20X1.
- Employee 2—CU949 = wage rate per working day (CU310) × 1.02 expected increase in salary × 3 vested days of non-accumulating holiday leave at 31 December 20X1.
- Employee 3—CU0 = wage rate per working day (CU250) × 1.02 expected increase in salary × 0 vested days of non-accumulating holiday leave at 31 December 20X1.
- Employee 4—CU2,862 = wage rate per working day (CU180) × 1.06 expected increase in salary × 15 days of vested non-accumulating holiday leave at 31 December 20X1.

At 31 December 20X1 the SME recognises a liability for the non-accumulating paid holiday leave as follows:

Dr	Profit or loss (or assets—see paragraph 28.3(b))	CU5,911	
	Cr Short-term paid absences (holiday leave)		CU5,911

Recognition—profit-sharing and bonus plans

28.8 An entity shall recognise the expected cost of profit-sharing and bonus payments only when:

(a) the entity has a present legal or constructive obligation to make such payments as a result of past events (this means that the entity has no realistic alternative but to make the payments); and

(b) a reliable estimate of the obligation can be made.

Educational notes

As defined in the Glossary, a constructive obligation is:

An obligation that derives from an entity's actions where:

(a) by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept particular responsibilities; and

(b) as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

Examples—Profit-sharing and bonus plans

Ex 16 A profit-sharing plan requires an SME to pay employees 5% of its profit for the year before profit-sharing bonuses. For the year ended 31 December 20X1 the SME had a profit before profit-sharing bonuses of CU2 million. Bonuses are paid in January.

At 31 December 20X1 the SME recognises a liability for the profit-sharing bonuses plan as follows:

Dr Profit or loss (or assets—see paragraph 28.3(b))	CU100,000[(a)]	
Cr Profit-sharing bonuses plan		CU100,000

(a) 5% × CU2,000,000. The amount is not discounted (see paragraph 28.5).

Ex 17 In 20X1 an SME implemented a profit-sharing plan. The plan requires the SME to pay 3% of its profit before profit-sharing bonuses for the year to employees who serve throughout the current year and who will continue to serve throughout the following year. For the year ended 31 December 20X1 the profit before profit-sharing bonuses is CU1 million. The SME expects to save 10% of the maximum possible bonus payment through staff turnover. The bonus will be paid on 31 December 20X2.

At 31 December 20X1 the SME recognises a liability for its profit-sharing bonuses plan as follows:

Dr	Profit or loss (or assets—see paragraph 28.3(b))	CU27,000[(a)]	
	Cr Profit-sharing bonuses plan		CU27,000

(a) CU30,000 maximum possible bonus = 3% × CU1,000,000.

CU27,000 = maximum possible bonus (CU30,000) – 10% saving due to staff turnover. The amount is not discounted (see paragraph 28.5).

Post-employment benefits: distinction between defined contribution plans and defined benefit plans

28.9 Post-employment benefits include, for example:

(a) retirement benefits, such as pensions; and

(b) other post-employment benefits, such as post-employment life insurance and post employment medical care.

Arrangements whereby an entity provides post-employment benefits are **post-employment benefit plans**. An entity shall apply this section to all such arrangements whether or not they involve the establishment of a separate entity to receive contributions and to pay benefits. In some cases, these arrangements are imposed by law instead of by action of the entity. In some cases, these arrangements arise from actions of the entity even in the absence of a formal, documented plan.

28.10 Post-employment benefit plans are classified as either **defined contribution plans** or **defined benefit plans**, depending on their principal terms and conditions:

(a) defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and has no legal or constructive obligation to pay further contributions or to make direct benefit payments to employees if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. 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 insurer, together with investment returns arising from the contributions.

(b) defined benefit plans are post-employment benefit plans other than defined contribution plans. Under defined benefit plans, the entity's obligation is to provide the agreed benefits to current and former employees, and actuarial risk (that benefits will cost more or less than expected) and investment risk (that returns on assets set aside to fund the benefits will differ from expectations) are borne, in substance, by the entity. If actuarial or investment experience is worse than expected, the entity's obligation may be increased, and vice versa if actuarial or investment experience is better than expected.

Educational notes

Under a defined benefit plan an entity's obligation is not limited to the amount it agrees to contribute to an employee benefit fund. Instead, the entity has a legal or constructive obligation arising, for example, from:

(a) a plan benefit formula not linked solely to the amount of contributions.

(b) a guarantee, either directly or indirectly through a plan, of a specified return on contributions.

(c) informal practices that create a constructive obligation. For example, a constructive obligation might arise if an entity has a history of increasing benefits for former employees to keep pace with inflation even without any legal obligation to do so.

Multi-employer plans and state plans

28.11 **Multi-employer plans** and state plans are classified as defined contribution plans or defined benefit plans on the basis of the terms of the plan, including any constructive obligation that goes beyond the formal terms. However, if sufficient information is not available to use defined benefit accounting for a multi-employer plan or a state plan that is a defined benefit plan, an entity shall account for the plan in accordance with paragraph 28.13 as if it was a defined contribution plan and make the disclosures required by paragraph 28.40.

Educational notes

A multi-employer plan is a plan that:

(a) pools the assets contributed by various entities that are not under common control; and

(b) uses those assets to provide benefits to the employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees.

Insured benefits

28.12 An entity may pay insurance premiums to fund a post-employment benefit plan. The entity shall treat such a plan as a defined contribution plan unless the entity has a legal or constructive obligation either:

(a) to pay the employee benefits directly when they become due; or

(b) to pay further amounts if the insurer does not pay all future employee benefits relating to employee service in the current and prior periods.

A constructive obligation could arise indirectly through the plan, through the mechanism for setting future premiums, or through a **related party** relationship with the insurer. If the entity retains such a legal or constructive obligation, the entity shall treat the plan as a defined benefit plan.

Post-employment benefits: defined contribution plans

Recognition and measurement

28.13 An entity shall recognise the contribution payable for a period:

(a) as a liability, after deducting any amount already paid. If contribution payments exceed the contribution due for service before the reporting date, an entity shall recognise that excess as an asset.

(b) as an expense, unless another section of this Standard requires the cost to be recognised as part of the cost of an asset such as inventories or property, plant and equipment.

Examples—Defined contribution plans

Ex 18 **On 8 January 20X2 an SME paid CU10,000 to a defined contribution plan in exchange for services performed by the SME's employees in December 20X1.**

At 31 December 20X1 the SME recognises a liability for the post-employment expenses incurred in December as follows:

Dr	Profit or loss	CU10,000	
Cr	Post-employment benefits—defined contribution payable		CU10,000

On 8 January 20X2 the SME recognises the settlement of its obligation as follows:

Dr	Post-employment benefits—defined contribution payable	CU10,000	
Cr	Cash		CU10,000

Ex 19 **The facts are the same as in Example 18. However, in this example, the SME is a manufacturer; the whole CU10,000 is considered direct labour; and the goods manufactured in December were in the SME's inventories at 31 December 20X1.**

At 31 December 20X1 the SME recognises a liability of CU10,000 (accrual of post-employment benefits payable for the employees' defined contribution plan) and includes the cost of the employee benefits in the cost of the inventories. The inventories will be recognised in profit or loss when sold or impaired (see paragraphs 13.19–13.20).

Ex 20 **The facts are the same as in Example 18. However, in this example, the entire cost pertains to employees who manufactured an item of equipment for the SME to use in manufacturing goods in future periods.**

At 31 December 20X1 the SME recognises a liability of CU10,000 (accrual of post-employment benefits for the employees' defined contribution plan) and includes the benefits in the cost of the item of equipment (property, plant and equipment). The SME recognises the cost of property, plant and equipment in profit or loss when depreciated (see paragraph 17.17), impaired (see paragraph 17.24) or sold (see paragraph 17.28).

Post-employment benefits: defined benefit plans

Recognition

28.14 In applying the general **recognition** principle in paragraph 28.3 to defined benefit plans, an entity shall recognise:

(a) a liability for its obligations under defined benefit plans net of **plan assets**—its '**defined benefit liability**' (see paragraphs 28.15–28.23); and

(b) the net change in that liability during the period as the cost of its defined benefit plans during the period (see paragraphs 28.24–28.27).

Measurement of the defined benefit liability

28.15 An entity shall measure a defined benefit liability for its obligations under defined benefit plans at the net total of the following amounts:

(a) the **present value** of its obligations under defined benefit plans (its **defined benefit obligation**) at the reporting date (paragraphs 28.16–28.22 provide guidance for measuring this obligation); minus

(b) the **fair value** at the reporting date of plan assets (if any) out of which the obligations are to be settled directly. Section 12 *Fair Value Measurement* provides guidance for determining the fair values of those plan assets.

Educational notes

A defined benefit liability is the difference at the reporting date between the defined benefit obligation and the fair value of the plan assets (if any) out of which the obligations are to be settled directly.

The defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

Plan assets are assets held by a long-term employee benefit fund and qualifying insurance policies. Qualifying insurance policies are not defined in the Standard. In the absence of guidance in the Standard, an entity is permitted (but is not required) to consider the guidance in full IFRS Standards. IAS 19 *Employee Benefits* defines a qualifying insurance policy as:

> an insurance policy issued by an insurer that is not a related party (as defined in IAS 24 *Related Party Disclosures*) of the reporting entity, if the proceeds of the policy:
>
> (a) can be used only to pay or fund employee benefits under a defined benefit plan; and
>
> (b) are not available to the reporting entity's own creditors (even in bankruptcy) and cannot be paid to the reporting entity, unless either:
>
> (i) the proceeds represent surplus assets not needed for the policy to meet all the related employee benefit obligations; or
>
> (ii) the proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.[2]

For funded defined benefit plans, if the fair value of plan assets at the reporting date exceeds the present value of the plan obligations at the reporting date, the surplus is recognised as an asset provided that specific conditions are met (see paragraph 28.22).

Example—Defined benefit plans

Ex 21 A defined benefit plan provides a monthly pension of 0.2% of final salary for each year of service. The pension is payable from the age of 65. At 31 December 20X1 the SME's defined benefit obligation under the plan was measured at CU200,000. Measuring this obligation requires making estimates of several factors including final salaries and mortality (see paragraph 28.16). The fair value of the plan assets out of which the obligations are to be settled directly was CU180,000 as at 31 December 20X1.

At 31 December 20X1 the SME recognises a liability (post-employment benefits) of CU20,000 for its defined benefit plan (CU200,000 obligation – CU180,000 plan assets set aside to fund the defined benefit obligation).

2 A qualifying insurance policy is not necessarily an insurance contract, as defined in IFRS 17 *Insurance Contracts*.

Inclusion of both vested and unvested benefits

28.16 The present value of an entity's obligations under defined benefit plans at the reporting date shall reflect the estimated amount of benefit that employees have earned in return for their service in the current and prior periods, including benefits that are not yet **vested** (see paragraph 28.26) and including the effects of benefit formulas that give employees greater benefits for later years of service. This requires the entity to determine how much benefit is attributable to the current and prior periods on the basis of the plan's benefit formula 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 influence the cost of the benefit. The actuarial assumptions shall be unbiased (neither imprudent nor excessively conservative), mutually compatible and selected to lead to the best estimate of the future cash flows that will arise under the plan.

Educational notes

The rights to vested benefits are not conditional on continued employment, under the conditions of a retirement plan.

In the context of measuring an entity's defined benefit obligation, paragraph 28.16 describes actuarial assumptions as estimates about demographic variables (such as employee turnover and mortality) and financial variables (such as future increases in salaries and medical costs) that influence the benefit's cost. Paragraph 76 of IAS 19 provides guidance about actuarial assumptions. In applying the Standard, an entity is permitted (but is not required) to consider the guidance in IAS 19.

These actuarial assumptions comprise:

(a) demographic assumptions about the future characteristics of current and former employees (and their dependants) who are eligible for benefits, such as mortality, rates of employee turnover, disability and early retirement and claim rates under medical plans; and

(b) financial assumptions, such as the discount rate, benefit levels, future salary increases, future medical costs (for defined benefit medical plans) and the expected rate of return on plan assets.

Examples—Vested and unvested benefits

Ex 22 A defined benefit plan provides a lump-sum benefit of CU100 for each year of service, payable immediately after the employee leaves the SME.

A benefit of CU100 is attributed to each year. The defined benefit obligation is the present value of CU100 multiplied by the number of years of service up to the end of the reporting period.

Because the benefit is payable immediately when the employee leaves the SME, the defined benefit obligation reflects the date at which the employee is expected to leave. Thus, because of the discounting effect, the benefit is less than it would be had the employee left at the end of the reporting period.

Ex 23 **A plan provides a monthly pension of 0.2% of final salary for each year of service. The pension is payable from the age of 65.**

An SME attributes to each year of service a benefit equal to a monthly pension of 0.2% of the estimated final salary payable from the expected retirement date until the expected date of death. The defined benefit obligation is the present value of monthly pension payments of 0.2% of final salary, multiplied by the number of years of service up to the end of the reporting period.[3]

Ex 24 **A plan pays a lump-sum retirement benefit of CU2,000 to all employees still employed at the age of 55 after 20 years of continuous service.**

For employees who join before the age of 35, service first leads to benefits under the plan starting from the age of 35 (because the plan requires 20 years of continuous service an employee could leave at the age of 30 and return at the age of 33 with no effect on the amount or timing of benefits). Those benefits are conditional on further service. Hence, for all qualifying employees, the obligation reflects the probability that the employee might not complete the necessary period of service. Furthermore, service beyond the age of 55 will lead to no further benefits. For qualifying employees, the SME attributes benefit of CU100 (CU2,000 ÷ 20) to each year from the age of 35 to the age of 55.

The benefit does not apply to an employee who joins after the age of 35 because such an employee would not complete the requirement for 20 years of continuous service by the age of 55.

In Examples 23 and 24 each period of service gives rise to an additional unit of benefit entitlement and each unit is measured separately; the obligation is the sum of the individual units. This approach is the projected unit credit method (see paragraph 28.18 for further discussion).

Ex 25 **Employees are entitled to a benefit of 3% of final salary for each year of service before the age of 55.**

A benefit of 3% of estimated final salary is attributed to each year up to the age of 55. After this date further service by the employee will not result in further benefits under the plan. No benefit is attributed to service after that age, although the SME will recognise other costs for the period when the employee is over the age of 55.

3 If the employee leaves the SME before their 65th birthday their final salary is the salary at the date of leaving. The pension would be paid to the employee from the age of 65.

Discounting

28.17 An entity shall determine the rate used to discount the future payments by reference to market yields at the reporting date on high quality corporate bonds. For currencies for which there is no deep market in such high quality corporate bonds, the entity shall use the market yields (at the reporting date) on government bonds denominated in that currency. The currency and term of the corporate bonds or government bonds shall be consistent with the currency and estimated period of the future payments.

Educational notes

The discount rate reflects the time value of money but not the actuarial or investment risk. Furthermore, the discount rate does not reflect the entity-specific credit risk borne by the entity's creditors.

Actuarial valuation method

28.18 If an entity is able, without undue cost or effort, to use the **projected unit credit method** to measure its defined benefit obligation and the related expense, it shall do so. If defined benefits are based on future salaries, the projected unit credit method requires an entity to measure its defined benefit obligations on a basis that reflects estimated future salary increases. Additionally, the projected unit credit method requires an entity to make various actuarial assumptions in measuring the defined benefit obligation, including discount rates, the expected rates of return on plan assets, expected rates of salary increases, employee turnover, mortality, and (for defined benefit medical plans) medical cost trend rates.

Educational notes

The projected unit credit method, as defined in the Glossary, is 'an actuarial valuation method that sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation'.

Example—Projected unit credit method

Ex 26 A lump-sum benefit equal to 1% of final salary for each year of service is payable on termination of service. The salary in Year 1 is CU10,000 and is assumed to increase at 7% (compound) each year. The discount rate is 10% per year. The table shows how the obligation accumulates at the end of each of the next five years for an employee who is expected to leave at the end of Year 5, assuming the actuarial assumptions do not change.

For simplicity, this example omits the additional adjustment necessary to reflect the probability that the employee might leave the SME at an earlier or later date.

All amounts are presented in currency units (CU)

Year	1	2	3	4	5
Benefit attributed to:					
– prior years	–	131.08	262.16	393.24	524.32
– current year (1% × estimated final salary)[a]	131.08	131.08	131.08	131.08	131.08
– current and prior years[b]	**131.08**	**262.16**	**393.24**	**524.32**	**655.40**
Opening obligation	–	**89.53**	**196.96**	**324.99**	**476.65**
Interest at 10%	–	8.95	19.70	32.50	47.67
Current service cost	89.53	98.48	108.33	119.16	131.08
Closing obligation[c]	**89.53**	**196.96**	**324.99**	**476.65**	**655.40**

(a) CU131 = 1% × CU13,108 final annual salary (CU10,000 salary in Year 1 × (1 + 0.07 annual increase)$^{4\ \text{(number of periods between year 1 and year 5)}}$).

(b) The current service cost is the present value of benefit attributed to the current year:

Year 1—CU131.08 × 1/(1.1)^4 = CU131.08 × 0.683013 = CU89.53

Year 2—CU131.08 × 1/(1.1)^3 = CU131.08 × 0.751315 = CU98.48

Year 3—CU131.08 × 1/(1.1)^2 = CU131.08 × 0.826446 = CU108.33

Year 4—CU131.08 × 1/(1.1)^1 = CU131.08 × 0.909091 = CU119.16

Year 5—CU131.08 × 1/(1.1)^0 = CU131.08 × 1 = CU131.08.

(c) The closing obligation is the present value of benefit attributed to current and prior years.

28.19 If using the projected unit credit method to measure an entity's obligation under defined benefit plans would involve undue cost or effort, the entity is permitted to measure the obligation with respect to current employees by both:

(a) assuming all the entity's employees terminate their employment at the reporting date and ignoring:

(i) estimated future salary increases.

(ii) future service.

(iii) possible in-service mortality of current employees between the reporting date and the date employees are expected to begin receiving post-employment benefits (that is, assume all current employees will receive the post-employment benefits). Mortality after service (that is, life expectancy) shall be considered.

(b) not discounting that obligation.

An entity that uses the foregoing measurement simplifications must still include both **vested benefits** and unvested benefits when measuring its obligation under defined benefit plans.

Educational notes

If an entity is unable, without undue cost or effort, to use the projected unit credit method set out in paragraph 28.18 to measure its defined benefit obligation, the entity is permitted to apply the simplified approach set out in paragraph 28.19. If an entity applies this approach, it is required to comply with the disclosure requirements in paragraph 28.41(c).

Examples—Simplified defined benefit plan calculations

Ex 27 The facts are the same as in Example 26. In this example, the SME has used the simplified approach set out in paragraph 28.19 to measure its defined benefit obligation.

Amounts are presented in currency units (CU)

Year	1	2	3	4	5
1% × current salary (increase at 7% per year)	100.00	107.00	114.49	122.50	131.08
Years' service at end of year	1	2	3	4	5
Future value of obligation	**100.00**	**214.00**	**343.47**	**490.00**	**655.40**
Opening obligation	–	**100.00**	**214.00**	**343.47**	**490.00**
Current service cost(*)	100.00	114.00	129.47	146.53	165.40
Closing obligation	**100.00**	**214.00**	**343.47**	**490.00**	**655.40**

* The effect of the increase in salary is included in the cost of the period and recognised in profit or loss.

Ex 28 **The facts are the same as in Example 21 (a plan provides a monthly pension of 0.2% of final salary for each year of service; the pension is payable from the age of 65).**

An SME that is unable, without undue cost or effort, to use the projected unit credit method is permitted to measure its defined benefit obligation as the value of the estimated monthly pension payments—calculated at 0.2% of current salary multiplied by the number of years of service to the end of the reporting period (assuming all current employees will receive the benefit). In measuring the obligation, the SME does not take into account estimates of future salary increases or discount the obligation, in accordance with paragraph 28.19.

28.20 This Standard does not require an entity to engage an independent actuary to perform the comprehensive actuarial valuation needed to calculate its defined benefit obligation. Nor does it require that a comprehensive actuarial valuation must be done annually. In the periods between comprehensive actuarial valuations, if the principal actuarial assumptions have not changed significantly the defined benefit obligation can be measured by adjusting the prior period measurement for changes in employee demographics such as number of employees and salary levels.

Plan introductions, changes, curtailments and settlements

28.21 If a defined benefit plan has been introduced or changed in the current period, the entity shall increase or decrease its defined benefit liability to reflect the change and shall recognise the increase (decrease) as an expense (**income**) in measuring **profit or loss** in the current period. Conversely, if a plan has been curtailed (ie benefits or group of covered employees are reduced) or settled (the employer's obligation is completely discharged) in the current period, the defined benefit obligation shall be decreased or eliminated and the entity shall recognise the resulting gain or loss in profit or loss in the current period.

Example—Curtailment

Ex 29 **An SME discontinues one of its businesses at the beginning of its financial year and employees of the discontinued business will earn no further benefits. The discontinuation is a curtailment without a settlement. Using current actuarial assumptions (including current market interest rates and other current market prices) immediately before the curtailment, the SME has a defined benefit obligation with a net present value of CU1,000 and plan assets with a fair value of CU820. The curtailment reduces the net present value of the obligation by CU100 to CU900.**

The effect of the curtailment is:

	Before curtailment CU	*Curtailment gain CU*	*After curtailment CU*
Net present value of obligation	1,000	(100)	900
Fair value of plan assets	(820)	–	(820)
Net liability recognised in statement of financial position	180	(100)	80

In the current period, the SME recognises the curtailment of its employee benefit obligation as follows:

Dr Post-employment benefit (defined benefit plans)—liability	CU100	
Cr Profit or loss		CU100

Defined benefit plan asset

28.22 If the present value of the defined benefit obligation at the reporting date is less than the fair value of plan assets at that date, the plan has a surplus. An entity shall recognise a plan surplus as a defined benefit plan asset only to the extent that it is able to recover the surplus either through reduced contributions in the future or through refunds from the plan.

Examples—Defined benefit plan surplus

Ex 30 At 31 December 20X1 an SME's defined benefit plan has the following characteristics:

Present value of the obligation	CU1,000
Fair value of plan assets	CU1,200
Excess plan assets	CU200

At 31 December 20X1 the present value of future refunds and reductions in future contributions available to the SME is CU200.

The SME recognises the defined benefit plan surplus as a CU200 defined benefit plan asset in its statement of financial position at 31 December 20X1.

Ex 31 **The facts are the same as in Example 30. However, in this example, at 31 December 20X1 the present value of future refunds and of reductions in future contributions available to the SME is nil.**

The SME measures the defined benefit plan surplus at nil (defined benefit plan asset) in its statement of financial position at 31 December 20X1.

Ex 32 **The facts are the same as in Example 30. However, in this example, at 31 December 20X1 the present value of future refunds and of reductions in future contributions available to the SME is CU80.**

The SME measures the defined benefit plan surplus at CU80 (defined benefit plan asset) in its statement of financial position at 31 December 20X1.

Cost of a defined benefit plan

28.23 An entity shall recognise the net change in its defined benefit liability during the period, other than a change attributable to benefits paid to employees during the period or to contributions from the employer, as the cost of its defined benefit plans during the period. That cost is recognised either entirely in profit or loss as an expense or partly in profit or loss and partly as an item of **other comprehensive income** (see paragraph 28.24) unless another section of this Standard requires the cost to be recognised as part of the cost of an asset such as inventories or property, plant and equipment.

Examples—Recognition of the cost of a defined benefit plan

Ex 33 **An SME that recognises actuarial gains and losses in profit or loss provides its employees with a monthly pension of 0.2% of final salary for each year of service. The pension is payable from the age of 65. The plan is unfunded.**

At 31 December 20X1 the SME determined the carrying amount of the plan obligation was CU1,000,000 (20X0: CU900,000).

In 20X1 the SME paid pensions of CU40,000 to its past employees.

The SME recognises an expense of CU140,000 (CU1,000,000 closing obligation + CU40,000 pensions paid in 20X1 – CU900,000 opening obligation) in profit or loss for the year ended 31 December 20X1.

Ex 34 **The facts are the same as in Example 33. However, in this example, the SME's obligations for the defined benefit scheme are funded. Furthermore, in 20X1 the SME contributed CU110,000 to the fund.**

At 31 December 20X1 the SME measured the fair value of the plan assets at CU980,000 (20X0: CU890,000).

The return on the plan assets in 20X1 amounted to CU20,000 = closing fair value (CU980,000) – contribution by the SME (CU110,000) + benefits paid (CU40,000) – opening fair value (CU890,000). The SME recognises an expense of CU120,000 = closing net liability (CU20,000) + contribution by the SME in 20X1 (CU110,000) – opening net liability (CU10,000) in profit or loss for the year ended 31 December 20X1.

Ex 35 **The facts are the same as in Example 33. However, in this example, CU10,000 of the cost of the defined benefit plan is attributable to the cost of producing inventories in the period that remained in the SME's inventories at 31 December 20X1.**

The SME recognises a defined benefit plan expense of CU130,000 in profit or loss for the year (CU140,000 as calculated in Example 33 – CU10,000 included in the cost of inventories at 31 December 20X1).

Applying paragraphs 13.20 and 13.21, the SME recognises the CU10,000 included in the cost of inventories in profit or loss when the inventories are sold or impaired.

Recognition—accounting policy election

28.24 An entity is required to recognise all actuarial gains and losses in the period in which they occur. An entity shall:

(a) recognise all actuarial gains and losses in profit or loss; or

(b) recognise all actuarial gains and losses in other comprehensive income.

as an accounting policy election. The entity shall apply its chosen accounting policy consistently to all of its defined benefit plans and all of its actuarial gains and losses. Actuarial gains and losses recognised in other comprehensive income shall be presented in the **statement of comprehensive income**.

Educational notes

Actuarial gains and losses are not defined in the Standard. However, they are defined in IAS 19. In applying the Standard, an entity is permitted (but is not required) to consider the guidance in IAS 19, which states that actuarial gains and losses comprise:

(a) experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred); and

(b) the effects of changes in actuarial assumptions.

Consistent with Section 10 *Accounting Policies, Estimates and Errors* of the Standard, changes in accounting estimates are not applied by restating prior periods. The Standard allows actuarial gains and losses to be recognised either in profit or loss or in other comprehensive income. Therefore, actuarial gains and losses are included in comprehensive income for the period in which the actuarial assumptions are changed. The changes in actuarial assumptions result from events before the reporting date that resolve a past estimate (experience adjustments) or from changes in the estimated cost of employee service before the reporting date.

Example—Accounting policy choice

Ex 36 The facts are the same as in Example 33 (the cost of the defined benefit plan for the year ended 31 December 20X1 is CU140,000). However, in this example, the SME recognises all actuarial gains and losses in other comprehensive income (see paragraph 28.24(b)). CU50,000 of the cost of the defined benefit plan for the year ended 31 December 20X1 is attributable to actuarial losses.

The SME recognises the cost associated with a defined benefit plan as CU140,000 = closing obligation (CU1,000,000) + pensions paid in 20X1 (CU40,000) – opening obligation (CU900,000) as follows:

- CU50,000 in other comprehensive income for the year ended 31 December 20X1 (the portion of the cost that is attributable to actuarial gains and losses); and
- CU90,000 in profit or loss for the year ended 31 December 20X1 (CU140,000 total cost – CU50,000 recognised in other comprehensive income).

Example 33 illustrates the accounting by an SME that chooses to account for actuarial gains and losses in profit or loss (in accordance with paragraph 28.24(a)).

28.25 The net change in the defined benefit liability that is recognised as the cost of a defined benefit plan includes:

(a) the change in the defined benefit liability arising from employee service rendered during the reporting period;

(b) interest on the defined benefit obligation during the reporting period;

(c) the returns on any plan assets and the net change in the fair value of recognised reimbursement rights (see paragraph 28.28) during the reporting period;

(d) actuarial gains and losses arising in the reporting period;

(e) increases or decreases in the defined benefit liability resulting from introducing a new plan or changing an existing plan in the reporting period (see paragraph 28.21); and

(f) decreases in the defined benefit liability resulting from curtailing or settling an existing plan in the reporting period (see paragraph 28.21).

Example—Components of the net change in the defined benefit liability

Ex 37 **The table contains information about a funded defined benefit plan. To keep interest computations simple, all transactions are assumed to be made at the year-end.**
The present value of the obligation and the fair value of the plan assets were both CU1,000 at 1 January 20X1.

Amounts are presented in currency units (CU)

	20X1	*20X2*	*20X3*
Discount rate at start of year	10.0%	9.0%	8.0%
Current service cost	130	140	150
Benefits paid	150	180	190
Contributions paid	90	100	110
Present value of obligation at 31 December	1,141	1,197	1,295
Fair value of plan assets at 31 December	1,092	1,109	1,093

In 20X2 the plan was amended to provide additional benefits with effect from 1 January 20X2. The present value as at 1 January 20X2 of additional benefits for employee service before 1 January 20X2 was CU50 for vested benefits and CU30 for non-vested benefits. As at 1 January 20X2 the SME estimated that, on average, benefits would become vested within three years. The SME has adopted a policy of recognising actuarial gains and losses in profit or loss (see paragraph 28.24(a)).

Changes in the present value of the obligation and in the fair value of the plan assets are used to determine the amount of the actuarial gains or losses for the period as follows:

All amounts are presented in currency units (CU)

	20X1	*20X2*	*20X3*
Present value of obligation, 1 January	1,000	1,141	1,197
Interest cost	100[(a)]	103[(b)]	96[(c)]
Current service cost	130	140	150
Increases resulting from changing an existing plan	–	80	–
Benefits paid	(150)	(180)	(190)
Actuarial (gain) loss on obligation (balancing figure)	61	(87)	42
Present value of obligation, 31 December	**1,141**	**1,197**	**1,295**

	20X1	20X2	20X3
Fair value of plan assets, 1 January	1,000	1,092	1,109
Return on plan assets	152[d]	97[e]	64[f]
Contributions	90	100	110
Benefits paid	(150)	(180)	(190)
Fair value of plan assets, 31 December	**1,092**	**1,109**	**1,093**

(a) Present value of obligation at 31 December 20X0 (CU1,000) × 10%.

(b) Present value of obligation at 31 December 20X1 (CU1,141) × 9%.

(c) Present value of obligation at 31 December 20X2 (CU1,197) × 8%.

(d) Fair value of plan assets at 31 December 20X1 (CU1,092) + benefits paid (CU150) – contributions received (CU90) – fair value of plan assets at 31 December 20X0 (CU1,000).

(e) Fair value of plan assets at 31 December 20X2 (CU1,109) + benefits paid (CU180) – contributions received (CU100) – fair value of plan assets at 31 December 20X1 (CU1,092).

(f) Fair value of plan assets at 31 December 20X3 (CU1,093) + benefits paid (CU190) – contributions received (CU110) – fair value of plan assets at 31 December 20X2 (CU1,109).

The amount to be recognised in profit or loss is determined as follows:

All amounts are presented in currency units (CU)

	20X1	20X2	20X3
Current service cost	130	140	150
Interest cost	100	103	96
Return on plan assets	(152)	(97)	(64)
Actuarial (gain) loss recognised in year	61	(87)	42
Past service cost—non-vested benefits	–	30	–
Past service cost—vested benefits	–	50	–
Staff cost for the year ended 31 December 20X1—recognised as an expense in profit or loss or as part of assets (see paragraphs 28.3(b) and 28.23)	**139**	**139**	**224**

In most cases, the SME does not need to calculate the interest cost and return on plan assets because they are available from the actuarial valuation report.

28.26 Employee service gives rise to an obligation under a defined benefit plan even if the benefits are conditional on future employment (in other words, they are not yet vested). In measuring its defined benefit obligation, an entity considers the probability that some employees may not satisfy vesting requirements. Similarly, although some post-employment benefits (such as post-employment medical benefits) become payable only if a specified event occurs when an employee is no longer employed (such as an illness), an obligation is created when the employee renders service that will provide entitlement to the benefit if the specified event occurs. The probability that the specified event will occur affects the measurement of the obligation but does not determine whether the obligation exists.

Example—Vesting conditions

See Example 24.

28.27 If defined benefits are reduced for amounts that will be paid to employees under government-sponsored plans, an entity shall measure its defined benefit obligations on a basis that reflects the benefits payable under the government plans, but only if:

(a) those plans were enacted before the reporting date; or

(b) past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Reimbursements

28.28 If an entity is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the entity shall recognise its right to reimbursement as a separate asset. The entity shall measure the asset at fair value. In the statement of comprehensive income (or in the **income statement**, if presented), the expense relating to a defined benefit plan may be presented net of the amount recognised for a reimbursement.

Other long-term employee benefits

28.29 Other long-term employee benefits include, for example:

(a) long-term compensated absences such as long-service or sabbatical leave;

(b) long-service benefits;

(c) long-term disability benefits;

(d) profit-sharing and bonuses payable twelve months or more after the end of the period in which the employees render the related service; and

(e) deferred compensation paid twelve months or more after the end of the period in which it is earned.

Examples—Other long-term employee benefits

Ex 38 An SME's employees are each entitled to five days of paid sick leave for each year. Unused sick leave may be carried forward for three calendar years.

The sick leave is accounted for in the same way as other long-term employee benefits. Unused sick leave is carried forward. Therefore, the sick leave is not a short-term employee benefit because the paid absence is not expected to occur wholly within 12 months after the end of the period in which the employees render the related employee service.

Ex 39 A profit-sharing plan requires an SME to pay a specified proportion of its cumulative profit for a five-year period to employees who provide service throughout the five-year period.

The profit-sharing plan is accounted for in the same way as other long-term employee benefits. The profit-sharing plan is not a short-term employee benefit because the payment for the share of profits is not due wholly within 12 months after the end of the period in which the employees render the related employee service. The SME considers each year of the five-year service requirement separately instead of considering the payment due date compared to the end of the five-year service period.

Ex 40 An SME's expatriate employees are each entitled to 30 days of expatriate leave for each three-year period of continuous employment with the SME. Unused expatriate leave may be carried forward for three calendar years.

The expatriate leave is accounted for in the same way as other long-term employee benefits. The expatriate leave is not a short-term employee benefit, because the paid absence is not expected to occur wholly within 12 months after the end of the period in which the employees render the related employee service that earns the entitlement. The SME considers each year of the three-year service requirement separately instead of considering the payment due date compared to the end of the three-year service period.

28.30 An entity shall recognise a liability for other long-term employee benefits measured at the net total of the following amounts:

(a) the present value of the benefit obligation at the reporting date; minus

(b) the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.

An entity shall recognise the net change in the liability during the period, other than a change attributable to benefits paid to employees during the period or to contributions from the employer, as the cost of its other long-term employee benefits during the period. That cost is recognised entirely in profit or loss as an expense unless another section of this Standard requires it to be recognised as part of the cost of an asset, such as inventories or property, plant and equipment.

Examples—Measurement

Ex 41 An SME's employees are each entitled to five days of paid sick leave for each year of service. Unused sick leave may be carried forward for two calendar years. Sick leave is taken first out of any balance brought forward from the previous years and then out of the current year's entitlement (FIFO).

The SME expects that, on average, the five days of sick leave will be taken by approximately halfway through the year.

At 31 December 20X1 the appropriate discount rates (see paragraph 28.17) are 5% for a six-month period, 14% for an 18-month period and 18% for a 24-month period.

At 31 December 20X1 the SME's sick leave records were:

Employee	*Wage rate (per working day in 20X1) CU*	*Accumulated sick leave days due on 31 December 20X1*	*Expected days of sick leave to be taken in 20X2*	*Expected days of sick leave to be taken in 20X3*	*Expected percentage wage increase effective 1 January each year*
1	400	9	4	4	5%
2	310	6	5	5	2%
3	250	0	8	8	2%
4	180	1	6	5	8%

At 31 December 20X1 the SME's liability for sick leave is CU5,087 (CU3,089 for Employee 1 (CU1,640 and CU1,449 for sick leave expected to be taken in 20X2 and 20X3, respectively) + CU1,808 for Employee 2 (CU1,543 and CU265 for sick leave expected to be taken in 20X2 and 20X3, respectively) + CU190 for Employee 4, calculated as:

- Employee 1 (expected sick leave to be taken in 20X2)—CU1,680 = 20X1 wage rate per working day (CU400) × 1.05 salary increase × 4 expected days of sick leave in 20X2, accumulated at 31 December 20X1. CU1,640 = CU1,680 ÷ discount factor of 5% over 6 months.
- Employee 1 (expected sick leave to be taken in 20X3)—CU1,764 = 20X1 wage rate per working day (CU400) × 1.1025 salary increase × 4 expected days of sick leave in 20X3, accumulated at 31 December 20X1. CU1,449 = CU1,764 ÷ discount factor of 14% over 18 months.
- Employee 2 (expected sick leave to be taken in 20X2)—CU1,581 = 20X1 wage rate per working day (CU310) × 1.02 salary increase × 5 expected days of sick leave in 20X2, accumulated at 31 December 20X1. CU1,543 = CU1,581 ÷ discount factor of 5% over 6 months.

- Employee 2 (expected sick leave to be taken in 20X3)—CU323 = 20X1 wage rate per working day (CU310) × 1.0404 salary increase × 1 expected day of sick leave in 20X3, accumulated at 31 December 20X1. CU265 = CU323 ÷ discount factor of 14% over 18 months.
- Employee 3—CU0, because the employee has no sick leave days accumulated at 31 December 20X1.
- Employee 4 (expected sick leave to be taken in 20X2)—CU194 = 20X1 wage rate per working day (CU180) × 1.08 salary increase × 1 expected day of sick leave in 20X2, accumulated at 31 December 20X1. CU190 = CU194 ÷ discount factor of 5% over 6 months.

Ex 42 The facts are the same as in Example 41. However, in this example, the employees each receive payment from the SME for sick leave not taken within 24 months after the end of the period in which the employees render the related service.

At 31 December 20X1 the SME's liability for sick leave is CU5,404 (CU3,406 for Employee 1 + CU1,808 for Employee 2 + CU190 for Employee 4), calculated as follows:

- Employee 1 (expected sick leave to be taken in 20X2)—CU1,680 = 20X1 wage rate per working day (CU400) × 1.05 salary increase × 4 expected days of sick leave in 20X2, accumulated at 31 December 20X1. CU1,640 = CU1,680 ÷ discount factor of 5% over 6 months.
- Employee 1 (expected sick leave to be taken in 20X3)—CU1,764 = 20X1 wage rate per working day (CU400) × 1.1025 salary increase × 4 expected days of sick leave in 20X3, accumulated at 31 December 20X1. CU1,449 = CU1,764 ÷ discount factor of 14% over 18 months.
- Employee 1 (expected payout on 31 December 20X3 for sick leave not taken)—CU441 = 20X1 wage rate per working day (CU400) × 1.1025 salary increase × 1 expected day of sick leave earned in 20X1 and paid out on 31 December 20X3. CU317 = CU441 ÷ discount factor of 18% over 24 months.
- Employee 2 (expected sick leave to be taken in 20X2)—CU1,581 = 20X1 wage rate per working day (CU310) × 1.02 salary increase × 5 expected days of sick leave in 20X2, accumulated at 31 December 20X1. CU1,543 = CU1,581 ÷ discount factor of 5% over 6 months.
- Employee 2 (expected sick leave to be taken in 20X3)—CU323 = 20X1 wage rate per working day (CU310) × 1.0404 salary increase × 1 expected day of sick leave in 20X3, accumulated at 31 December 20X1. CU265 = CU323 ÷ discount factor of 14% over 18 months.
- Employee 3—CU0, because the employee has no sick leave days accumulated at 31 December 20X1.
- Employee 4 (expected sick leave to be taken in 20X2)—CU194 = 20X1 wage rate per working day (CU180) × 1.08 salary increase × 1 expected day of sick leave in 20X2, accumulated at 31 December 20X1. CU190 = CU194 ÷ discount factor of 5% over 6 months.

Termination benefits

28.31 Termination benefits result from either an entity's decision to terminate employment or an employee's decision to accept an entity's offer of benefits in exchange for termination of employment. The form of the employee benefit does not determine whether it is provided in exchange for service or in exchange for termination of the employee's employment. Some termination benefits are provided in accordance with the terms of an employee benefit plan. For example, the benefit might be specified by statute, employment contract or union agreement, or might be implied as a result of an employer's past practice of providing similar benefits. Employee benefits provided in accordance with the terms of an employee benefit plan are termination benefits if they both result from an entity's decision to terminate employment and are not conditional on future service being provided.

Recognition

28.32 Because termination benefits do not provide an entity with future economic benefits, an entity shall recognise them as an expense in profit or loss immediately.

28.33 When an entity recognises termination benefits, the entity may also have to account for a curtailment of retirement benefits or other employee benefits.

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

(a) the date at which the entity can no longer withdraw the offer of those benefits; and

(b) the date at which the entity recognises cost for a restructuring that is within the scope of Section 21 *Provisions and Contingencies* and involves the payment of termination benefits.

28.34A For termination benefits payable as a result of an employee's decision to accept an offer of benefits in exchange for termination of employment, the time when an entity can no longer withdraw the offer of termination benefits is the earlier of:

(a) the date at which the employee accepts the offer; and

(b) the date at which a restriction (for example, a legal, regulatory or contractual restriction) on the entity's ability to withdraw the offer takes effect—which would be the date the offer is made, if the restriction existed at the time of the offer.

28.34B For termination benefits payable as a result of an entity's decision to terminate employment, the entity can no longer withdraw the offer after it has communicated to the affected employees a termination plan for which all of these criteria apply:

(a) actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made;

continued ...

(b) the plan identifies the number of employees whose employment is to be terminated, their job classifications or functions and their locations (but the plan need not identify each individual employee) and the expected completion date; and

(c) the plan establishes the termination benefits that employees will receive in sufficient detail that employees can determine the type and amount of benefits they will receive when their employment is terminated.

28.35 [Deleted]

Measurement

28.36 An entity shall measure termination benefits at the best estimate of the expenditure that would be required to settle the obligation at the reporting date. In the case of an offer made to encourage voluntary redundancy, the measurement of the termination benefits shall be based on the number of the employees expected to accept the offer.

Education notes

Section 28 has separate requirements for termination benefits because the obligation is created by the termination of employment, not by employee service.

Termination benefits are typically lump-sum payments, but sometimes also include:

(a) enhancement of post-employment benefits, either indirectly through an employee benefit plan or directly; and

(b) salary until the end of a specified notice period if the employee renders no further service that provides economic benefits to the entity.

An entity recognises a liability for termination benefits when it no longer can withdraw the offer. In the circumstances described in paragraph 28.34(a), the liability arises when the employee accepts the offer. In the circumstances described in paragraph 28.34(b), the liability arises when the entity communicates a termination plan to employees.

Examples—Termination benefits

Ex 43 On 1 December 20X1 an SME publicly announced its plan to close one of its retail outlets on 1 March 20X2. On 15 December 20X1 the SME began the process of closing the retail outlet and started communicating with the employees of that outlet. Because the SME has taken these actions, it can no longer withdraw the offer and has a legal obligation to pay termination benefits of CU2 million to the employees.

The SME determines that it will have to pay termination benefits of CU2 million when it terminates the employment at the retail outlet. At 31 December 20X1 the retailer has a present legal obligation to pay termination benefits of CU2 million to the employees on closing the outlet.

The SME recognises a CU2 million expense in profit or loss for the year ended 31 December 20X1 and a liability to pay termination benefits as follows:

31 December 20X1

Dr	Profit or loss	CU2,000,000	
	Cr Termination benefits		CU2,000,000

Ex 44 **The facts are the same as in Example 43. In this example, local laws do not require the SME to pay termination benefits to the employees of the retail outlet. However, prior to 31 December 20X1 the SME agreed with its employees' labour union the details of the termination plan and the settlement payment of CU2 million to the affected employees.**

At 31 December 20X1 the SME has met the criteria in paragraph 28.34B and has a present obligation to pay termination benefits of CU2 million to the employees upon the closure of the retail outlet.

The SME recognises a CU2 million expense in profit or loss for the year ended 31 December 20X1 and a liability to pay termination benefits as follows:

31 December 20X1

Dr	Profit or loss	CU2,000,000	
	Cr Termination benefits		CU2,000,000

Ex 45 **In December 20X1 with a view to reducing its workforce by 10%, an SME made its employees an irrevocable offer of voluntary redundancy. In accordance with the offer, the SME will compensate the first 10% of employees who accept voluntary redundancy on or before 31 March 20X2. The compensation offered is equal to the employee's annual salary.**

Because the offer is irrevocable at 31 December 20X1, the SME has a present obligation to pay termination benefits to the first 10% of employees who accept voluntary redundancy by 31 March 20X2.

The SME recognises an expense in profit or loss for the year ended 31 December 20X1, and a liability to pay the termination benefits to the employees. The SME measures the expenditure and liability at the best estimate of the expenditure that would be required to settle the obligation at the reporting date based on the number and compensation of employees expected to accept the voluntary redundancy offer.

Ex 46 **In December 20X1 an SME publicly announced its commitment to a plan to close one of its retail outlets on 1 March 20X2. On 15 December 20X1 the SME began the process and started communicating with the affected employees. Because the SME has taken these actions, it has a constructive obligation to pay termination benefits to the employees. Law in the retail outlet's jurisdiction requires the SME to pay termination benefits equal to three months' wages to each employee made redundant, which would amount to CU1 million. However, the SME's practice is to pay significantly more than the amount legally required. In December 20X1 the SME entered negotiations with the employees' trade union to determine the amount to pay the employees who will be made redundant. At 31 December 20X1 management's best estimate of the termination benefits to be paid on 31 March 20X2 is CU3 million.**

At 31 December 20X1 the SME has a present obligation to pay termination benefits to the employees of the retail unit to be closed. The SME recognises an expense in profit or loss and a liability for CU3 million (management's best estimate of the expenditure required to settle the obligation at 31 December 20X1).

28.37 When termination benefits are due more than twelve months after the end of the reporting period, they shall be measured at their present value.

Example—Discounting

Ex 47 **The facts are the same as in Example 46. However, in this example, the SME expects to pay the termination benefits on 30 June 20X3.**

An appropriate discount factor is 16% for the 18-month period ending 30 June 20X3.

The SME recognises an expense in profit or loss for the year ended 31 December 20X1 and a liability to pay the termination benefits. The SME measures the expense and the liability at CU2,401,233 (CU3,000,000 best estimate of the expenditure required to settle the obligation at the reporting date discounted at 16% over 18 months).

Group plans

28.38 If a **parent** entity provides benefits to the employees of one or more **subsidiaries** in the group, and the parent presents consolidated financial statements using either the *IFRS for SMEs* Accounting Standard or **full IFRS Accounting Standards**, such subsidiaries are permitted to recognise and measure employee benefit expense on the basis of a reasonable allocation of the expense recognised for the group.

Disclosures

Disclosures about short-term employee benefits

28.39 This section does not require specific disclosures about short-term employee benefits.

Educational notes

The disclosure requirements in other sections of the Standard might apply to short-term employee benefits. For example, paragraph 33.6 of Section 33 *Related Party Disclosures* requires an entity to disclose all employee benefits of its key management personnel.

Disclosures about defined contribution plans

28.40 An entity shall disclose the amount recognised in profit or loss as an expense for defined contribution plans. If an entity treats a defined benefit multi-employer or state plan as a defined contribution plan because sufficient information for defined benefit accounting is not available (see paragraph 28.11), it shall disclose the fact that the plan is a defined benefit plan and the reason why it is being accounted for as a defined contribution plan, along with any available information about the plan's surplus or deficit and the implications, if any, for the entity.

Example—Disclosures about defined contribution plans

Ex 48 **An SME paid CU20,000 as contribution to a defined contribution plan in exchange for services performed by the SME's employees in December 20X1.**

The SME discloses its defined contribution expense in the notes to its financial statements as follows:

Notes to the financial statements for the year ended 31 December 20X1 (extract)		
Note 7 Salaries and other employee benefits		
This consists of:		
	20X1	*20X0*
	CU	*CU*
Cost of defined contribution plans	20,000	19,000
...		

Disclosures about defined benefit plans

28.41 Except for any defined multi-employer or state plan that is accounted for as a defined contribution plan in accordance with paragraph 28.11 (and to which paragraph 28.40 applies), an entity shall disclose the following information about defined benefit plans:

(a) a general description of the type of plan, including the **funding** policy;

(b) the entity's accounting policy for recognising actuarial gains and losses (either in profit or loss or as an item of other comprehensive income) and the amount of actuarial gains and losses recognised during the period;

(c) if the entity applies paragraph 28.19 in measuring its defined benefit obligation, it shall disclose:

(i) that fact;

(ii) the reasons why using the projected unit credit method to measure its obligation and cost under defined benefit plans would involve undue cost or effort; and

(iii) its assumptions for measuring its obligation;

continued ...

(d) the date of the most recent comprehensive actuarial valuation and, if it was not as of the reporting date, a description of the adjustments that were made to measure the defined benefit obligation at the reporting date;

(e) a reconciliation of opening and closing balances of the defined benefit obligation showing separately, if applicable:

  (i) the change in the defined benefit liability arising from employee service rendered during the reporting period;

  (ii) the interest on the defined benefit obligation during the reporting period;

  (iii) actuarial gains and losses arising in the reporting period;

  (iv) the changes resulting from introducing a new plan or changing an existing plan in the reporting period;

  (v) the benefits paid; and

  (vi) all other changes.

(f) a reconciliation of the opening and closing balances of the plan assets and of the opening and closing balances of any reimbursement right recognised as an asset, showing separately, when applicable:

  (i) contributions;

  (ii) benefits paid;

  (iia) the return on plan assets and the net change in the fair value of recognised reimbursement rights (see paragraph 28.28) during the reporting period; and

  (iii) other changes in plan assets;

(g) [deleted]

(h) for each major class of plan assets, which shall include, but is not limited to, equity instruments, debt instruments, property, and all other assets, the percentage or amount that each major class of plan assets constitutes of the fair value of the total plan assets at the reporting date;

(i) the amounts included in the fair value of plan assets for:

  (i) each class of the entity's own **financial instruments**; and

  (ii) any property occupied by, or other assets used by, the entity;

(j) [deleted]

continued ...

(k) the principal actuarial assumptions used, including, when applicable:

(i) the discount rates;

(ii) the expected rates of return on any plan assets for the periods presented in the **financial statements**;

(iii) the expected rates of salary increases;

(iv) medical cost trend rates; and

(v) any other **material** actuarial assumptions used; and

(l) the expected contributions to the defined benefit plan for the next annual reporting period.

28.41A The reconciliations in 28.41(e) and 28.41(f) are not required to be presented for prior periods.

28.41B If an entity has more than one defined benefit plan, the entity is permitted to make the disclosures required by paragraph 28.41 in total, separately for each plan, or in such groupings the entity considers to be the most useful.

28.41C If an entity participates in a defined benefit plan that is a group plan, it shall disclose:

(a) the contractual agreement or stated policy for charging the net defined benefit cost, or the fact that there is no such policy;

(b) the policy for determining the contribution to be paid by the entity; and

(c) if the entity accounts for an allocation of the net defined benefit cost as noted in paragraph 28.38, all the information about the plan as a whole required by paragraph 28.41.

28.41D The information required by paragraph 28.41C(c) can be disclosed by cross-reference to disclosures required by these subparagraphs in another group entity's financial statements if:

(a) that group entity's financial statements separately identify and disclose the information required about the plan; and

(b) that group entity's financial statements are available to users of the financial statements on the same terms as the financial statements of the entity and at the same time as, or earlier than, the financial statements of the entity.

28.41E If required by Section 21, an entity discloses information about contingent liabilities arising from post-employment benefit obligations.

Example—Disclosures about defined benefit plans

Ex 49 An SME discloses information about its defined benefit plans in its financial statements as follows:

Extract from the SME's statement of financial position at 31 December 20X2

All amounts are presented in currency units (CU)

	Note	*20X2*	*20X1*
ASSETS			
…			
Net defined benefit plan assets	18	–	90
…			
LIABILITIES			
…			
Net obligations under defined benefit plans	18	11,217	7,615
…			

Extract from the SME's statement of comprehensive income at 31 December 20X2

All amounts are presented in currency units (CU)

	Note	*For the year ended 20X2*	*For the year ended 20X1*
…			
Net profit after tax		198,702	195,310
Other comprehensive income			
…			
Actuarial loss		(2,500)	(2,650)
…			

Notes to the financial statements for the year ended 31 December 20X2 (extract)

Note 1 Accounting policies

Employee benefits—Defined benefit post-employment plans

The group has obligations to its employees and former employees to provide pensions in accordance with its defined benefit final salary pension schemes. The terms of the schemes oblige the group to provide each employee with a pension equal to 1.5% of the employee's final salary for every year of service provided. The defined benefit pension plans are partly funded by the entity through payments to separate legal entities set up for the sole purpose of paying pensions to the group's employees. Funding levels are monitored on an annual basis, and the current agreed contribution rate is 14% of pensionable salaries.

The group is also obliged to reimburse 10% of its employee's post-employment medical costs if the employee has provided 20 years or more of service to the group. The group does not fund this obligation in advance.

The group measures defined benefit liabilities (assets) at the present value of its obligations under defined benefit plans at the reporting date minus the fair value at the reporting date of plan assets. The obligations under defined benefit plans are determined using the projected unit credit method. Actuarial gains and losses are recognised in other comprehensive income in the period in which they occur.

All amounts are presented in currency units (CU).

Note 18 Net obligations under defined benefit plans

	20X2	*20X1*
…		
Post employment plans—defined benefit plans	CU11,217	CU7,525
presented as a liability	CU11,217	CU7,615
presented as an asset	–	90
…		

continued ...

Post-employment plans—defined benefits plans

	Defined benefit pension plans		*Post-employment medical benefits*	
	20X2	*20X1*	*20X2*	*20X1*
Present value of funded obligations	22,300	18,400	–	–
Fair value of plan assets	(18,420)	(17,280)	–	–
Present value of unfunded obligations	–	–	7,337	6,405
Net liability	3,880	1,120	7,337	6,405

Amounts in the statement of financial position:

	Defined benefit pension plans		*Post-employment medical benefits*	
	20X2	*20X1*	*20X2*	*20X1*
Liabilities	3,880	1,210	7,337	6,405
Assets	–	(90)	–	–
Net liability	3,880	1,120	7,337	6,405

The most recent comprehensive actuarial valuation was performed at 31 December 20X2.

The pension plan assets include ordinary shares issued by the entity with a fair value of CU317 (20X1: CU281). Plan assets also include property occupied by the entity with a fair value of CU200 (20X1: CU185).

The amounts recognised in profit or loss are as follows:

	20X2	*20X1*
Defined benefit pension plan expense	810	750
Defined benefit post-employment medical plan expense	1,282	411
Total defined benefit plan expense	2,092	1,161

continued ...

Changes in the present value of the defined benefit obligation are as follows:

	Defined benefit pension plans 20X2	*Post-employment medical benefits 20X1*
Opening defined benefit obligation	18,400	6,405
Service cost	850	479
Interest cost	950	803
Actuarial losses	2,350	250
Gains on curtailments	(500)	–
Exchange differences on foreign plans	900	–
Benefits paid	(650)	(600)
Closing defined benefit obligation	22,300	7,337

Changes in the fair value of plan assets of the defined benefit pension plans are as follows:

	Defined benefit pension plans 20X2
Opening fair value of plan assets	17,280
Actual return on plan assets	500
Contributions by employer	300
Actuarial gains	100
Exchange differences on foreign plans	890
Benefits paid	(650)
Closing fair value of plan assets	18,420

continued ...

The group expects to contribute CU900 to its defined benefit pension plans in 20X3. The major categories of plan assets as a percentage of total plan assets are as follows:

	20X2	*20X1*
Jurisdiction A equities	20%	22%
Jurisdiction B equities	16%	15%
Jurisdiction C equities	10%	7%
Jurisdiction A bonds	31%	26%
Jurisdiction B bonds	13%	17%
Jurisdiction C bonds	5%	8%
Property	5%	5%

Principal actuarial assumptions at the end of the reporting period (expressed as weighted averages):

	20X2	*20X1*
Discount rate at 31 December	5%	6.5%
Expected rates of return on plan assets	3%	2%
Future salary increases	5%	4%
Future pension increases	3%	2%
Proportion of employees opting for early retirement	30%	30%
Annual increase in healthcare costs	8%	8%
Future changes in maximum state healthcare benefits	3%	2%

Disclosures about other long-term employee benefits

28.42 For each category of other long-term employee benefits that an entity provides to its employees, the entity shall disclose the nature of the benefit, the amount of its obligation and the extent of funding at the reporting date.

Example—Disclosures about other long-term benefits

Ex 50 An SME discloses information about its other long-term employee benefits as follows:

Extract from the SME's statement of financial position at 31 December 20X2

All amounts are presented in currency units (CU)

	Note	*20X2*	*20X1*
LIABILITIES			
Non-current liabilities			
Liability for employee benefits	18	40,000	35,000
…			
Current liabilities			
…			
Liability for employee benefits	18	20,000	15,000
…			

Notes to the financial statements for the year ended 31 December 20X2 (extract)

All amounts are presented in currency units (CU)

Note 18 Provision for employee benefits

	20X2	*20X1*
…		
Other long-term employee benefits	10,623	9,830
…		
Total employee benefits	60,000	50,000

continued ...

Other long-term employee benefits

The liability for other long-term employee benefits obligations relates to government-mandated long-service payments. All full-time members of staff, excluding directors, are covered by the programme. A payment of 5% of salary (for the 12 months before the payment) is made at the end of five years of employment. The payment is made as part of the December payroll in the fifth year. The group does not fund this obligation in advance.

The accrual recognised at the year-end is determined with a present value calculation assuming a 3% average annual salary increase, with employee turnover based on the group's recent experience, discounted using the current market yield for high quality corporate bonds.

At 1 January 20X2	9,830
Additional accrual in year	7,033
Payment made in year	(6,240)
At 31 December 20X2	10,623

	20X2	*20X1*
Current liability	6,181	5,943
Non-current liability	4,442	3,887
Total	10,623	9,830

Disclosures about termination benefits

28.43 For each category of termination benefits that an entity provides to its employees, the entity shall disclose the nature of the benefit, the amount of its obligation and the extent of funding at the reporting date.

28.44 [Deleted]

Example—Disclosures about termination benefits

Ex 51 An SME satisfies the disclosure requirement for its termination benefits as follows:

Extract from the SME's statement of financial position at 31 December 20X2

All amounts are presented in currency units (CU)

Description	*Note*	*20X2*	*20X1*
LIABILITIES			
Non-current liabilities			
Liability for employee benefits	18	40,000	35,000
…			
Current liabilities			
…			
Liability for employee benefits	18	20,000	15,000
…			

Notes to the financial statements for the year ended 31 December 20X2 (extract)

All amounts are presented in currency units (CU)

Note 18 Provision for employee benefits

	20X2	*20X1*
…		
Termination benefits	6,000	–
…		
Total employee benefits	60,000	50,000

continued ...

At 1 January 20X2	–
Accrued in year	8,000
Payment made in year	(2,000)
At 31 December 20X2 (current liability)	6,000

Termination benefits

The liability for termination benefits relates to the irrevocable offer made by the group to all employees over 55 years of age for voluntary redundancy payments. In accordance with the offer, qualifying employees who accept voluntary redundancy on or before 1 June 20X3 will be paid termination benefits equal to one year's salary. The voluntary redundancy payments are to be made in July 20X3.

The accrual recognised at the year-end is determined using the estimated number of employees in each of the group's salary bands expected to apply for voluntary redundancy. Salary increases are not anticipated because the group awards salary increases in December each year. Furthermore, the termination benefits are not measured at a discounted amount because settlement is due in July 20X3.

The maximum possible financial effect of the voluntary redundancy offer that has not been recognised as a liability is CU3,000, as set out in Note 30 Contingent liabilities.

SIGNIFICANT ESTIMATES AND OTHER JUDGEMENTS

Applying the requirements of the *IFRS for SMEs* Accounting Standard to transactions or other events often requires an entity to use its judgement. Information about significant judgements made by an entity's management and key sources of estimation uncertainty are useful to a user of financial statements assessing an entity's financial position, performance and cash flows. Consequently, in accordance with paragraph 8.6 of Section 8 *Notes to the Financial Statements*, an entity discloses the judgements management has made when applying the entity's accounting policies that have the most significant effect on the amounts recognised in the financial statements.

Furthermore, in accordance with paragraph 8.7, an entity discloses information that explains key assumptions about the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Other sections of the Standard require disclosure of information about particular judgements and estimation uncertainties. Section 28 focuses on:

- short-term employee benefits;
- post-employment benefits;
- other long-term employee benefits; and
- termination benefits.

Share-based payments are accounted for applying the requirements in Section 26 *Share-based Payment* of the Standard. The four types of employee benefits accounted for in accordance with Section 28 have a common general recognition principle. However, each type of employee benefit has unique measurement requirements. Judgements that might be necessary in measuring each type of employee benefit are set out under separate headings.

Short-term employee benefits

An entity measures the liability for accumulating compensated absences at their expected cost (the amount that the entity expects to pay because of unused accumulated entitlement). In determining the amount the entity expects to pay, it might need to estimate:

- salary increases;
- the timing of leave relative to salary increases; and
- the extent to which accumulated entitlement will expire unused.

In many cases, entities encounter little difficulty in measuring short-term employee benefits. However, in some cases, significant judgement is required in estimating salary increases, the timing of relevant events and the extent to which accumulated paid absences will expire unused (for example, if experience is limited or trends are not expected to continue).

Post-employment benefits

Post-employment benefit plans are classified as either defined contribution plans or defined benefit plans.

Defined contribution plans

Under defined contribution plans, the employee bears actuarial risk (that benefits will be less than expected) and investment risk (that assets invested will be insufficient to meet expected benefits). Consequently, an entity will usually have little difficulty in measuring its liability to make contributions to a defined contribution plan.

Defined benefit plans

Under defined benefit plans, actuarial risk and investment risk are borne by the employer.

An entity measures its defined benefit liability as the present value of the obligation at the reporting date minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.

The presence of actuarial risk over the years leading to the expected settlement requires significant judgements in estimating actuarial assumptions—namely, an entity's estimates of the variables that will determine the ultimate cost of providing post-employment benefits. An entity using the projected unit credit method makes actuarial assumptions including demographic assumptions and financial assumptions (see paragraph 28.18).

If an entity uses the simplified approach to calculating a defined benefit obligation set out in paragraph 28.19, less judgement will be necessary.

For funded plans, an entity measures the fair value of the plan assets at each reporting date. If assets held by the plan can be traded in active markets, an entity will have little difficulty in determining the fair value of the plan assets. However, in the absence of active markets, an entity might need to use significant judgements in estimating the fair value of the plan assets, such as financial assets. Requirements for determining fair value financial instruments are set out in Section 12 *Fair Value Measurement* of the Standard. In the absence of guidance for estimating the fair value of other types of assets, an entity applies the guidance within those requirements to other plan assets.

Other long-term employee benefits

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due wholly within 12 months after the end of the period in which the employees render the related service. Examples include:

- long-term compensated absences;
- long-service benefits;
- long-term disability benefits;

- profit-sharing and bonuses payable 12 months or more after the end of the period in which the employees render the related service; and
- deferred compensation paid 12 months or more after the end of the period in which it is earned.

An entity measures its liability for other long-term employee benefits as the present value of the obligation at the reporting date minus the fair value at the reporting date of plan assets (if any).

In many cases, entities encounter little difficulty when measuring other long-term employee benefits. However, in some cases, significant judgement is required in estimating the applicable discount rate, future salary and benefit levels, the timing of relevant events and the extent to which accumulated paid absences will expire unused (for example, if experience is limited or trends are not expected to continue).

For funded plans, an entity is required to measure the fair value of the plan assets at each reporting date. If assets held by the plan can be traded in active markets, an entity will have little difficulty in determining the fair value of the plan assets. However, in the absence of active markets, an entity might need to use significant judgements in estimating the fair value of the plan assets. Requirements for determining fair value are set out in Section 12 of the Standard. In the absence of guidance for estimating the fair value of other types of assets, an entity applies the guidance within those requirements to other plan assets.

Termination benefits

An entity might be committed—by legislation, contractual or other agreements or a constructive obligation—to make payments (or provide other benefits) to employees when it terminates their employment. Such payments are termination benefits.

An entity is required to use judgement to determine when it has incurred an obligation to pay termination benefits as a result of a decision to terminate employment.

An entity measures termination benefits at the best estimate of the expenditure that would be required to settle the obligation at the reporting date. In many cases, entities encounter little difficulty when measuring termination benefits. However, in some cases, significant judgement is required (for example, in the case of an offer made to encourage voluntary redundancy, an entity is required to estimate the number of employees it expects to accept the offer). Furthermore, if termination benefits are due more than 12 months after the end of the reporting period, an entity is required to determine the rate at which to discount the expected cash flows to their present value.

TRANSITION REQUIREMENTS

The third edition of the *IFRS for SMEs* Accounting Standard is effective for annual reporting periods beginning on or after 1 January 2027. Earlier application is permitted.

Measurement simplifications for defined benefit obligations

A42 An entity shall retrospectively apply the amended requirements in paragraph 28.19 in accordance with Section 10. However, an entity is not required to adjust the carrying amount of assets in the scope of other sections in this Standard for changes in employee benefit costs that were included in the carrying amount before the date of initial application.

COMPARISON WITH FULL IFRS ACCOUNTING STANDARDS

The requirements in full IFRS Accounting Standards (see IAS 19 *Employee Benefits*) and those in the *IFRS for SMEs* Accounting Standard (see Section 28 *Employee Benefits*) vary as at February 2025. The main differences are set out separately for each major type of employee benefit.

Short-term employee benefits

IAS 19 (see paragraphs 9–24 of IAS 19) and Section 28 (see paragraphs 28.4–28.8 of the Standard) share principles for the recognition and measurement of short-term employee benefits. However, Section 28 is drafted in simple language and includes less guidance on how to apply the principles.

Post-employment benefits

Defined contribution plans

IAS 19 (see paragraphs 50–52 of IAS 19) and Section 28 (see paragraph 28.13 of the Standard) share principles for the recognition and measurement of defined contribution plan benefits. However, Section 28 is drafted in simple language and includes less guidance on how to apply the principles.

Defined benefit plans

IAS 19 (see paragraphs 55–134 of IAS 19) and Section 28 (see paragraphs 28.14–28.28 of the Standard) share many principles for the recognition and measurement of defined benefit plans. The main differences include:

- Section 28 is drafted in simple language.

- IAS 19 requires that a defined benefit obligation always be measured using an actuarial technique—the projected unit credit method. For cost–benefit reasons, Section 28 provides a simplified approach to calculating this obligation intended to reduce the need for SMEs to engage external specialists. Accordingly, if an SME cannot, without undue cost or effort, obtain information based on the projected unit credit method, the SME is permitted to apply an approach that is based on the requirements in IAS 19 but does not consider future salary increases, future service or possible mortality during an employee's period of service and does not discount the obligation. This simplified approach still reflects estimates for the life expectancy of employees after retirement age. The resulting defined benefit pension obligation reflects both vested and unvested benefits.
- Section 28 clarifies that annual comprehensive valuations are usually unnecessary. In between comprehensive valuations, valuations can be rolled forward for aggregate adjustments for number of employees and salaries without changing the turnover or mortality assumptions.
- IAS 19 requires an entity to recognise all actuarial gains and losses in other comprehensive income. Section 28 permits an entity to choose between recognising actuarial gains and losses in profit or loss or in other comprehensive income.
- IAS 19 requires an entity to recognise in other comprehensive income any adjustments arising from the change in the effect of the asset ceiling (see paragraph 57(d)(iii) of IAS 19). Although Section 28 specifies asset recognition limits for plan surpluses (see paragraph 28.22 of the Standard), it does not specify that an entity that chooses to recognise actuarial gains and losses in other comprehensive income also recognises any adjustments arising from the asset recognition limits in other comprehensive income.
- IAS 19 defines actuarial gains and losses and specifies their composition. In the context of measuring the present value of an entity's defined benefit obligation, IAS 19 describes actuarial assumptions as estimates about demographic variables (such as employee turnover and mortality) and financial variables (such as future increases in salaries and medical costs) that influence the cost of the benefit.
- the disclosure requirements for defined benefit plans in Section 28 are less detailed than those specified in IAS 19.

Other long-term employee benefits

IAS 19 (see paragraphs 153–157 of IAS 19) and Section 28 (see paragraph 28.30 of the Standard) share principles for the recognition and measurement of other long-term employee benefits. However, Section 28 is drafted in simple language and includes less guidance on how to apply the principles.

Termination benefits

IAS 19 (see paragraphs 159–170 of IAS 19) and Section 28 (see paragraphs 28.31–28.37 of the Standard) share principles for the recognition and measurement of termination benefits.

TEST YOUR KNOWLEDGE

Test your knowledge of the requirements in Section 28 *Employee Benefits* of the *IFRS for SMEs* Accounting Standard by answering the questions provided.

Assume all amounts mentioned are material.

Once you have completed the test, check your answers against those supplied on page 64.

Mark the box next to the most correct statement.

Question 1

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees, including directors and management. Section 28 applies to the accounting for four types of employee benefits. It does not apply to the accounting for:

☐ (a) short-term employee benefits.
☐ (b) post-employment benefits.
☐ (c) other long-term employee benefits.
☐ (d) termination benefits.
☐ (e) share-based payments.

Question 2

An entity's employees are each entitled to 20 days of paid holiday leave per calendar year. Unused holiday leave cannot be carried forward and does not vest. The entity's annual reporting date is 31 December.

The holiday leave is:

☐ (a) a short-term employee benefit.
☐ (b) a post-employment benefit.
☐ (c) an 'other long-term employee benefit'.
☐ (d) a termination benefit.

Question 3

Consider the information in Question 2. However, in this question, unused holiday leave is paid on 31 December of each year (it vests at the end of each calendar year but does not accumulate).

The holiday leave is:

☐ (a) a short-term employee benefit.
☐ (b) a post-employment benefit.
☐ (c) an 'other long-term employee benefit'.
☐ (d) a termination benefit.

Question 4

Consider the information in Question 2. However, in this question, unused holiday leave can be carried forward for one calendar year (it accumulates but does not vest).

The holiday leave is:

- ☐ (a) a short-term employee benefit.
- ☐ (b) a post-employment benefit.
- ☐ (c) an ‘other long-term employee benefit’.
- ☐ (d) a termination benefit.

Question 5

Consider the information in Question 2. However, in this question, unused holiday leave can be carried forward for two calendar years (it accumulates but does not vest).

The holiday leave is:

- ☐ (a) a short-term employee benefit.
- ☐ (b) a post-employment benefit.
- ☐ (c) an ‘other long-term employee benefit’.
- ☐ (d) a termination benefit.

Question 6

Consider the information in Question 2. However, in this question, unused holiday leave can be carried forward until the employee leaves the employment of the entity, at which time the entity will pay the employee for all unused holiday leave (it accumulates and vests).

The holiday leave is:

- ☐ (a) a short-term employee benefit.
- ☐ (b) a post-employment benefit.
- ☐ (c) an ‘other long-term employee benefit’.
- ☐ (d) a termination benefit.

Question 7

An entity has publicly announced its commitment to a voluntary redundancy plan. The entity has an irrevocable obligation to pay employees that choose voluntary redundancy a lump sum equal to twice their gross annual salary.

The obligation to pay employees that choose voluntary redundancy is:

☐ (a) a short-term employee benefit.
☐ (b) a post-employment benefit.
☐ (c) an 'other long-term employee benefit'.
☐ (d) a termination benefit.

Question 8

An entity reimburses 50% of past employees' post-employment medical costs if the employee provides 25 years of service, or more, to the entity.

The obligation to pay 50% of qualifying past employees' post-employment medical costs is:

☐ (a) a short-term employee benefit.
☐ (b) a defined benefit post-employment benefit.
☐ (c) a defined contribution post-employment benefit.
☐ (d) an 'other long-term employee benefit'.
☐ (e) a termination benefit.

Question 9

A profit-sharing plan requires an entity to pay a specified proportion of its cumulative profit for a five-year period to employees who serve throughout the five-year period.

The profit-sharing plan is:

☐ (a) a short-term employee benefit.
☐ (b) a post-employment benefit.
☐ (c) an 'other long-term employee benefit'.
☐ (d) a termination benefit.

Question 10

A profit-sharing plan requires an entity to pay a specified proportion of its cumulative profit for the year to employees who served the entity throughout the year.

The profit-sharing plan is:

- ☐ (a) a short-term employee benefit.
- ☐ (b) a post-employment benefit.
- ☐ (c) an 'other long-term employee benefit'.
- ☐ (d) a termination benefit.

Question 11

Which of the following best describes the simplified approach to calculating a defined benefit obligation set out in paragraph 28.19?

- ☐ (a) An entity measures its pension obligation on the basis of the plan formula applied to years of service to date and existing salary levels.
- ☐ (b) An entity measures its pension obligation on the basis of the plan formula applied to years of service to date and future salary levels.
- ☐ (c) An entity estimates the total benefit payable on retirement and then determines the level cost that, together with interest expected to accumulate at the assumed rate, will be sufficient to fund that benefit.
- ☐ (d) An entity measures its pension obligation and pension cost on the basis of the shortest possible period for funding to maximise the tax deduction.

Question 12

An entity that uses the simplified approach to calculating a defined benefit obligation is not permitted:

- ☐ (a) to ignore estimated future salary increases (that is, to assume current employees' salaries will remain unchanged until the employees are expected to start receiving post-employment benefits).
- ☐ (b) to ignore the future service of current employees (that is, to assume the plan is closed to both existing and new employees).
- ☐ (c) to ignore possible in-service mortality of current employees between the reporting date and the date employees are expected to begin receiving post-employment benefits (that is, to assume all current employees will receive the post-employment benefits).
- ☐ (d) to ignore possible mortality after service (that is, life expectancy).
- ☐ (e) to ignore discounting.

Answers

Q1 (e)—see paragraph 28.2.

Q2 (a)—see paragraph 28.4(b).

Q3 (a)—see paragraph 28.4(b).

Q4 (a)—see paragraph 28.4(b).

Q5 (c)—see paragraph 28.29.

Q6 (c)—see paragraph 28.29.

Q7 (d)—see paragraph 28.31.

Q8 (b)—see paragraphs 28.9 and 28.10(b).

Q9 (c)—see paragraph 28.29(d).

Q10 (a)—see paragraph 28.4(c).

Q11 (a)—see paragraph 28.19.

Q12 (d)—see paragraph 28.19.

APPLY YOUR KNOWLEDGE

Apply your knowledge of the requirements In Section 28 *Employee Benefits* of the *IFRS for SMEs* Accounting Standard by completing the case studies provided.

Once you have completed a case study, check your answers against those on the page after the case study.

Case study 1

SME A started operations on 31 December 20X1.

Summarised information about its employees at 31 December 20X5 includes:

Employee category	*Number of employees in category*	*Salary level per employee for the 12-month period ending 30 June 20X6*	*Percentage wage increase effective from 1 July 20X6*
		CU	
A	9	100,000	5%
B	200	50,000	7%
C	300	25,000	9%

Annual salary increases are expected to continue at the same rates for the foreseeable future.

At 31 December 20X5 the appropriate discount factors (determined using the current market yield for high quality corporate bonds in the jurisdiction in which SME A operates) are:

- 0.9524 for a 12-month period;
- 0.9009 for a 24-month period;
- 0.8547 for a 36-month period; and
- 0.8000 for a 48-month period.

SME A's employees work a five-day week. SME A's operations close for the six mandatory public holidays of the jurisdiction in which SME A operates. Three of the public holidays are before 30 June.

Assume 261 working days in a year and that all holidays fall on a working day.

Holiday leave

SME A's employees are each entitled to 20 paid days of holiday leave per year.

Category A employees can carry forward unused holiday leave for one calendar year, calculated on a FIFO basis. Holiday leave not taken within that period is forfeited.

Category B employees cannot carry forward unused holiday leave but are paid for all holiday leave not used in the previous calendar year. The payment is made as part of the January payroll of the following year.

Category C employees cannot carry forward unused holiday leave and are not paid for unused holiday leave.

At 31 December 20X5 SME A's holiday leave records were:

Employee category	*Number of employees in category*	*Average days of holiday leave per employee unused on 31 December 20X5*
A	9	10
B	200	6
C	300	8

At 31 December 20X5 SME A expects 25 days of holiday leave accumulated at 31 December 20X5 by employees in category A to expire unused on 31 December 20X6.

SME A expects that holiday leave will on average be taken evenly throughout the year.

Pension plan

On 5 January 20X6 SME A paid a contribution of CU100,000 to a defined contribution plan in exchange for services performed by SME A's employees in December 20X5.

Voluntary redundancy offer

In December 20X5 with a view to reducing its workforce, SME A made an irrevocable offer to its employees of a voluntary redundancy package. In accordance with the offer, SME A will compensate any employee who accepts voluntary redundancy on or before 30 June 20X6. The compensation offered is equal to the employee's annualised salary for the 12-month period ending 30 June 20X6.

At 31 December 20X5 SME A's voluntary redundancy records include:

Employee category	*Number of employees who accepted voluntary redundancy by 31 December 20X5*	*Number of employees expected to accept voluntary redundancy in 20X6*
A	0	1
B	2	8
C	5	25

Long-service awards

SME A's employees are entitled to receive government-mandated long-service payments from SME A calculated at 5% of salary (as determined for the 12 months before the payment) at the end of each five-year period of continuous employment. The payment is made as part of the December payroll in the fifth year. SME A does not fund this obligation in advance.

At 31 December 20X5 SME A's long-service award records were:

Employee category	Employee turnover on 31 December 20X5		Employee turnover on 31 December 20X4		Employee turnover on 31 December 20X3		Employee turnover on 31 December 20X2		Employed on 31 December 20X1
	Joined	Left	Joined	Left	Joined	Left	Joined	Left	
A	0	0	0	0	0	0	1	1	9
B	10	9	11	10	10	9	9	8	196
C	16	18	15	12	11	16	18	20	306

For ease of calculation assume that staff join and leave on 31 December. All leavers were employed on 31 December 20X1. Furthermore, assume that the only employees expected to leave are those that accepted the voluntary redundancy offer and that they were all employed on 31 December 20X1.

Calculate SME A's liability for employee benefits at 31 December 20X5.

Answer to Case study 1

At 31 December 20X5 SME A's liability for employee benefits is CU2,299,314, analysed as:

		CU
Short-term employee benefits	see calculation below	261,422
Other long-term employee benefits	see calculation below	587,892
Post-employment benefits—defined contribution plan		100,000
Termination benefits	see calculation below	1,350,000
Provision for employee benefits		**2,299,314**

Short-term employee benefits

At 31 December 20X5 SME A's liability for holiday leave is CU261,422 (CU26,127 for category A employees + CU235,295 for category B employees).

Category A employees CU26,127 = 32.5 days[(a)] × CU392.16[(b)] + 32.5 days[(a)] × CU411.76[(c)].

Category B employees CU235,295 = 1,200 days[(e)] × CU196.08[(f)].

Category C employees CU0—non-accumulating and non-vesting.

Other long-term employee benefits

At 31 December 20X5 SME A's liability for long-service awards is CU587,892.

Calculation:

Category A employees CU30,243 (CU27,334[(g)] + CU2,909[(h)]).

Category B employees CU324,896 (CU295,720[(i)] + CU13,469[(j)] + CU10,128[(k)] + CU5,579[(l)]).

Category C employees CU232,753 (CU209,004[(m)] + CU13,853[(n)] + CU5,836[(o)] + CU4,060[(p)]).

Termination benefits

Employee category	*Estimated number of employees choosing voluntary redundancy by 31 December 20X5*	*Annualised salary for the 12-month period ending 30 June 20X6*	*Termination benefits*
	(A)	*(B)*	*(C) = (A) × (B)*
A	1	CU100,000	CU100,000
B	10	CU50,000	CU500,000
C	30	CU25,000	CU750,000
			CU1,350,000

(a) 9 employees × 10 days of holiday leave accumulated, on average = 90 days accumulated in total. 90 days – 25 days expected to be saved due to expiration = 65 days. 65 days of accumulated holiday leave expected to be taken in 20X6, half (or 32.5 days of holiday leave) before 30 June 20X6 and 32.5 days of holiday leave after 1 July 20X6.

(b) Salary per working day from 1 January 20X6 to 30 June 20X6 CU392.16 = Annual salary (CU100,000) ÷ 255[(d)] working days for the year.

(c) CU100,000 annual salary + 5% × CU100,000 annual salary = CU105,000 expected annual salary from 1 July 20X6. CU105,000 ÷ 255[(d)] working days for the year = CU411.76 salary per working day from 1 July 20X6 to 31 December 20X6.

(d) 261 working days per year – 6 public holidays per year = 255 working days for the year.

(e) 200 employees × 6 days of holiday leave vested on average = 1,200 days vested in total.

(f) Salary per working day from 1 January 20X6 to 30 June 20X6 CU196.08 = Annual salary (CU50,000) ÷ 255[(d)] working days for the year.

(g) Category A employees expected to receive long-service payments in December 20X6: expected salary for 20X5 CU50,000 (January to June) + CU52,500 (July to December) = CU102,500. 5% × CU102,500 × 7 employees × 4/5 (4 out of 5 years of service performed to date) × 0.9524 discount factor = CU27,334. Note: 1 employee in Category A is expected to accept voluntary redundancy.

(h) Category A employees expected to receive long-service payments in December 20X7: expected salary for 20X6 CU52,500 (January to June) + CU55,125 (July to December) = CU107,625. 5% × CU107,625 × 1 employee (started service on 31 December 20X2) × 3/5 (3 out of 5 years of service performed to date) = CU3,229 expected payment. CU3,229 × 0.9009 discount factor = CU2,909.

(i) Category B employees expected to receive long-service payments in December 20X6: expected salary for 20X5 CU25,000 (January to June) + CU26,750 (July to December) = CU51,750. 5% × CU51,750 × 150 employees × 4/5 (4 out of 5 years of service performed to date) × 0.9524 discount factor = CU295,720. Note: 10 employees in Category B are expected to accept voluntary redundancy.

(j) Category B employees expected to receive long-service payments in December 20X7: expected salary for 20X6 CU26,750 (January to June) + CU28,623 (July to December) = CU55,373. 5% × CU55,373 × 9 employees (started service on 31 December 20X2) × 3/5 (3 out of 5 years of service performed to date) × 0.9009 discount factor = CU13,469.

(k) Category B employees expected to receive long-service payments in December 20X8: expected salary for 20X7 CU28,623 (January to June) + CU30,627 (July to December) = CU59,250. 5% × CU59,250 × 10 employees (started service on 31 December 20X3) × 2/5 (2 out of 5 years of service performed to date) × 0.8547 discount factor = CU10,128.

(l) Category B employees expected to receive long-service payments in December 20X9: expected salary for 20X8 CU30,627 (January to June) + CU32,771 (July to December) = CU63,396. 5% × CU63,396 × 11 employees (started service on 31 December 20X4) × 1/5 (1 out of 5 years of service performed to date) × 0.8 discount factor = CU5,579.

(m) Category C employees expected to receive long-service payments in December 20X6: expected salary for 20X5 CU12,500 (January to June) + CU13,625 (July to December) = CU26,125. 5% × CU26,125 × 210 (employees at 1 January 20X2) × 4/5 (4 out of 5 years' of service performed to date) × 0.9524 discount factor = CU209,004. Note: 30 employees in Category B expected to accept voluntary redundancy.

(n) Category C employees expected to receive long-service payments in December 20X7: expected salary for 20X6 CU13,625 (January to June) + CU14,851 (July to December) = CU28,476. 5% × CU28,476 × 18 employees (started service on 31 December 20X2) × 3/5 (3 out of 5 years of service performed to date) × 0.9009 discount factor = CU13,853.

(o) Category C employees expected to receive long-service payments in December 20X8: expected salary for 20X7 CU14,851 (January to June) + CU16,188 (July to December) = CU31,039. 5% × CU31,039 × 11 employees (started service on 31 December 20X3) × 2/5 (2 out of 5 years of service performed to date) × 0.8547 discount factor = CU5,836.

(p) Category C employees expected to receive long-service payments in December 20X9: expected salary for 20X8 CU16,188 (January to June) + CU17,645 (July to December) = CU33,833. 5% × CU33,833 × 15 employees (started service on 31 December 20X4) × 1/5 (1 out of 5 years of service performed to date) × 0.8 discount factor = CU4,060.

Case study 2

On 1 January 20X1, to encourage employees older than 60 years to extend their service, SME B offers its 60-year-old employees a lump-sum benefit equal to 1% of final salary for each year of service completed after their 60th birthday. The benefit is conditional on the employee remaining with SME B until age 65, which is the mandatory retirement age under local law. The benefit is payable to the employees on retirement.

Employee A turns 60 on 1 January 20X1. Her salary for the year ended 31 December 20X1 is CU100,000.

At 1 January 20X1 SME B made three actuarial assumptions:

- Employee A's salary will increase by 5% (compound) each year;
- the probability that Employee A's employment with SME B will terminate before 1 January 20X6 is 20%; and
- the appropriate discount rate is 10% per year (determined in accordance with paragraph 28.17).

The actuarial assumptions had not changed by 31 December 20X1.

Employee A's salary for 20X2 is CU105,000.

On 31 December 20X2 SME B revised its actuarial assumptions. The revised assumptions are:

- Employee A's salary will increase by 15% (compound) each year;
- the probability that Employee A's employment with SME B will terminate before 1 January 20X6 is 10%; and
- the appropriate discount rate remains 10% per year (determined in accordance with paragraph 28.17).

The actuarial assumptions had not changed by 31 December 20X3. Employee A's salary for 20X3 increased by 15% in line with the actuarial assumption and is now CU120,750.

SME B does not fund its obligation to pay lump-sum benefits. It recognises actuarial gains and losses in other comprehensive income. Interest is recognised by SME B on an annual basis.

PART A

SME B uses the projected unit credit method to measure its defined benefit post-retirement obligation.

Calculate the amounts that SME B would recognise in profit or loss and in other comprehensive income for the years ended 31 December 20X1, 31 December 20X2 and 31 December 20X3.

PART B

The facts are the same as in Part A. However, in this part, assume that Employee A is not required to retire at 65 and that the benefit vests and is payable on Employee A's 65th birthday.

Calculate the amounts that SME B would recognise in profit or loss and in other comprehensive income for the years ended 31 December 20X1 and 31 December 20X2.

PART C

The facts are the same as in Part A. However, in this part, assume that SME B is unable, without undue cost or effort, to use the projected unit credit method to measure its defined benefit obligation. It measures its defined benefit obligation using the simplified approach set out in paragraph 28.19.

Calculate the amounts that SME B would recognise in profit or loss and in other comprehensive income for the years ended 31 December 20X1 and 31 December 20X2.

Answer to Case study 2

PART A

SME B follows an accounting policy of recognising actuarial gains and losses in other comprehensive income. All other components of the cost of the defined benefit plan are recognised in profit or loss.

For the year ended 31 December 20X1, SME B recognises a current service cost expense of CU664 in profit or loss.

Calculation:

	CU
Expected final salary (CU100,000 current salary × $(1.05)^4$)	121,551
Benefit for the current year at 1% of expected final salary (1% × CU121,551)	1,216
Adjustment for vesting condition (20% × CU1,216)	(244)
Benefit for the current year after adjustment for vesting condition	972
Present value factor of the 10% discount rate over 4 years (the remaining period until the benefit is expected to be settled)	0.683013
Current service cost	**664**

For the year ended 31 December 20X2, the period in which the actuarial assumptions changed, SME B recognises an expense of CU797 (CU731 current service cost + CU66 interest) in profit or loss and an actuarial loss of CU699 in other comprehensive income.

Calculations:

Current service cost

	CU
Expected final salary based on assumptions at the beginning of the year (CU105,000 current salary × $(1.05)^3$)	121,551
Benefit for the current year at 1% of expected final salary (1% × CU121,551)	1,216
Adjustment for vesting condition (20% × CU1,216)	(244)
Benefit for the current year after adjustment for vesting condition	972
Present value factor of the 10% discount rate over 3 years (remaining period until the benefit is expected to be settled)	0.751315
Current service cost	**731**

Interest

	CU
Opening balance of the defined obligation	664
Interest, 10% of opening balance of the defined obligation	66

Actuarial loss

	CU
Expected final salary based on updated/end-of-year assumptions (CU105,000 current salary × $(1.15)^3$)	159,692
Accumulated benefit before discounting (from years 20X1 to 20X2, CU159,692 × 1% × 2)	3,194
Adjustment for vesting condition (10% × CU3,194)	(319)
Accumulated benefit before discounting after adjustment for vesting condition	2,875
Present value factor of the 10% discount rate over 3 years (remaining period until the benefit is expected to be settled)	0.751315
Closing balance of the defined obligation, 20X2	2,160
Opening balance of the defined obligation, 20X2	(664)
Current service cost	(731)
Interest	(66)
Actuarial loss	699

For the year ended 31 December 20X3, SME B recognises an expense of CU1,404 (CU1,188 current service cost + CU216 interest) in profit or loss. No actuarial gain or loss was recognised because the actuarial assumptions are unchanged.

Calculations:

Current service cost

	CU
Expected final salary (CU120,750 salary in 20X3 × (1.15)2)	159,692
Benefit for the current year at 1% of expected final salary (1% × CU159,692)	1,597
Adjustment for vesting condition (10% × CU1,597)	(160)
Benefit for the current year after adjustment for vesting condition	1,437
Present value factor of the 10% discount rate over 2 years (remaining period until the benefit is expected to be settled)	0.826446
Current service cost	**1,188**

Interest

	CU
Opening balance of the defined obligation	2,160
Interest, 10% of opening balance of the defined obligation	216

Notes:

The table shows how the obligation builds up for Employee A, assuming that the only change in actuarial assumptions after 20X2 was the removal of uncertainty regarding vesting at the end of 20X5. The differences in amounts in the table are due to rounding.

	20X1	*20X2*	*20X3*	*20X4*	*20X5*
Benefit attributed to:					
– prior years	–	1,596.92	3,193.84	4,790.76	6,387.68
– current year (1% × final salary)	1,215.51	1,596.92	1,596.92	1,596.92	1,596.92
– current and prior years	**1,215.51**	**3,193.84**	**4,790.76**	**6,387.68**	**7,984.60**
Opening obligation	–	**664.17**	**2,159.62**	**3,563.38**	**5,226.28**
Interest at 10%	–	66.42	215.96	356.34	522.63
Current service cost[a]	664.17	730.58	1,187.80	1,306.56	1,437.23
Actuarial loss (balancing figure)	–	698.45	–	–	798.46
Closing obligation[b]	**664.17**	**2,159.62**	**3,563.38**	**5,226.28**	**7,984.60**

[a] The current service cost is the present value of benefit attributed to the current year.

[b] The closing obligation is the present value of benefit attributed to current and prior years.

PART B

The answer to Part B is the same as the answer to Part A. However, in Part B the expense would be described as an ‘other long-term benefit’ instead of a ‘post-employment benefit’.

PART C

For the year ended 31 December 20X1, SME B recognises a current service cost expense of CU1,000 in profit or loss.

Calculation:

Benefit for the current year CU1,000 = 1% × current salary (CU100,000).

For the year ended 31 December 20X2, SME B recognises a current service cost of CU1,100 in profit or loss.

Calculations:

Current service cost

Benefit for the current year CU1,050 = 1% × expected final salary (CU105,000).

Note: the table shows how the obligation builds up for Employee A, assuming actuarial assumptions do not change after 20X2.

	20X1	*20X2*	*20X3*	*20X4*	*20X5*
	CU	*CU*	*CU*	*CU*	*CU*
1% × current salary	1,000.00	1,050.00	1,207.50	1,388.63	1,596.92
Years of service at end of year	1	2	3	4	5
Future value of obligation	**1,000.00**	**2,100.00**	**3,622.50**	**5,554.50**	**7,984.60**
Opening obligation	–	**1,000.00**	**2,100.00**	**3,622.50**	**5,554.50**
Current service cost[a]	1,000.00	1,100.00	1,522.50	1,932.00	2,430.10
Closing obligation[b]	**1,000.00**	**2,100.00**	**3,622.50**	**5,554.50**	**7,984.60**

Notes:

[a] The current service cost is the value of benefit attributed to the current year.

[b] The closing obligation is the value of benefit attributed to current and prior years.

Case study 3

SME C provides its employees with two types of post-employment benefit—a final salary scheme pension benefit and a medical scheme. It recognises actuarial gains and losses arising from the defined benefit plans in profit or loss.

Pension benefit

SME C's employees and former employees are provided with pensions in accordance with SME C's defined benefit final salary pension scheme. The scheme provides a monthly pension of 0.25% of final salary for each year of service. The pension is payable from the age of 60. The pension plan is funded through payments to a separate legal entity set up for the sole purpose of paying pensions to SME C's employees.

Using the projected unit credit method, at 31 December 20X2 SME C's actuaries measured the pension plan obligation at CU20,000 (20X1: CU17,000 and 20X0: CU16,500). The current service cost is CU900 for the year ended 31 December 20X2 (20X1: CU800) and the interest cost attributable to the unwinding of the discount in the defined benefit obligation is CU860 (20X1: CU1,100).

The actual return on the pension plan assets for the year ended 31 December 20X2 is CU1,950 (20X1: CU1,900).

At 31 December 20X2 SME C determined the fair value of the pension plan assets was CU18,000 (20X1: CU16,000 and 20X0: CU14,000). The major categories of plan assets as a percentage of total plan assets are:

	20X2	*20X1*
Jurisdiction A equities	25%	25%
Jurisdiction B equities	25%	18%
Jurisdiction A bonds	20%	30%
Jurisdiction B bonds	20%	17%
Jurisdiction A property	10%	10%

The plan assets include property occupied by SME C with a fair value of CU300 (20X1: CU250).

In 20X2 the pension fund paid pensions of CU750 (20X1: CU500) to past employees of SME C and SME C contributed CU800 (20X1: CU600) to the fund.

Medical scheme

SME C is also obliged to reimburse 10% of post-employment medical costs for employees who have provided 25 years or more of service to the group. SME C does not fund this obligation in advance.

At 31 December 20X2 SME C's actuaries determined the carrying amount of the medical plan obligation was CU7,000 (20X1: CU6,000 and 20X0: CU5,000). The current service cost is CU490 for the year ended 31 December 20X2 (20X1: CU430) and the interest cost attributable to the unwinding of the discount in the defined benefit obligation is CU800 (20X1: CU750).

In 20X2 SME C paid CU600 (20X1: CU550) for past employee medical costs.

The principal actuarial assumptions applied by SME C at the end of the reporting period (expressed as weighted averages) are:

	20X2	*20X1*
Discount rate at 31 December	5%	6.5%
Expected rate of return on plan assets	3%	2%
Future salary increases	5%	4%
Future pension increases	3%	2%
Annual increase in healthcare costs	8%	8%
Future changes in maximum state healthcare benefits	3%	2%

Prepare an extract from SME C's annual financial statements for the year ended 31 December 20X2 to record the information set out.

Answer to Case study 3

Extract from SME C's consolidated statement of financial position at 31 December 20X2

Description	*Note*	*20X2*	*20X1*
LIABILITIES			
…			
Liability for employee benefits	18	CUXX,XXX	CUXX,XXX
…			

SME C's notes to the financial statements at 31 December 20X2 (extract)

Note 2 Accounting policies

Employee benefits—Defined benefit post-employment plans

SME C has obligations to its employees and former employees to provide pensions in accordance with its defined benefit final salary pension scheme. The terms of the scheme oblige SME C to provide each of its employees with a pension equal to 0.25% of the employee's final salary for every year of service provided. The defined benefit pension plan is funded by SME C through payments to a separate legal entity set up for the sole purpose of paying pensions to its employees. Funding levels are monitored on an annual basis, and the current agreed contribution rate is 14% of pensionable salaries.

SME C is also obliged to reimburse 10% of post-employment medical costs for employees who have provided 25 years or more of service to SME C. SME C does not fund this obligation in advance.

SME C measures defined benefit liabilities (assets) at the present value of its obligations under defined benefit plans at the reporting date minus the fair value at the reporting date of plan assets out of which the obligations are to be settled directly. The obligations under defined benefit plans are determined using the projected unit credit method. Actuarial gains and losses are recognised in profit or loss in the period in which they occur.

continued ...

Note 18 Provision for employee benefits

	All amounts are presented in currency units (CU)	
	20X2	*20X1*
…		
Post-employment plans—defined benefit liabilities	CU9,000	CU7,000
…		
Total liabilities for employee benefits	CUXX,XXX	CUXX,XXX

Post-employment plans—defined benefit plans

	Defined benefit pension plans		*Post-employment medical benefits*	
	20X2	*20X1*	*20X2*	*20X1*
Present value of funded obligations	20,000	17,000	–	–
Fair value of plan assets	(18,000)	(16,000)	–	–
Present value of unfunded obligations	–	–	7,000	6,000
Net liability	2,000	1,000	7,000	6,000

The most recent comprehensive actuarial valuation was performed as at 31 December 20X2.

The pension plan assets include property occupied by SME C with a fair value of CU300 (20X1: CU250).

The amounts recognised in profit or loss are:

	Defined benefit post-employment benefits	
	20X2	*20X1*
Defined benefit pension plan	1,800[(a)]	(900)[(b)]
Post-employment medical benefits	1,600[(c)]	1,550[(d)]
Post employment benefits	**3,400**	**650**

continued ...

Changes in the present value of the defined benefit obligation are:

	Defined benefit pension plans	*Post-employment medical benefits*	*Total*
	20X2	*20X2*	*20X2*
Defined benefit obligations at 1 January 20X2	17,000	6,000	23,000
Service cost	900	490	1,390
Interest cost	860	800	1,660
Actuarial losses (gains)	1,990[(e)]	310[(f)]	2,300
Benefits paid	(750)	(600)	(1,350)
Defined benefit obligations at 31 December 20X2	**20,000**	**7,000**	**27,000**

Changes in the fair value of plan assets are:

	Defined benefit pension plans
	20X2
Opening fair value of plan assets	16,000
Actual return on plan assets	1,950
Contributions by employer	800
Benefits paid	(750)
Closing fair value of plan assets	**18,000**

continued ...

The major categories of plan assets as a percentage of total plan assets are:

	20X2	*20X1*
Jurisdiction A equities	25%	25%
Jurisdiction B equities	25%	18%
Jurisdiction A bonds	20%	30%
Jurisdiction B bonds	20%	17%
Jurisdiction A property	10%	10%

Principal actuarial assumptions at the end of the reporting period (expressed as weighted averages) are:

	20X2	*20X1*
Discount rate at 31 December	5%	6.5%
Expected rate of return on plan assets	3%	2%
Future salary increases	5%	4%
Future pension increases	3%	2%
Annual increase in healthcare costs	8%	8%
Future changes in maximum state healthcare benefits	3%	2%

These calculations and explanatory notes do not form part of the answer to this case study:

(a) CU900 pension current service cost + CU860 pension interest cost + CU1,990[(e)] pension actuarial loss – CU1,950 pension actual return on plan assets = CU1,800 expense.

(b) CU800 pension current service cost + CU1,100 pension interest cost – CU900[(e)] pension actuarial gain – CU1,900 pension actual return on plan assets = CU900 income.

(c) CU490 medical plan current service cost + CU800 medical plan interest cost + CU310[(f)] medical plan actuarial loss = CU1,600 expense.

(d) CU430 medical plan current service cost + CU750 medical plan interest cost + CU370[(f)] medical plan actuarial loss = CU1,550 expense.

(e) Calculation of actuarial gains (losses) on pension plan obligation:

	20X2 *CU*	*20X1* *CU*
Pension plan obligation, closing balance	20,000	17,000
Pension fund paid to past employees	750	500
Pension plan obligation, opening balance	(17,000)	(16,500)
Current service cost	(900)	(800)
Interest cost	(860)	(1,100)
Actuarial loss (gain)	1,990	(900)

(f) Calculation of actuarial gains (losses) on medical plan obligation:

	20X2	*20X1*
Medical plan obligation, closing balance	7,000	6,000
Medical benefits paid to past employees	600	550
Medical plan obligation, opening balance	(6,000)	(5,000)
Current service cost	(490)	(430)
Interest cost	(800)	(750)
Actuarial loss	310	370

NOTES

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