This accounting policy paper is based on IPSAS 39 Employee Benefits (Final Pronouncement) and other relevant IPSASs as adopted by the Treasury of the Republic of Cyprus.

EMPLOYEE BENEFITS

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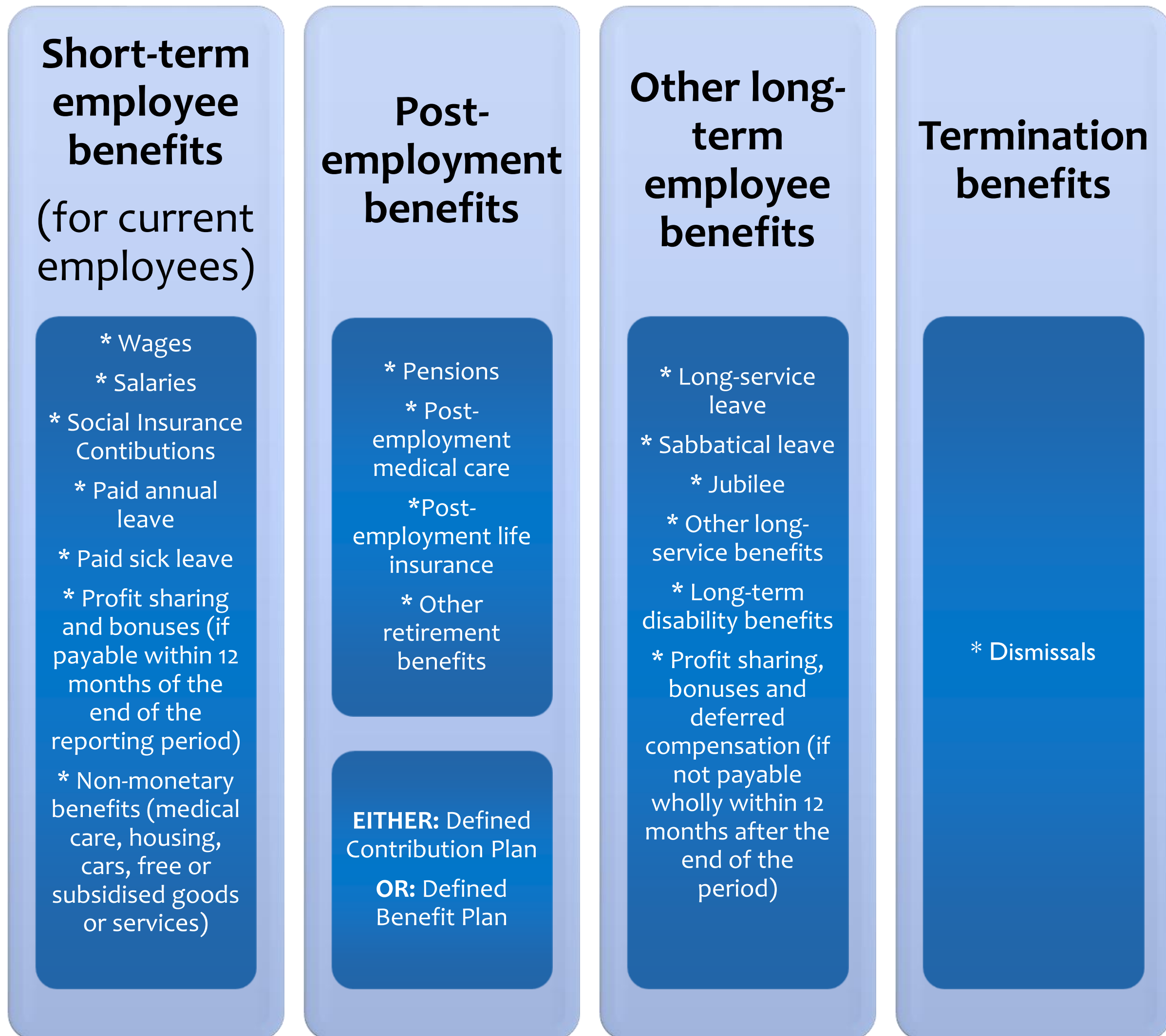
1. INTRODUCTION

1.1 EMPLOYEE BENEFITS

An employee benefit is any form of consideration given by an entity in exchange for service rendered by employees.



Public sector entities employ a large number of staff and provide them with multiple benefits, including short-term benefits, settled by payment or in kind, and benefits available upon retirement, such as pensions and gratuity payments. All these benefits are dealt with under the accounting area "Employee Benefits".

1.2 OBJECTIVES

The objective of this accounting policy is to determine the accounting and disclosure for employee benefits so that the users of the financial statements of the Government of the Republic of Cyprus can determine information about the Government's liabilities and expenses arising when an employee has provided service in exchange for future employee benefits (**liability**) or when a public sector entity consumes the economic benefits or service potential arising from the service provided by an employee in exchange for employee benefits (**expense**). The aim of this policy is to provide guidance on the accounting treatment of "Employee Benefits" for the preparation of financial statements, so as to enable the financial statements to give a true and fair view of the financial performance and financial position of the public sector entity. The aforementioned policy is prepared following guidance from all relevant International Public Sector Accounting Standards (IPSASs).

1.3 SCOPE

1. This accounting policy applies to the accounting for all employee benefits in the financial statements of the Government of the Republic of Cyprus and its consolidated entities, except employee retirement benefit plans[1].
2. Employee benefits to which this policy applies are:
    - Under formal plans or other formal agreements between a public sector entity and individual employees (employment agreements), groups of employees, or their representatives;
    - Under legislative requirements, or through industry arrangements, whereby entities are required to contribute to national, state, industry, or other multi-employer plans, or where entities are required to contribute to the composite social security program; or
    - By those informal practices that give rise to a constructive obligation. Informal practices give rise to a constructive obligation where the public sector entity has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the public sector entity's informal practices would cause unacceptable damage to its relationship with employees.

[1] covered by IAS 26 and dealing with the financial reporting consideration for the plans themselves, as the reporting entity.

1.4 Categories Of Employee Benefits

1. There are four categories of employee benefits and a different accounting treatment applies to each one of them. The four categories of employee benefits are:

① ***SHORT-TERM EMPLOYEE BENEFITS for CURRENT EMPLOYEES***

② ***POST-EMPLOYMENT BENEFITS that are payable AFTER THE COMPLETION OF EMPLOYMENT***

③ ***OTHER LONG-TERM BENEFITS***

④ ***TERMINATION BENEFITS***

2. Furthermore,

(a) ***Short-term***, ***post-employment*** *and* ***other long-term*** *employee benefits are granted in exchange of services rendered by an employee, while* ***termination benefits*** *relate to benefits triggered by the termination of an employee.*

(b) ***Short-term*** *employee benefits and* ***other long-term*** *benefits are due to be* ***settled during employment*** *(within 12 months from service rendered or later), while* ***post-employment*** *employee benefits are* ***settled after the end of employment****.*

(c) Employee benefits include benefits provided to either ***employees*** *or their* ***dependants*** *(to their spouses, children, or other dependants), and may be settled by* ***payments*** *(or the* ***provision of goods or services****) made either directly to the employees or their dependants, or to others, such as insurance companies.*

(d) An employee may provide services to a public sector entity on a ***full-time***, ***part-time***, ***permanent***, ***casual***, *or* ***temporary*** *basis. For the purpose of this accounting policy, employees include* ***key management personnel*** *as defined in the Accounting Policy on Related Party Disclosures.*

1.5 GENERAL RECOGNITION PRINCIPLE FOR ALL EMPLOYEE BENEFITS

A public sector entity shall recognise the cost of any employee benefit to which its employees have become entitled to as a result of service rendered to the entity during the reporting period:

(a) As a **liability** (accrued expense), after deducting any amount already paid (either directly to the employees or as a contribution to an employee benefit fund). If the amount already paid exceeds the obligation arising from service before the reporting date, a public sector entity shall recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and

(b) As an **expense**, unless another accounting policy requires or permits the inclusion of the benefits in the cost of an asset (for example, the *Accounting Policy on Inventories or* the *Accounting Policy on Property, Plant and Equipment).*

1.6 DEFINITIONS USED

Actuarial gains and losses comprise:

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

(b) The effects of changes in actuarial assumptions,

which result in changes in the present value of the defined benefit obligation.

The **asset ceiling** is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting entity) that:

(a) Are held by a public sector entity (a fund) that is legally separate from the reporting entity and exists solely to pay or fund employee benefits; and

(b) Are available to be used only to pay or fund employee benefits, are not available to the reporting entity's own creditors (even in bankruptcy), and cannot be returned to the reporting entity, unless either:

   (i) The remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting entity; or

   (ii) The assets are returned to the reporting entity to reimburse it for employee benefits already paid.

A **constructive obligation** is an obligation that derives from an entity's actions where:

(a) By an established pattern of past practice, published practices, or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain 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.

The **deficit or surplus** is:

(a) The present value of the defined benefit obligation less

(b) The fair value of plan assets (if any).

Defined contribution plans are post-employment benefit plans under which a public sector entity pays fixed contributions into a separate entity (a fund), and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

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

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

The **net defined benefit liability (asset)** is the deficit or surplus, adjusted for any effect of limiting a net defined benefit asset to the asset ceiling.

Net interest on the net defined benefit liability (asset) is the change during the period in the net defined benefit liability (asset) that arises from the passage of time.

Other long-term employee benefits are employee benefits other than short-term employment benefits, post-employment benefits and termination benefits. They do not fall due wholly within twelve (12) months after the end of the period in which the employees render the related service.

Plan assets comprise:
(a) Assets held by a long-term employee benefit fund; and
(b) Qualifying insurance policies.

Post-employment benefit plans are formal or informal arrangements under which a public sector entity provides post-employment benefits for one or more employees.

Post-employment benefits[2] are employee benefits (other than short-term employee benefits and termination benefits) which are payable after the completion of employment.

The **present value of a 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.

[2] IPSAS 39 distinguishes between defined contribution plans and defined benefit plans in the context of:
(a) multi-employer plans under which (i) resources are contributed and pooled by various employers (not under common control) and (ii) those resources will be used to provide benefits to employees of various employers on the basis that contributions and benefits levels are determined independent to the identity of the employers;
(b) defined benefit plans that share risks between entities under common control;
(c) state plans which are plans established by legislation that operate as if they are multi-employer plans for all entities in economic categories laid down in legislation; and
(d) insured benefits.

A **qualifying insurance policy** is an insurance policy (which is not necessarily an insurance contract) issued by an insurer that is not a related party (as defined in *Accounting Policy on 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 that are 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.

Re-measurements of the net defined benefit liability (asset) comprise:

(a) Actuarial gains and losses;

(b) The return on plan assets, excluding amounts included in net interest on the net defined benefit liability (asset); and

(c) Any change in the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability (asset).

The **return on plan assets** is interest, dividends or similar distributions and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan and less any tax payable by the plan itself (other than those included in the actuarial assumptions used to measure the defined benefit obligation).

Service cost comprises:

(a) **Current service cost** is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

(b) **Past service cost** is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting from a plan amendment (the introduction or withdrawal of, or changes to, a defined benefit plan) or a curtailment (a significant reduction by the entity in the number of employees covered by a plan). Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases); and

(c) Any gain or loss on settlement.

A **settlement** is a transaction that eliminates all further legal or constructive obligations for part or all of the benefits provided under a defined benefit plan, other than a payment of benefits to, or on behalf of, employees that is set out in the terms of the plan and included in the actuarial assumptions.

Short-term employee benefits are employee benefits (other than termination benefits) which fall due wholly within twelve (12) months after the end of the period in which the employees render the related service.

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

(a) A public sector entity's decision to terminate an employee's employment before the normal retirement date; or

(b) An employee's decision to accept an offer for termination of employment (voluntary redundancy) in exchange for those benefits.

2. SHORT-TERM EMPLOYEE BENEFITS

Short-term employee benefits are employee benefits that are expected to be settled wholly within twelve (12) months after the end of the reporting period in which the employee renders the related service, and include items such as :

- Wages, salaries, and social security contributions.
- Short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the period in which the employees render the related employee service.
- Performance related bonuses and profit-sharing payable within twelve months after the end of the period in which the employees render the related service.
- Non-monetary benefits (such as medical care, housing, cars, and free or subsidised goods or services) for current employees.

Accounting for short-term employee benefits is generally straightforward, because no actuarial assumptions are required to measure the obligation or the cost, and there is no possibility of any actuarial gain or loss. Additionally, short-term employee benefit obligations are measured on an undiscounted basis.

2.1 Recognition and Measurement

2.1.1 All Short-Term Employee Benefits

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

(a) As a **liability** (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, a public sector entity shall recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and

(b) As an **expense**, unless another accounting policy requires or permits the inclusion of the benefits in the cost of an asset (for example, the *Accounting Policy on Inventories* and the *Accounting Policy on Property, Plant and Equipment).*

(See example 1)

2.1.2 Short-Term Compensated Absences

1. When a public sector entity compensates employees for absence for various reasons, including vacation, sickness and short-term disability, maternity or paternity, jury service, and military service, these entitlements to compensated absences may fall into two categories:

   (a) **Accumulating compensated absences**: those that are carried forward and can be used in future periods if the current period's entitlement is not used in full. Accumulating compensated absences may be either vesting (i.e. employees are entitled to a cash payment for unused entitlement on leaving the entity) or non-vesting (when employees are not entitled to a cash payment for unused entitlement on leaving); and

   (b) **Non-accumulating compensated absences**: those that do not carry forward; they lapse if the current period's entitlement is not used in full and do not entitle employees to a cash payment for unused entitlement on leaving the entity.

2. A public sector entity shall recognise the expected cost of short-term employee benefits in the form of compensated absences (under paragraph 2.1.1) as follows:

   (a) In the case of accumulating compensated absences, when the employees render service that increases their entitlement to future compensated absences, whether the accumulated compensated absences are vesting or non-vesting. However, in the case of non-vesting accumulating compensated absences the possibility that an employee may leave the entity before the use of the accumulated non-vesting entitlement affect the obligation measurement (*See example 2*); and

   (b) In the case of non-accumulating compensated absences, when the absences occur (*See examples 3, 4 and 5*).

2.1.3 BONUS PAYMENTS AND PROFIT-SHARING PAYMENTS

1. A public sector entity shall recognise the expected cost of bonus payments and profit-sharing payments (under paragraph 2.1.1) when, and only when:

   (a) The entity has a present legal or *constructive obligation* to make such payments as a result of past events; and

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

2 A present obligation exists when, and only when, the entity has no realistic alternative but to make the payments.

3. A public sector entity may have no legal obligation to pay a bonus. Nevertheless, in some cases, a public sector entity has a practice of paying bonuses. In such cases, the entity has a constructive obligation because the entity has no realistic alternative but to pay the bonus.

4. A public sector entity can make a reliable estimate of its legal or constructive obligation under a performance-related payment scheme, bonus plan, or profit-sharing scheme when, and only when:

   (a) The formal terms of the plan contain a formula for determining the amount of the benefit;

   (b) The entity determines the amounts to be paid before the financial statements are authorised for issue; or

   (c) Past practice gives clear evidence of the amount of the entity's constructive obligation.

5. An obligation under bonus plans and profit-sharing plans results from employee service, and is recognised as an expense in surplus or deficit.

6. If bonus payments and profit shares are not due wholly within twelve months after the end of the period in which the employees render the related service, those payments are other long-term employee benefits.

3. POST-EMPLOYMENT BENEFITS

1. **Post-employment benefit plans** are formal or informal arrangements under which a public sector entity provides post-employment benefits for one or more employees.

   Post-employment benefits include, for example:

   (a) Retirement benefits, such as pensions and lump sum payments on retirement; and

   (b) Other post-employment benefits, such as post-employment life insurance, and

2. A public sector entity applies this accounting policy to all arrangements whereby a public sector entity provides post-employment benefits, whether or not they involve the establishment of a separate entity, such as a pension scheme, superannuation scheme, or retirement benefit scheme, to receive contributions and to pay benefits.

3. **Depending on the economic substance of the plan, as derived from its principal terms and conditions, post-employment benefit plans are classified as one of the two following plans:**

   DEFINED CONTRIBUTION PLANS

   DEFINED BENEFIT PLANS

4. In order to be classified as a **defined contribution plan** a post-employment benefit plan must require the entity to pay fixed contributions into a separate entity (a fund or an insurance company).

   Under defined contribution plans, the entity's legal or constructive obligation is limited to the amount that it agrees to contribute to the fund or the insurance company. Thus, the amount of the post-employment benefits received by the employee is determined by the amount of contributions paid by a public sector entity (and perhaps also the employee) to a post-employment benefit plan or to an insurance company, together with investment returns arising from the contributions. In consequence, actuarial risk (that benefits will be less than expected) and investment risk (that assets invested will be insufficient to meet expected benefits) fall on the employee, not on the entity.

5. A post-employment benefit plan will be classified as a **defined benefit plan** when a public sector entity's obligation is to provide the agreed benefits to current and former employees and is **not limited** to the amount that it agrees to contribute to the fund or the insurance company.

6. This is the case when the entity has a legal or constructive obligation through:
   (a) A plan benefit formula that is not linked solely to the amount of contributions and requires the entity to provide further contributions if assets are insufficient to meet the benefits in the plan benefit formula;
   (b) A guarantee, either indirectly through a plan or directly, of a specified return on contributions; or
   (c) Those informal practices that give rise to a constructive obligation. For example, a constructive obligation may arise where a public sector entity has a history of increasing benefits for former employees to keep pace with inflation, even where there is no legal obligation to do so.

7. Under defined benefit plans, actuarial risk (that benefits will cost more than expected) and investment risk (that assets invested will be insufficient to meet expected benefits) fall, in substance, on the entity. If actuarial or investment experience is worse than expected, the entity's obligation may be increased or vice versa if actuarial or investment experience is better.

8. Unlike defined contribution plans, the definition of a defined benefit plan does not require the payment of contributions to a separate entity.

3.1 DEFINED CONTRIBUTION PLANS

Accounting for defined contribution plans is straightforward because the reporting entity's obligation for each period is determined by the amounts to be contributed for that period. Subsequently, no actuarial assumptions are required to measure the obligation or the expense, and there is no possibility of any actuarial gain or loss. Moreover, the obligations are measured on an *undiscounted basis*, except where they do not fall due wholly within twelve months after the end of the period in which the employees render the related service.

3.1.1 RECOGNITION AND MEASUREMENT

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

(a) As a **liability** (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, a public sector entity shall recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and

(b) As an **expense**, unless another accounting policy requires or permits the inclusion of the contribution in the cost of an asset (see, for example, the *Accounting Policy on Inventories* and the *Accounting Policy on Property, Plant and Equipment*).

Note: The accounting for defined contribution plans is similar to the accounting for short-term employee benefits.

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the period in which the employees render the related service, the amount recognised shall be the *discounted* amount (the discount rate to be used is discussed in paragraph 3.2.2.3 §3).

(See examples 6 and 7)

3.2 DEFINED BENEFIT PLANS

Accounting for defined benefit plans requires actuarial assumptions to measure the obligation and the expense, and there is a possibility of actuarial gains and losses. Moreover, the obligations are measured on a discounted basis, because they may be settled many years after the employees render the related service.

3.2.1 RECOGNITION AND MEASUREMENT

3.2.1.1 ACCOUNTING FOR DEFINED BENEFIT PLANS

1. Accounting by a public sector entity for defined benefit plans involves the following steps:
   (a) Determining the deficit or surplus. This involves:
      (i) Using an actuarial technique (projected unit credit method) to make a reliable estimate of the ultimate cost to the entity of the benefit that employees have earned in return for their service in the current and prior periods (paragraph 3.2.2.1). This requires a public sector entity to determine how much benefit is attributable to the current and prior periods (paragraph 3.2.2.2), and to make estimates (actuarial assumptions) about demographic variables (such as employee turnover and mortality) and financial variables (such as future increases in salaries and medical costs) that will influence the cost of the benefit (paragraph 3.2.2.3);
      (ii) Discounting that benefit in order to determine the present value of the defined benefit obligation and the current service cost (paragraph 3.2.2.1 and 3.2.2.3 §3);
      (iii) Deducting the fair value of any plan assets (paragraph 3.2.3.1) from the present value of the defined benefit obligation.
   (b) Determining the amount of the net defined benefit liability (asset) as the amount of the deficit or surplus determined in (a), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling (paragraph 3.2.1.3 §2).
   (c) Determining amounts to be recognised in surplus or deficit:
      (i) Current service cost (paragraph 3.2.2.2);
      (ii) Any past service cost and gain or loss on settlement (paragraph 3.2.2.4 – 3.2.2.6);
      (iii) Net interest on the net defined benefit liability (asset) (paragraph 3.2.4.2).

(d) Determining the re-measurements of the net defined benefit liability (asset), to be recognised in net assets/equity, comprising:
    (i) Actuarial gains and losses (paragraph 3.2.4.3 §2 and §3);
    (ii) Return on plan assets, excluding amounts included in net interest on the net defined benefit liability (asset) (paragraph 3.2.4.3 §4);
    (iii) Any change in the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability (asset) (paragraph 3.2.1.3 §2).

2. Where a public sector entity has more than one defined benefit plan, the entity applies these procedures for each material plan separately.
3. A public sector entity shall determine the net defined benefit liability (asset) every one year so that the amounts recognised in the financial statements do not differ materially from the amounts that would be determined at the end of the reporting period.
4. In some cases, estimates, averages, and computational short cuts may provide a reliable approximation of the detailed computations illustrated in this accounting policy.

3.2.1.2 ACCOUNTING FOR THE CONSTRUCTIVE OBLIGATION

A public sector entity shall account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the entity's informal practices. Informal practices give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the entity's informal practices would cause unacceptable damage to its relationship with employees.

3.2.1.3 STATEMENT OF FINANCIAL POSITION: DEFINED BENEFIT LIABILITY (ASSET)

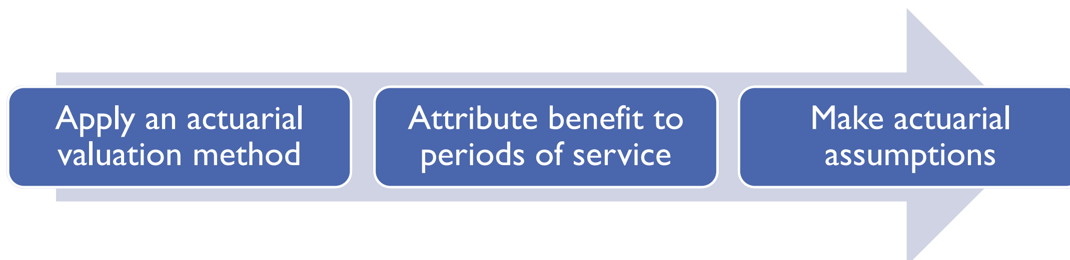
1. A public sector entity is required to recognise the **defined benefit liability (DBL) (asset (DBA))** in the statement of financial position, which is the net total of the following amounts:
   - The present value of the **defined benefit obligation (DBO) and current service cost** at the reporting date (paragraph 3.2.2); **less**
   - The fair value at the reporting date of **plan assets** (if any) out of which the obligations are to be settled directly (paragraph 3.2.3).
2. The amount determined may be positive ("Net defined benefit obligation", representing a shortfall in the fund) or negative ("Net defined benefit asset", representing a surplus in the fund). If negative (i.e. a surplus in a defined benefit plan), a public sector entity shall measure the net defined benefit asset at the lower of:

   (a) The surplus of the defined benefit plan; and

   (b) The asset ceiling (i.e. the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan), determined using the discount rate specified in paragraph 3.2.2.3 §3.

3.2.2 PRESENT VALUE OF THE DEFINED BENEFIT OBLIGATION (DBO) AND CURRENT SERVICE COST

In order to measure the present value of the post-employment defined benefit obligation and the current service cost, it is necessary that the entity:



3.2.2.1 ACTUARIAL VALUATION METHOD: PROJECTED UNIT CREDIT METHOD

1. A public sector entity shall use the **projected unit credit method** to determine *the present value of its defined benefit obligations* and the related *current service cost* and, where applicable, *past service cost*.
2. The projected unit credit method sees each period of service as giving rise to an additional unit of benefit entitlement (paragraph 3.2.2.2), and measures each unit *separately* to build up the final obligation (paragraph 3.2.2.3).
3. A public sector entity discounts the whole of a post-employment benefit obligation, even if part of the obligation falls due within twelve months of the reporting date.

(See example 8)

3.2.2.2 ATTRIBUTING BENEFIT TO YEARS OF SERVICE

1. In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, a public sector entity shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, a public sector entity shall attribute benefit on a straight-line basis from:
   (a) The date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
   (b) The date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

2. The projected unit credit method requires a public sector entity to attribute benefit to the **current period** (in order to determine current service cost) and the **current and prior periods** (in order to determine the present value of defined benefit obligations). A public sector entity attributes benefit to periods in which the obligation to provide post-employment benefits arises. That obligation arises as employees render services in return for post-employment benefits that a public sector entity expects to pay in future reporting periods *(See examples 9 and 10).*

3. 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 vested). Employee service before the vesting date gives rise to a constructive obligation because, at the end of each successive reporting period, the amount of future service that an employee will have to render before becoming entitled to the benefit is reduced. In measuring its defined benefit obligation, a public sector entity considers the probability that some employees may not satisfy any vesting requirements. Similarly, although some post-employment benefits, for example, post-employment medical benefits, become payable only if a specified event occurs when an employee is no longer employed, 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 *(See examples 11 and 12)*.

4. The obligation increases until the date when further service by the employee will lead to no material amount of further benefits. Therefore, all benefit is attributed to periods ending on or before that date. Benefit is attributed to individual accounting periods under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, a public sector entity attributes benefit on a straight-line basis until the date when further service by the employee will lead to no material amount of further benefits. That is because the employee's service throughout the entire period will ultimately lead to benefit at that higher level. *(See examples 13, 14, 15 and 16).*

5. Where the amount of a benefit is a constant proportion of final salary for each year of service, future salary increases will affect the amount required to settle the obligation that exists for service before the end of the reporting period, but do not create an additional obligation. Therefore:
   (a) For the purpose of paragraph 3.2.2.2 §1 note (b), salary increases do not lead to further benefits, even though the amount of the benefits is dependent on final salary; and
   (b) The amount of benefit attributed to each period is a constant proportion of the salary to which the benefit is linked.

   (See examples 17 and 18)

3.2.2.3 ACTUARIAL ASSUMPTIONS

1. Actuarial assumptions are a public sector entity's best estimates of the variables that will determine the ultimate cost of providing post-employment benefits. *Actuarial assumptions shall be unbiased and mutually compatible.* Actuarial assumptions comprise:
   (a) **Demographic assumptions** about the future characteristics of current and former employees (and their dependants) who are eligible for benefits. Demographic assumptions deal with matters such as: (i) mortality, both during and after employment; (ii) rates of employee turnover, disability, and early retirement; (iii) the proportion of plan members with dependants who will be eligible for benefits; and (iv) claim rates under medical plans.
   (b) **Financial assumptions**, dealing with items such as: (i) the discount rate; (ii) future salary and benefit levels; (iii) in the case of medical benefits, future medical costs, including, where material, the cost of administering claims and benefit payments; and (iv) taxes payable by the plan on contributions relating to service before the end of the reporting periods or on benefits resulting from that service.
   Financial assumptions shall be based on market expectations, at the reporting date, for the period over which the obligations are to be settled.
2. **Mortality assumptions** are determined by reference to its best estimate of the mortality of plan members both during and after employment.
3. **The rate used to discount post-employment benefit obligations** (both funded and unfunded) shall reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money shall be consistent with the currency and estimated term of the post-employment benefit obligations. The Government will be using the discount rate that reflects the time value of money that is best approximated by reference to market yields at the end of the reporting period, that is the rate on government bonds.
4. **Post-employment benefit obligations shall be measured on a basis that reflects**:
   (a) The benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
   (b) Any estimated future salary increases that affect the benefits payable;
   (c) The effect of any limit on the employer’s share of the cost of the future benefit;
   (d) Contributions from employees or third parties that reduce the ultimate cost to the entity of those benefits; and

(e) Estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
   (i) Those changes were enacted before the reporting date; or
   (ii) 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.

5. **Medical costs assumptions** shall take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

3.2.2.4 PAST SERVICE COST AND GAINS AND LOSSES ON SETTLEMENT

1. Service cost comprises:
   (a) Current service cost, which is the increase in the present value of the defined benefit obligation resulting from employee service in the current period;
   (b) Past service cost, which is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting from a *plan amendment* (the introduction or withdrawal of, or changes to, a defined benefit plan) or a *curtailment* (a significant reduction by the entity in the number of employees covered by a plan); and
   (c) Any gain or loss on settlement.
2. Before determining past service cost, or a gain or loss on settlement, a public sector entity shall re-measure the net defined benefit liability (asset) using the current fair value of plan assets and current actuarial assumptions (including current market interest rates and other current market prices) reflecting the benefits offered under the plan before the plan amendment, curtailment or settlement.
3. If a plan amendment, curtailment and gain or loss on settlement occur simultaneously, a public sector entity shall not distinguish between the three. If a plan amendment occurs before a settlement, a public sector entity should recognise past service cost before any gain or loss on settlement.
4. A settlement occurs together with a plan amendment and curtailment if a plan is terminated with the result that the obligation is settled and the plan ceases to exist. However, the termination of a plan is not a settlement if the plan is replaced by a new plan that offers benefits that are, in substance, the same.

3.2.2.5 PAST SERVICE COST

1. A public sector entity shall recognise past service cost as an expense at the earlier of the following dates:
   (a) When the plan amendment or curtailment occurs; and
   (b) When the entity recognises related restructuring costs (see *Accounting Policy on Provisions, Contingent Liabilities and Contingent Assets*) or termination benefits (see Chapter 5).
2. A plan amendment occurs when a public sector entity introduces, or withdraws, a defined benefit plan or changes the benefits payable under an existing defined benefit plan.
3. A curtailment occurs when a public sector entity significantly reduces the number of employees covered by a plan. A curtailment may arise from an isolated event, such as the closing of a plant, discontinuance of an operation or termination or suspension of a plan.
4. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when benefits are withdrawn or changed so that the present value of the defined benefit obligation decreases).
5. Where a public sector entity reduces benefits payable under an existing defined benefit plan and, at the same time, increases other benefits payable under the plan for the same employees, the entity treats the change as a single net change.
6. Past service cost excludes:
   (a) The effect of differences between actual and previously assumed salary increases on the obligation to pay benefits for service in prior years (there is no past service cost because actuarial assumptions allow for projected salaries);
   (b) Underestimates and overestimates of discretionary pension increases when a public sector entity has a constructive obligation to grant such increases (there is no past service cost because actuarial assumptions allow for such increases);
   (c) Estimates of benefit improvements that result from actuarial gains or from the return on plan assets that have been recognised in the financial statements if the entity is obliged, by either the formal terms of a plan (or a constructive obligation that goes beyond those terms) or legislation, to use any surplus in the plan for the benefit of plan participants, even if the benefit increase has not yet been formally awarded (there is no past service cost because the resulting increase in the obligation is an actuarial loss); and

(d) The increase in vested benefits (i.e., benefits that are not conditional on future employment) when, in the absence of new or improved benefits, employees complete vesting requirements (there is no past service cost because the entity recognised the estimated cost of benefits as current service cost as the service was rendered).

3.2.2.6 Gains and Losses on Settlement

1. A public sector entity shall recognise a gain or loss on the settlement of a defined benefit plan when the settlement occurs.
2. The gain or loss on a settlement is the difference between:
   (a) The present value of the defined benefit obligation being settled, as determined on the date of settlement; and
   (b) The settlement price, including any plan assets transferred and any payments made directly by the entity in connection with the settlement.
3. A settlement occurs when a public sector entity enters into a transaction that eliminates all further legal or constructive obligation for part or all of the benefits provided under a defined benefit plan (other than a payment of benefits to, or on behalf of, employees in accordance with the terms of the plan and included in the actuarial assumptions).

3.2.3 PLAN ASSETS

3.2.3.1 FAIR VALUE OF PLAN ASSETS

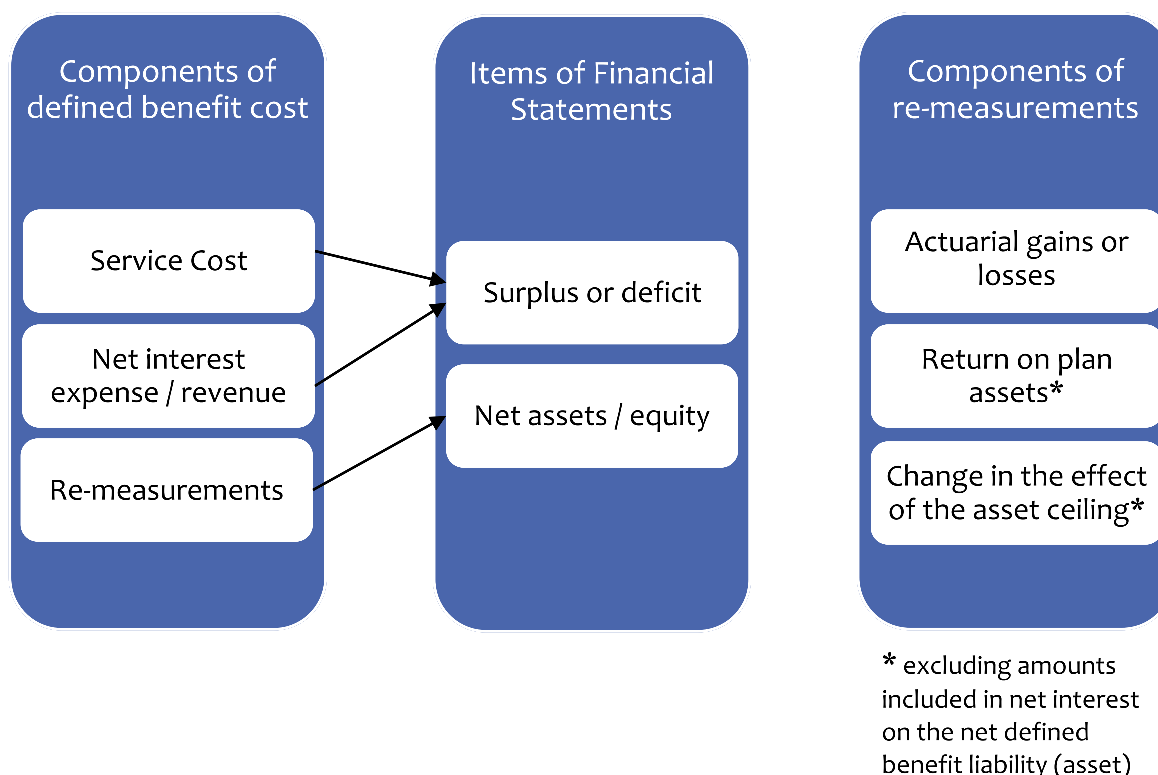
1. The fair value of any plan assets is deducted from the present value of the defined benefit obligation in determining the amount deficit or surplus, as per paragraph 3.2.1.3 §1.
2 Plan assets exclude unpaid contributions due from the reporting entity to the fund, as well as any non-transferable financial instruments issued by the entity and held by the fund. Plan assets are reduced by any liabilities of the fund that do not relate to employee benefits, for example, trade and other payables and liabilities resulting from derivative financial instruments.
3 Where plan assets include qualifying insurance policies that exactly match the amount and timing of some or all of the benefits payable under the plan, the fair value of those insurance policies is deemed to be the present value of the related obligations (subject to any reduction required if the amounts receivable under the insurance policies are not recoverable in full).

3.2.3.2 REIMBURSEMENTS

1. When, and only when, it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, a public sector entity shall:
   (a) Recognise its right to reimbursement as a separate asset. The entity shall measure the asset at fair value.
   (b) Disaggregate and recognise changes in the fair value of its right to reimbursement in the same way as for changes in the fair value of plan assets (paragraphs 3.2.4.2 §2 - §4). The components of defined benefit cost recognised in accordance with paragraph 3.2.4.1 §1 may be recognised net of amounts relating to changes in the carrying amount of the right to reimbursement.
2. If an insurance policy held by a public sector entity is a qualifying insurance policy, it must be treated as a plan asset (and deducted when determining the defined benefit surplus or asset). Otherwise, the right for reimbursement must be recognised as a separate asset.

3.2.4 Defined Benefit Cost

3.2.4.1 Components of Defined Benefit Cost



* excluding amounts included in net interest on the net defined benefit liability (asset)

1. A public sector entity shall recognise the components of defined benefit cost, except to the extent that another accounting policy requires or permits their inclusion in the cost of an asset, as follows:

   (a) Service cost (see paragraph 3.2.2) in surplus or deficit;

   (b) Net interest on the net defined benefit liability (asset) (see paragraph 3.2.4.2) in surplus or deficit; and

   (c) Re-measurements of the net defined benefit liability (asset) (see paragraph 3.2.4.3) in net assets/equity.

2. Other accounting policies require the inclusion of some employee benefit costs within the cost of assets, such as inventories and property, plant and equipment. Any post-employment benefit costs included in the cost of such assets include the appropriate proportion of the components listed above.

3. Re-measurements of the net defined benefit liability (asset) recognised in net assets/equity shall not be reclassified to surplus or deficit in a subsequent period, but recognised in net assets/equity within net assets/equity.

3.2.4.2 NET INTEREST ON THE NET DEFINED BENEFIT LIABILITY (ASSET)

1. Net interest on the net defined benefit liability (asset) shall be determined by multiplying the net defined benefit liability (asset) by the discount rate specified in paragraph 3.2.2.3 §3, both as determined at the start of the reporting period, taking account of any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.
2. Net interest on the net defined benefit liability (asset) can be viewed as comprising interest revenue on plan assets, interest cost on the defined benefit obligation and interest on the effect of the asset ceiling mentioned in paragraph 3.2.1.3 §2.
3. Interest revenue on plan assets is a component of the return on plan assets, and is determined by multiplying the fair value of the plan assets by the discount rate specified in paragraph 3.2.2.3 §3, both as determined at the start of the reporting period, taking account of any changes in the plan assets held during the period as a result of contributions and benefit payments. The difference between the interest revenue on plan assets and the return on plan assets is included in the re-measurement of the net defined benefit liability (asset).
4. Interest on the effect of the asset ceiling is part of the total change in the effect of the asset ceiling, and is determined by multiplying the effect of the asset ceiling by the discount rate specified in paragraph 3.2.2.3 §3, both as determined at the start of the reporting period. The difference between that amount and the total change in the effect of the asset ceiling is included in the re-measurement of the net defined benefit liability (asset).

3.2.4.3 RE-MEASUREMENTS OF THE NET DEFINED BENEFIT LIABILITY (ASSET)

1. Re-measurements of the net defined benefit liability (asset) comprise:
   (a) Actuarial gains and losses (see §2 and §3 below);
   (b) The return on plan assets (see §4 below), excluding amounts included in net interest on the net defined benefit liability (asset) (see paragraph 3.2.4.2 §3); and
   (c) Any change in the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability (asset) (see paragraph 3.2.4.2 §4).
2. **Actuarial gains and losses** result from increases or decreases in the present value of the defined benefit obligation because of changes in actuarial assumptions and experience adjustments. Causes of actuarial gains and losses include, for example:
   (a) Unexpectedly high or low rates of employee turnover, early retirement or mortality or of increases in salaries, benefits (if the formal or constructive terms of a plan provide for inflationary benefit increases) or medical costs;
   (b) The effect of changes to assumptions concerning benefit payment options;
   (c) The effect of changes in estimates of future employee turnover, early retirement or mortality or of increases in salaries, benefits (if the formal or constructive terms of a plan provide for inflationary benefit increases) or medical costs; and
   (d) The effect of changes in the discount rate.
3. Actuarial gains and losses do not include changes in the present value of the defined benefit obligation because of the introduction, amendment, curtailment or settlement of the defined benefit plan, or changes to the benefits payable under the defined benefit plan. Such changes result in past service cost or gains or losses on settlement.
4. In determining the **return on plan assets**, a public sector entity deducts the costs of managing the plan assets and any tax payable by the plan itself, other than tax included in the actuarial assumptions used to measure the defined benefit obligation (paragraph 3.2.2.3 §1). Other administration costs are not deducted from the return on plan assets.

3.2.5 PRESENTATION

3.2.5.1 OFFSET

A public sector entity shall offset an asset relating to one plan against a liability relating to another plan when, and only when, the entity:

(a) Has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan; and

(b) Intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

4. OTHER LONG-TERM EMPLOYEE BENEFITS

Other long term employee benefits are benefits to employees that are expected to be settled after twelve months following the end of the reporting period in which the employee render the related service.

Other long-term employee benefits include items such as:

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

(b) Jubilee or other long service benefits;

(c) Long-term disability benefits;

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

(e) Deferred compensation paid twelve months or more after the end of the period in which it is earned; and

(f) Compensation payable by the entity until an individual enters new employment.

4.1 RECOGNITION AND MEASUREMENT

1. The amount recognised as a **liability (asset)** for other long-term employee benefits shall be the net total of the following amounts:
   (a) The present value of the other long-term employee 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.
2. For other long-term employee benefits, a public sector entity shall recognise the net total of the following amounts in **surplus or deficit**, except to the extent that another accounting policy requires or permits their inclusion in the cost of an asset:
   (a) Service cost (see paragraph 3.2.2);
   (b) Net Interest on the net other long-term employee benefit liability (asset) (see paragraph 3.2.4.2); and
   (c) Re-measurements of the net defined benefit liability (asset) (see paragraph 3.2.4.3).

(See example 19)

5. TERMINATION BENEFITS

Termination benefits are employee benefits payable as a result of either:

(a) A public sector entity's decision to terminate an employee's employment before the normal retirement date; or

(b) An employee's decision to accept a public sector entity's offer of benefits in exchange for termination of employment.

5.1 RECOGNITION

1. A public sector entity shall recognise a liability and expense for termination benefits at the earlier of the following dates:
   (a) When the entity can no longer withdraw the offer of those benefits; and
   (b) When the entity recognises costs for a restructuring that is within the scope of the *Accounting Policy on Provisions, Contingent Liabilities and Contingent Assets*, and involves the payment of termination benefits.
2. For termination benefits payable as a result of an employee's decision to accept an offer of benefits in exchange for the termination of employment, the time when a public sector entity can no longer withdraw the offer of termination benefits is the earlier of:
   (a) When the employee accepts the offer; and
   (b) When a restriction (e.g. a legal, regulatory or contractual requirement or other restriction) on the entity's ability to withdraw the offer takes effect. This would be when the offer is made, if the restriction existed at the time of the offer.
3. For termination benefits payable as a result of a public sector entity's decision to terminate an employee's employment, the entity can no longer withdraw the offer when the entity has communicated to the affected employees a plan of termination meeting all of the following criteria:
   (a) Actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made.
   (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.
   (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.

4. When a public sector entity recognises termination benefits, the entity may also have to account for a plan amendment or a curtailment of other employee benefits (see paragraph 3.2.2.5).

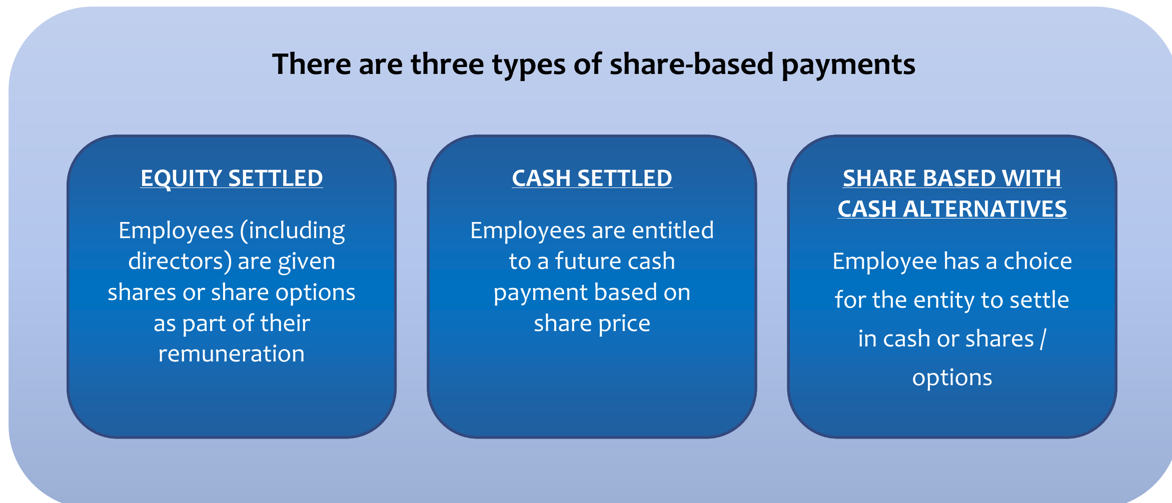
5.2 MEASUREMENT

1. A public sector entity shall measure termination benefits on initial recognition, and shall measure and recognise subsequent changes, in accordance with the nature of the employee benefit, provided that if the termination benefits are an enhancement to postemployment benefits, the entity shall apply the requirements for post-employment benefits. Otherwise:
   (a) If the termination benefits are expected to be settled wholly before twelve months after the end of the reporting period in which the termination benefit is recognised, the entity shall apply the requirements for short-term employee benefits.
   (b) If the termination benefits are not expected to be settled wholly before twelve months after the end of the reporting period, the entity shall apply the requirements for other long-term employee benefits.
2. Because termination benefits are not provided in exchange for service, paragraph 3.2.2.2 relating to the attribution of the benefit to periods of service is not relevant.
3. Where termination benefits fall due more than 12 months after the reporting date, they shall be discounted using the discount rate specified under paragraph 3.2.2.3 §3.

(See example 20)

6. SHARE-BASED PAYMENTS

Share-based payment transactions are transactions in which the entity receives goods or services as consideration for equity instruments of the entity (including shares or share options), or acquires goods or services for amounts that are based on the price of the entity's shares or other equity instruments of the entity.



6.1 Basic Recognition Principle

1. A public sector entity shall recognise the goods or services received or acquired in a share–based payment transaction when it obtains the goods or receives the services. The entity shall recognise a corresponding increase in equity if the goods or services were received in an equity settled share-based payment transaction, or a liability if the goods or services were acquired in a cash-settled share-based payment transaction.
2. When the goods or services received or acquired in a share–based payment transaction do not qualify for recognition as assets, they shall be recognised as expenses.

6.2 MEASUREMENT

6.2.1 EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS

Equity-settled share-based payment transaction is a share-based payment transaction in which an entity receives services as consideration for equity instruments of the entity (including shares or share options).

1. For equity-settled share-based payments granted to employees as part of their remuneration package, the entity shall measure the goods or services received, and the corresponding increase in equity, indirectly, by reference to the **fair value** of the equity instruments granted, because of the difficulty in estimating the fair value of the employees' services for particular components of the employee's remuneration package. The fair value of the equity instruments granted shall be measured at **grant date** (the date at which the entity and another party agree to a share-based payment).
2. If the equity instruments granted vest immediately, on grant date the entity shall recognise the services received in full, with a corresponding increase in equity.
3. If the equity instruments granted are subject to vesting conditions, the entity shall presume that the services to be rendered by the employee as consideration for those equity instruments will be received in the future, during the vesting period. The entity shall account for those services as they are rendered by the employee during the vesting period, with a corresponding increase in equity, as follows:
   - Where the employee is granted equity instruments based on a vesting condition that is a **service condition**, the equity instruments are measured at fair value at grant date and an expense is recognised over the vesting period based on the number of equity instruments expected to vest.
   - Where the employee is granted equity instruments based on a vesting condition that is a **performance condition**, the equity instruments are measured at fair value at grant date and vesting conditions are not taken into account in estimating the fair value. An expense is recognised over the vesting period based on the number of equity instruments expected to vest if all conditions are met.
   - Where the employee is granted equity instruments based on a vesting condition that is a **market condition**, the equity instruments are measured at fair value at grant date and vesting conditions shall be taken into account in estimating the fair value. An expense is recognised over the vesting period based on the number of equity instruments expected to vest if all conditions, except market conditions, are met.

4. After the vesting date, the entity shall make no subsequent adjustment to total equity. In cases where vested equity instruments are forfeited or lapse, the entity shall not reverse the remuneration expense but transfer from one equity component to another.
5. If the fair value of the equity instruments cannot be estimated reliably, the entity must use the intrinsic value and revise this value every reporting date until final settlement. Any changes in intrinsic value are recognised in surplus or deficit.
6. Modifications (any changes made to the employee plan) that do not increase the total fair value of the equity instruments or that are not otherwise beneficial to the employee are ignored. On the other hand, any modifications that do increase the total fair value of the equity instruments are recognised as any expense over the vesting period from the date the modifications occurred.
7. If a public sector entity, cancels or settles an equity settled share based payment during the vesting period, it is treated as an acceleration of vesting (as if the vesting date has been brought forward), and the balance of the fair value of the equity instruments not yet recognised is charged to surplus or deficit immediately.

6.2.2 CASH-SETTLED SHARE-BASED PAYMENT TRANSACTIONS

Cash-settled share-based payment transaction is a share-based payment transaction in which an entity acquires services by incurring a liability to transfer cash or other assets to the employee who provided those services for amounts that are based on the price (or value) of the entity's shares or other equity instruments of the entity.

1. For cash-settled share-based payments granted to employees as part of their remuneration package, the entity shall measure the goods or services received, and the corresponding liability incurred, by reference to the **fair value** of the liability using the option pricing model. Until the liability is settled, the entity shall re-measure the fair value of the liability at each reporting date and at the date of settlement, with any changes in fair value recognised in surplus or deficit.
2. In absence of evidence to the contrary, the entity shall presume that the services rendered by the employee have been received and subsequently, recognise immediately the services received and a liability to pay them. If the cash-settled share-based payments are based on vesting conditions, the entity shall recognise the services received, and a liability to pay for them, as the employees render service during the period.

6.2.3 SHARE-BASED PAYMENT TRANSACTIONS WITH CASH ALTERNATIVES

1. Share-based payment transactions with cash alternatives may allow **either** the entity **or** the employee the choice of whether the entity settles in cash (or other assets) or by issuing equity instruments. In such cases, the entity shall account for that transaction as a cash-settled share-based payment transaction if, and to the extent that, the entity incurred a liability to settled in cash or other assets, or as an equity-settled share-based payment transaction if, and to the extent that, the entity has not incurred such a liability.
2. If the employee has the right to choose, the share-based payment transactions with cash alternatives is treated as a compound financial instrument, which includes a debt component and an equity component. The fair value of each component of the compound financial instrument is measured at grant date.
3. If the entity has the right to choose, it must determine whether it has a present obligation to settle in cash and account for the share-based payment transaction accordingly. The entity has a present obligation to settle in cash if the choice of settlement in equity instruments has no commercial substance or the entity has a past practice or stated policy of settling in cash, or generally settles in cash whenever the counterparty asks for cash settlement. In such cases, the entity shall account for the cash-settled share-based payments as per paragraph 6.2.2.
4. If no obligation to settle in cash exists, the entity shall account for the transaction in accordance with the requirements applying to equity-settled share-based payment transactions 6.2.1.

6.3 DISCLOSURES

The public entity is required to disclose information that enables users of the financial statements to understand the nature and extent of share-based payment arrangements that existed during the period including:

- a description outlining the general terms and conditions of each arrangement;
- the number and weighted average exercise price of share options;
- how the fair value of the services received, or the fair value of the equity instruments granted, during the period was determined;
- the effect of share-based payment transactions on the entity's surplus or deficit for the period and on its financial position.

7. DISCLOSURES

7.1 Short-Term Employee Benefits

Although this accounting policy does not require specific disclosures about short-term employee benefits, other policies may require disclosures. For example, the *Accounting Policy on Related Party Disclosures* requires disclosures of the aggregate remuneration of key management personnel and the *Accounting Policy on Presentation of Financial Statements* requires the disclosure of information about employee benefits.

7.2 Defined Contribution Plans

A public sector entity shall disclose the amount recognised as an expense for defined contribution plans.

Where required by the *Accounting Policy on Related Party Disclosures*, a public sector entity discloses information about contributions to defined contribution plans for key management personnel.

7.3 DEFINED BENEFIT PLANS

7.3.1 GENERAL PROVISIONS

A public sector entity shall disclose information that:

(a) Explains the characteristics of its defined benefit plans and risks associated with them (see paragraph 7.3.2);

(b) Identifies and explains the amounts in its financial statements arising from its defined benefit plans (see paragraphs 7.3.3); and

(c) Describes how its defined benefit plans may affect the amount, timing and uncertainty of the entity's future cash flows (see paragraphs 7.3.4).

7.3.2 CHARACTERISTICS OF DEFINED BENEFIT PLANS AND RISKS ASSOCIATED WITH THEM

A public sector entity shall disclose:

(a) Information about the characteristics of its defined benefit plans, including:

- (i) The nature of the benefits provided by the plan (e.g. final salary defined benefit plan or contribution-based plan with guarantee).
- (ii) A description of the regulatory framework in which the plan operates, for example the level of any minimum funding requirements, and any effect of the regulatory framework on the plan, such as the asset ceiling (see paragraph 3.2.1.3 §2).
- (iii) A description of any other entity's responsibilities for the governance of the plan, for example responsibilities of trustees or of management of the plan.

(b) A description of the risks to which the plan exposes the entity, focused on any unusual, entity-specific or plan-specific risks, and of any significant concentrations of risk. For example, if plan assets are invested primarily in one class of investments, e.g. property, the plan may expose the entity to a concentration of property market risk.

(c) A description of any plan amendments, curtailments and settlements.

(d) The basis on which the discount rate has been determined.

7.3.3 EXPLANATION OF AMOUNTS IN THE FINANCIAL STATEMENTS

1. A public sector entity shall provide a reconciliation from the opening balance to the closing balance for each of the following, if applicable:

   (a) The net defined benefit liability (asset), showing separate reconciliations for:

   - (i) Plan assets.
   - (ii) The present value of the defined benefit obligation.
   - (iii) The effect of the asset ceiling.

(b) Any reimbursement rights. A public sector entity shall also describe the relationship between any reimbursement right and the related obligation.

2. Each reconciliation listed above shall show each of the following, if applicable:
   (a) Current service cost.
   (b) Interest revenue or expense.
   (c) Re-measurements of the net defined benefit liability (asset), showing separately:
      (i) The return on plan assets, excluding amounts included in interest in (b).
      (ii) Actuarial gains and losses arising from changes in demographic assumptions (see paragraph 3.2.2.3 §1(a)).
      (iii) Actuarial gains and losses arising from changes in financial assumptions (see paragraph 3.2.2.3 §1(b)).
      (iv) Changes in the effect of limiting a net defined benefit asset to the asset ceiling, excluding amounts included in interest in (b). A public sector entity shall also disclose how it determined the maximum economic benefit available, i.e. whether those benefits would be in the form of refunds, reductions in future contributions or a combination of both.
   (d) Past service cost and gains and losses arising from settlements. As permitted by paragraph 3.2.2.4 §3, past service cost and gains and losses arising from settlements need not be distinguished if they occur together.
   (e) The effect of changes in foreign exchange rates.
   (f) Contributions to the plan, showing separately those by the employer and by plan participants.
   (g) Payments from the plan, showing separately the amount paid in respect of any settlements.
   (h) The effects of public sector combinations and disposals.

3. A public sector entity shall disaggregate the fair value of the plan assets into classes that distinguish the nature and risks of those assets, subdividing each class of plan asset into those that have a quoted market price in an active market and those that do not.

4. A public sector entity shall disclose the fair value of the entity's own transferable financial instruments held as plan assets, and the fair value of plan assets that are property occupied by, or other assets used by, the entity.

5. A public sector entity shall disclose the significant actuarial assumptions used to determine the present value of the defined benefit obligation (see paragraph 3.2.2.3). Such disclosure shall be in absolute terms (e.g. as an absolute percentage, and not just as a margin between different percentages and other variables). When a public

sector entity provides disclosures in total for a grouping of plans, it shall provide such disclosures in the form of weighted averages or relatively narrow ranges.

7.3.4 AMOUNT, TIMING AND UNCERTAINTY OF FUTURE CASH FLOWS

1. A public sector entity shall disclose:
   (a) A sensitivity analysis for each significant actuarial assumption (as disclosed under paragraph 7.3.3 §5) as of the end of the reporting period, showing how the defined benefit obligation would have been affected by changes in the relevant actuarial assumption that were reasonably possible at that date.
   (b) The methods and assumptions used in preparing the sensitivity analyses required by (a) and the limitations of those methods.
   (c) Changes from the previous period in the methods and assumptions used in preparing the sensitivity analyses, and the reasons for such changes.
2. A public sector entity shall disclose a description of any asset-liability matching strategies used by the plan or the entity, including the use of annuities and other techniques, such as longevity swaps, to manage risk.
3 To provide an indication of the effect of the defined benefit plan on the entity's future cash flows, a public sector entity shall disclose:
   (a) A description of any funding arrangements and funding policy that affect future contributions.
   (b) The expected contributions to the plan for the next reporting period.
   (c) Information about the maturity profile of the defined benefit obligation. This will include the weighted average duration of the defined benefit obligation and may include other information about the distribution of the timing of benefit payments, such as a maturity analysis of the benefit payments.

7.3.5 DISCLOSURE REQUIREMENTS IN OTHER ACCOUNTING POLICIES

1. Where required by the *Accounting Policy on Related Party Disclosures*, a public sector entity discloses information about:
   (a) Related party transactions with post-employment benefit plans; and
   (b) Post-employment benefits for key management personnel.
2. Where required by the *Accounting Policy on Provisions, Contingent Liabilities and Contingent Assets*, a public sector entity discloses information about contingent liabilities arising from post-employment benefit.

7.4 OTHER LONG-TERM EMPLOYEE BENEFITS

Although this accounting policy does not require specific disclosures about other long-term employee benefits, other accounting policies may require disclosures: for example, where the expense resulting from such benefits is material, and so would require disclosure in accordance with the *Accounting Policy on Presentation of Financial Statements*. When required by the *Accounting Policy on Related Party Disclosures,* a public sector entity discloses information about other long-term employee benefits for key management personnel.

7.5 TERMINATION BENEFITS

1. Where there is uncertainty about the number of employees who will accept an offer of termination benefits, a contingent liability exists. As required by the *Accounting Policy on Provisions, Contingent Liabilities and Contingent Assets*, a public sector entity discloses information about the contingent liability unless the possibility of an outflow in settlement is remote.
2. As required by the *Accounting Policy on Presentation of Financial Statements*, a public sector entity discloses the nature and amount of an expense if it is material. Termination benefits may result in an expense needing disclosure in order to comply with this requirement.
3. Where required by the *Accounting Policy on Related Party Disclosures*, a public sector entity discloses information about termination benefits for key management personnel.

8. TRANSITIONAL PROVISIONS

1. On the date of the opening balance sheet under this policy, a public sector entity shall determine its initial liability for defined benefit plans and other long-term employee benefits at that date as:

   (a) The present value of the obligation at the date of adoption of IPSASs by using the Projected Unit Credit Method; and

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

2. The effect of the change in the accounting policy to adopt the *Accounting Policy on Employee Benefits* includes any re-measurements that arose, if any, in earlier periods. Under its previous basis of accounting, those public sector entities that may not have recognised and/or measured any liability, in which case the increase in the liability will represent the full amount of the liability minus the fair value, at the date of adoption of IPSASs, of any plan assets in accordance with §1 of the current paragraph. This increased liability is recognised in opening accumulated surplus or deficit in the period in which the items are recognised and/or measured.

3. A first-time adopter shall recognise all cumulative re-measurements in opening accumulated surplus or deficit in the period in which the items are recognised and/or measured.

9. EFFECTIVE DATE

The rules mentioned above shall be effective for annual financial statement covering periods beginning on or after 1 January 2020.

10. REFERENCES

This accounting policy is based on the following standards:

IPSAS 39 Employee benefits (Final Pronouncement July 2016)

IPSAS 33 First time adoption of accrual basis IPSAS.

IFRS 2 Share-based payment

11. ILLUSTRATIVE EXAMPLES

Example 1: ALL SHORT-TERM EMPLOYEE BENEFITS

A public sector entity's employees are entitled to overtime compensation and shift allowance. Such employee benefits are paid 2 months in arrears, e.g. overtime compensation and shift allowance for November 20X6 and December 20X6 are paid in January 20X7 and February 20X7 respectively. As at 31 December 20X6, the amount due for November 20X6 has been calculated as $120,000 and for December 20X6 has been estimated at $150,000.

On 31 December 20X6, the entity could account for the accrual of its obligation for overtime compensation and shift allowance as follows:

DR Statement of Comprehensive Income (or PPE or Inventory) $270,000
CR Short-term employee benefits (overtime compensation and shift allowance) (accrued expense) $270,000
To recognise accrual of overtime compensation and shift allowance.

On 31 January 20X7, the entity could account for the settlement of its November 20X6 obligation for overtime compensation and shift allowance as follows:

DR Short-term employee benefits (overtime compensation and shift allowance (accrued expense) $120,000
CR Cash $120,000
To recognise settlement of November 20X6 overtime compensation and shift allowance liability.

On 28 February 20X7, the entity could account for the settlement of its December 20X6 obligation for overtime compensation and shift allowance (which was subsequently calculated as $145,000) as follows:

DR Short-term employee benefits (overtime compensation and shift allowance (accrued expense) $150,000
CR Cash $145,000
CR Statement of Comprehensive Income (or PPE or Inventory) $5,000
To recognise settlement of December 20X6 overtime compensation and shift allowance liability.

Note: Overtime compensation and shift allowance expenditure for January 20X6 until October 20X6 which were paid for from March 20X6 until December 20X6 could be accounted for as follows:

DR Statement of Comprehensive Income (Short-term employee benefits (overtime compensation and shift allowance) or PPE or Inventory) $X
CR Cash $X

Example 2: ACCUMULATING COMPENSATED ABSENCES

A public sector entity's temporary employees are entitled to 20 working days holiday leave per annum. Up to 7 days may be carried forward for one calendar year only. Holiday leave is taken first out of any balance brought forward from the previous year and then out of the current year's entitlement (a FIFO basis).

The entity does not anticipate a future saving due to unused holiday leave lapsing.

At 31 December 20X5 the entity's holiday leave record for employee A was as follows:

Wage rate (per working day in 20X5):	***$100***
Unused holiday leave:	***5***
Wage increase effective from 01/01/20X6 (per working day):	***$5.00***

At 1 January 20X5, the obligation for unused holiday leave (current liability) was measured at $525 (($100 wage rate per working day in 20X5+ $5 to recognise the increase in salary effective from 01/01/20X6) x 5 days unused holiday leave at 31 December 20X5 = $525).

At 31 December 20X6 the entity's holiday leave record for employee A was as follows:

Wage rate (per working day in 20X6):	***$105***
Holiday leave taken:	***19***
Wage increase effective from 01/01/20X7 (per working day):	***$5.00***

Employee A will carry forward 6 days holiday leave.

At 31 December 20X6, the entity's liability for accumulating holiday leave for employee A is $660 (($105 wage rate per working day + $5 to recognise the increase in salary) x 6 days accumulating holiday leave at 31 December 20X6 = $660).

On 31 December 20X6, the entity could account for the accrual of its obligation for holiday leave for employee A as follows:

DR Statement of Comprehensive Income (or PPE or Inventory)	$660	
CR Short-term accumulating holiday leave (accrued expense)		$660

To recognise accrual of accumulating holiday leave.

Example 3: NON-ACCUMULATING COMPENSATED ABSENCES

A public sector entity's employees are entitled to 25 working days holiday leave per annum. Any unused holiday leave vests at the end of each calendar year and all vested holiday leave is paid at the end of the month following the end of a calendar year at the previous year's salary rates.

At 1 January 20X6 the entity's obligation for holiday leave vested at the end of 20X5 (current liability) for employee A was measured at $2,000.

At 31 December 20X6 the entity's holiday leave record for employee A was as follows:

Wage rate (per working day in 20X5):	***$500***
Vested holiday leave days on 01/01/20X6 (settled in cash on 31/01/20X6):	***4***
Days holiday leave taken in 20X6:	***20***
Wage increase effective from 01/01/20X6 (per working day):	***$25.00***

On 31 January 20X6, the entity pays its employee $2,000 ($500 wage rate per working day x 4 days vested non-accumulating holiday leave at 31 December 20X5 = $2,000) for vested holiday leave. This was accrued for in 20X5 as follows:

DR Statement of Comprehensive Income (or PPE or Inventory) $2,000
CR Short-term paid absences (holiday leave) (accrued expense) $2,000
To recognise accrual of non-accumulating paid holiday leave in 20X5.

On 31 January 20X6, the entity could account for the settlement of its obligation for holiday leave for employee A as follows:

DR Short-term paid absences (holiday leave) (accrued expense) $2,000
CR Cash $2,000
To recognise payment of non-accumulating paid holiday leave in 20X5.

At 31 December 20X6, the entity's liability for holiday leave for employee A is $2,625 (($500 wage rate per working day + $25 to recognise the increase in salary) x 5 days vested non-accumulating holiday leave at 31 December 20X6 = $2,625) for vested holiday leave.

On 31 December 20X6, the entity could account for the accrual of its obligation for holiday leave for employee A as follows:

DR Statement of Comprehensive Income (or PPE or Inventory) $2,625
CR Short-term paid absences (holiday leave) (accrued expense) $2,625

Example 4: NON-ACCUMULATING COMPENSATED ABSENCES

The reporting period ends 31 December 20X6. A public sector entity's employees are entitled to 40 working days of paid sick leave per annum. Any unused sick leave cannot be carried forward to the next calendar year (i.e. 20X7).

Irrespective of the amount of remaining (unused) sick leave each employee has credited at the end of the calendar year (31 December 20X6), the entity has no liability for sick leave as all unused sick leave lapses.

Example 5: NON-ACCUMULATING COMPENSATED ABSENCES

The reporting period ended 31 December 20X6. A public sector entity's employees are entitled to 40 working days of paid sick leave per annum. Any unused sick leave cannot be carried forward to the next calendar year (i.e. 20X7). Employee A's sick leave record was as follows:

Wage rate (per working day in 20X6):	***$525***
Days sick leave taken in 20X6:	***32***

On 31 December 20X6, the entity could account for the paid sick leave for employee A as follows:

DR Statement of Comprehensive Income
(Short-term paid absences (sick leave)) $16,800
CR Cash $16,800
To recognise paid sick leave expense.

Despite the fact that employee A has 8 remaining (unused) sick leave credited at the end of the calendar year (31 December 20X6), the entity has no liability for sick leave as all unused sick leave lapses.

Example 6: DEFINED CONTRIBUTION PLAN

A public sector entity paid $50,000 contribution to a defined contribution plan (calculated as a percentage of its employees' gross salary) in exchange for services performed by its employees. The payment was made on 12 January 20X7 for services rendered in December 20X6.

The entity must recognise a $50,000 liability (accrual of post-employment benefits for employees' defined contribution plan) and an analogous expense in the Statement of Comprehensive Income for the year ended 31 December 20X6.

On 31 December 20X6, the entity could account for the liability of its obligation for post-employment benefits for its employees' defined contribution plan as follows:

	DR	CR
DR Statement of Comprehensive Income (post-employment benefit - defined contribution plan)	$50,000	
CR Post-employment benefit - defined contribution plan (accrued expense)		$50,000

To recognise accrual of post-employment benefit - defined contribution plan expenses incurred in December 20X6.

On 12 January 20X7, the entity could account for the settlement of its obligation for post-employment benefits for its employees' defined contribution plan as follows:

	DR	CR
DR Post-employment benefit - defined contribution plan (accrued expense)	$50,000	
CR Cash		$50,000

To recognise settlement of post-employment benefit - defined contribution plan expenses accrued in December 20X6.

Note 1: On 31 December 20X6, the entity could debit PPE or Inventory depending on the nature of the work performed by its employees.

Note 2: If the payment was made before the end of the reporting period, there would be no liability and the entity would simply recognise an expense, as follows:

	DR	CR
DR Statement of Comprehensive Income (post-employment benefit - defined contribution plan)	$50,000	
CR Cash		$50,000

Example 7: DEFINED CONTRIBUTION PLAN

A public sector entity has a defined contribution plan and according to the contracts of employment it has entered into with its 200 employees, the entity must contribute (to a trust which represents the employees and manages the funds on their behalf) an amount equal to one average monthly salary per employee to the plan (i.e. one-twelfth of the annual salary excluding any 13th or 14th salary paid). The average monthly salary for the financial year ended 31 December 20X6 is $35,000.

The entity is required to account for an expense equal to the amount which it contributes to the trust. Assuming that the contribution is made within the financial period under question, the entity should record as post-employment benefit – defined contribution plan expense an amount of $7,000,000 ($35,000 x 200 employees under the plan), as follows:

DR Statement of Comprehensive Income (post-employment
benefit - defined contribution plan) (or PPE or Inventory) $7,000,000
CR Cash $7,000,000
To recognise settlement of post-employment benefit - defined contribution plan expenses during the financial year ended 31 December 20X6.

Note: If any outstanding contribution will be carried forward to be paid within the next reporting period the entity could recognise the accrued expense as follows:
DR Statement of Comprehensive Income (post-employment
benefit - defined contribution plan) (or PPE or Inventory) $X
CR Post-employment benefit - defined contribution plan
(accrued expense) $X
To recognise accrual of post-employment benefit - defined contribution plan expenses incurred during the financial year ended 31 December 20X6.

The entity's obligation is limited to the amount it contributes to the trust. Any gains or

Example 8: ACTUARIAL VALUATION METHOD: PROJECTED UNIT CREDIT METHOD

A lump sum benefit is payable on termination of service and equal to 1% of final salary for each year of service. The salary in year 1 is $10,000 and is assumed to increase at 7% (compound) each year. The discount rate used is 10% per annum. The following table shows how the obligation builds up for an employee who is expected to leave at the end of year five, assuming that there are no changes in actuarial assumptions. For simplicity, this example ignores the additional adjustment needed to reflect the probability that the employee may leave the entity at an earlier or later date.

Year	**1**	**2**	**3**	**4**	**5**
	$	**$**	**$**	**$**	**$**
Salary	10,000	10,700	11,449	12,250	13,108
Rate					@1%
Defined benefit to be paid in year 5	(13,108 x 1% x 5)				**655**
Benefit **attributed** to:					
- prior years	0	131	262	393	524
- current year (1% of final salary)	131	131	131	131	131
- current and prior years	131	262	393	524	655
Opening obligation	-	89	196	324	476
Interest at 10%	-	9	20	33	48
Current service cost	89	98	108	119	131
Closing Obligation	89	196	324	476	655

Note:
1. The opening obligation is the present value of benefit attributed to prior years.
2. The current service cost is the present value of benefit attributed to the current year, i.e. for 2 year 131 discounted at a rate of 10% for 3 years.
3. The closing obligation is the present value of the benefit attributed to current and prior years.

Example 9: **Attributing Benefit to Years of Service (Attributing Benefit to the Current Period and the Current and Prior Periods)**

A defined benefit plan provides a lump sum benefit of $100 payable on retirement for each year of service.

A benefit of $100 is attributed to each year. The current service cost is the present value of $100. The present value of the defined benefit obligation is the present value of $100, multiplied by the number of years of service up to the reporting date.

If the benefit is payable immediately when the employee leaves the entity, the current service cost and the present value of the defined benefit obligation reflect the date at which the employee is expected to leave. Thus, because of the effect of discounting, they are less than the amounts that would be determined if the employee left at the

Example 10: **Attributing Benefit to Years of Service (Attributing Benefit to the Current Period and the Current and Prior Periods)**

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.

Benefit equal to the present value, at the expected retirement date, of a monthly pension of 0.2% of the estimated final salary payable from the expected retirement date until the expected date of death is attributed to each year of service. The current service cost is the present value of that benefit. The present value of 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 reporting date. The current service cost and the present value of the defined benefit obligation are discounted, because

Example 11: **Attributing Benefit to Years of Service (Vesting versus Non-Vesting)**

A plan pays a benefit of $100 for each year of service. The benefits vest after 10 years of service.

A benefit of $100 is attributed to each year. In each of the first 10 years, the current service cost and the present value of the obligation reflect the probability that the employee may not complete 10 years of service.

Example 12: **ATTRIBUTING BENEFIT TO YEARS OF SERVICE (VESTING VERSUS NON-VESTING)**

A plan pays a benefit of $100 for each year of service, excluding service before the age of 25. The benefits vest immediately.

No benefit is attributed to service before the age of 25 because service before that date does not lead to benefits (conditional or unconditional). A benefit of $100 is attributed to each subsequent year.

Example 13: **ATTRIBUTING BENEFIT TO YEARS OF SERVICE (EMPLOYEE'S SERVICE IN LATER YEARS)**

A plan pays a lump sum benefit of $1,000 that vests after 10 years of service. The plan provides no further benefit for subsequent service.

A benefit of $100 ($1,000 divided by 10) is attributed to each of the first 10 years. The current service cost in each of the first 10 years reflects the probability that the employee may not complete 10 years of service. No benefit is attributed to subsequent years.

Example 14: **ATTRIBUTING BENEFIT TO YEARS OF SERVICE (EMPLOYEE'S SERVICE IN LATER YEARS)**

A plan pays a lump sum retirement benefit of $2,000 to all employees who are still employed at the age of 55 after 20 years of service, or who are still employed at the age of 65, regardless of their length of service.

For employees who join before the age of 35, service first leads to benefits under the plan at the age of 35 (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. Also, service beyond the age of 55 will lead to no material amount of further benefits. For these employees, the entity attributes benefit of $100 ($2,000 divided by 20) to each year from the age of 35 to the age of 55.

For employees who join between the ages of 35 and 45, service beyond twenty years will lead to no material amount of further benefits. For these employees, the entity attributes benefit of 100 ($2,000 divided by 20) to each of the first 20 years.

For an employee who joins at the age of 55, service beyond 10 years will lead to no material amount of further benefits. For this employee, the entity attributes benefit of $200 ($2,000 divided by 10) to each of the first 10 years.

For all employees, the current service cost and the present value of the obligation reflect the probability that the employee may not complete the necessary period of service.

Example 15: ATTRIBUTING BENEFIT TO YEARS OF SERVICE (EMPLOYEE'S SERVICE IN LATER YEARS)

A post-employment medical plan reimburses 40% of an employee's post-employment medical costs if the employee leaves after more than 10 and less than 20 years of service, and 50% of those costs if the employee leaves after 20 or more years of service.

Under the plan's benefit formula, the entity attributes 4% of the present value of the expected medical costs (40% divided by 10) to each of the first ten years and 1% (10% divided by 10) to each of the second 10 years. The current service cost in each year reflects the probability that the employee may not complete the necessary period of service to earn part or all of the benefits. For employees expected to leave within 10 years, no benefit is attributed.

Example 16: ATTRIBUTING BENEFIT TO YEARS OF SERVICE (EMPLOYEE'S SERVICE IN LATER YEARS)

A post-employment medical plan reimburses 10% of an employee's post-employment medical costs if the employee leaves after more than 10 and less than 20 years of service, and 50% of those costs if the employee leaves after 20 or more years of service.

Service in later years will lead to a materially higher level of benefit than in earlier years. Therefore, for employees expected to leave after 20 or more years, the entity attributes benefit on a straight-line basis under paragraph 3.2.2.2 § 2. Service beyond 20 years will lead to no material amount of further benefits. Therefore, the benefit attributed to each of the first 20 years is 2.5% of the present value of the expected medical costs (50% divided by 20).

For employees expected to leave between 10 and 20 years, the benefit attributed to each of the first 10 years is 1% of the present value of the expected medical costs. For these employees, no benefit is attributed to service between the end of the 10th year and the estimated date of leaving. For employees expected to leave within 10 years, no benefit is attributed.

Example 17: ATTRIBUTING BENEFIT TO YEARS OF SERVICE (SALARY INCREASES)

Employees are entitled to a benefit of 3% of final salary for each year of service before the age of 55. Benefit of 3% of estimated final salary is attributed to each year up to the age of 55.

This is the date when further service by the employee will lead to no material amount of further benefits under the plan. No benefit is attributed to service after that age.

Example 18: ATTRIBUTING BENEFIT TO YEARS OF SERVICE (SALARY INCREASES)

Employees are entitled to a gratuity payment for services rendered as follows:

For service up to and including 31/12/2012:

$$\text{Annual pensionable emoluments on retirement date} \times \frac{\text{months of service}^{A}\ (\text{maximum } 400)}{800} \times \frac{14}{3}$$

For service from 1/1/2013 onwards:

$$\text{Career average gross salary adjusted with the value of applicable insurance unit of the Social Security Fund} \times \frac{\text{months of service}^{B}\ (\text{maximum } A+B=400)}{800} \times \frac{14}{3}$$

The current reporting period 2016 has just ended. An employee has been working for the entity since 1/8/1999 and is expected to retire on 30/6/2038 (467 months). Actuarial studies have calculated his/her gratuity payment as $150,000.

The date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases (paragraph 3.2.2.2 §1(b)) is 30/11/2032 (1/8/1999 + 400 months).

The benefit attributed to each year (from 1999 until 2032) is $150,000 x 12/400 = $4,500.00, with the exception of 1999 and 2032 where the benefit is $1,875.00 ($4,500.00 x 5/12) and $4,125.00 ($4,500.00 x 11/12) respectively.

The benefit attributed to 2016 (current year) is $4,500.00 and to current and prior years (1/8/1999 – 31/12/2016) is $78,375.00 ($4,500.00 x 5/12 (for 1999) + $4,500.00 x 17 years (from 2000 until 2016)).

If the discount rate is 10% per annum, the closing obligation for the reporting period ending 31/12/2016 is: $\$78{,}375.00 \times \frac{1}{1.10^{22}} = \$9{,}628.05$ (22 is the number of years until payment).

In 2017, the opening obligation will be $9,628.05, the interest cost $962.81 (10% x $9,628.05) and the current service cost $608.09 ($\$4{,}500.00 \times \frac{1}{1.10^{21}}$). The closing obligation will therefore be $11,198.95.

Given no changes in actuarial assumptions, the above calculations will continue in the same manner until 2032. In 2032, the opening obligation (1/1/2032) will be $74,856.94 ($(\$4{,}500 \times \frac{5}{12} + \$4{,}500 \times 32) \times \frac{1}{1.10^{7}}$), the interest cost $7,485.69 (10% x $74,856.94) and the current service cost $2,328.45 ($\$4{,}125.00 \times \frac{1}{1.10^{6}}$). The closing obligation will therefore be $84,671.09.

No benefit is attributed to service from 2033 onwards, there will only be unwinding of

Example 19: OTHER LONG-TERM EMPLOYEE BENEFITS

A public sector entity's employees are entitled to 24 working days holiday leave per annum. Each employee is entitled to transfer up to 13 unused working days annual holiday leave from one year to the next, with a maximum accumulation limit of 70 days. Accumulated holiday leave can be taken at any time until the employee leaves the organisation.

At 31 December 20X6, the rate used to discount other long-term employee benefit obligations has been estimated at 10%. Furthermore, an employee expected to retire in 20X9 has the following holiday leave record:

Wage rate (per working hour in 20X6): $26.23 (which translates to $196.73 per day = $26.23 per working hour x 7.5 working hours per day)
Annual increment in wage rate per working hour: $1.07 (which translates to $8.03 per day = $1.07 per working hour x 7.5 working hours per day)
Accumulated holiday leave as at 1 January 20X6: 62 days
Holiday leave taken in 20X6: 19
Accumulated holiday leave as at 31 December 20X6: 67 days (62 opening balance 1 January 20X6 + 5 days unused holiday leave during 20X6)
Expected holiday leave to be taken in 20X7: 20 days (unused holiday leave (4 days); to be carried forward in 20X7: 3 days. The 4th day expected unused holiday leave will lapse as the employee can only carry forward 3 days in 20X7 as the maximum accumulation limit is 70 days)
Expected holiday leave to be taken in 20X8: 24 days
Accumulated holiday leave expected to be taken in year of retirement, i.e. 20X9.

On 31 December 20X6, the entity's liability for working days holiday leave is $11,115.66, calculated as follows:

Expected holiday leave to be taken in 20X9 (year of retirement): 67 days x $220.82 (wage rate per day in 20x9 = $196.73 (20x6 wage rate) + $8.03 annual increment x 3 years) ÷ 1.10^3 discount factor for 3 years = **$11,115.66**.

> Opening obligation (1 January 20X6) = 62 days (unused holiday leave carried forward to be used in 20X9) x $220.82 (wage rate per day in 20x9 = $196.73 (20X6 wage rate) + $8.03 annual increment x 3 years) ÷ 1.10^4 discount factor for 4 years = **$9,351.03**.
>
> Interest cost = $9,351.03 x 10% = **$935.10**.
>
> Current Service (for 20X6) = 5 days (unused holiday leave carried forward to be used in 20X9) x $220.82 (wage rate per day in 20x9 = $196.73 (20X6 wage rate) + $8.03 annual increment x 3 years) ÷ 1.10^3 discount factor for 3 years = **$829.53**.

On 31 December 20X7, the entity's liability for working days holiday leave is $12,774.71, calculated as follows:

Expected holiday leave to be taken in 20X9 (year of retirement): 70 days x $220.82 (wage rate per day in 20x9 = $196.73 (20X6 wage rate) + $8.03 annual increment x 3 years) ÷ 1.10^2 discount factor for 2 years = **$12,774.71**.

Opening obligation (1 January 20X7) = 67 days (unused holiday leave carried forward to be used in 20X9) x $220.82 (wage rate per day in 20x9 = $196.73 (20X6 wage rate) + $8.03 annual increment x 3 years) ÷ 1.103^3 discount factor for 3 years = **$11,115.66**.

Interest cost = $11,115.66 x 10% = **$1,111.56**.

Current Service (for 20X7) = 3 days (unused holiday leave carried forward to be used in 20X9) x $220.82 (wage rate per day in 20x9 = $196.73 (20X6 wage rate) + $8.03 annual increment x 3 years) ÷ 1.10^2 discount factor for 2 years = **$547.49**.

The obligation and expense can be broken down as follows:

	20x6	20x7	20x8	20x9
Opening obligation	9,351.03	11,115.66	12,774.71	14,052.18
Interest at 10%	935.10	1.111.56	1.277.47	1.405.22
Current service cost	829.53	547.49	0	
Closing Obligation	11,115.66	12,774.71	14,052.18	15,457.40

Note:
1. The opening obligation is the present value of benefit attributed to prior years.
2. The current service cost is the present value of benefit attributed to the current year.
3. The closing obligation is the present value of the benefit attributed to current and prior years.

Example 20: TERMINATION BENEFITS

In December 20X6, as a result of downsizing, a public sector entity made a public announcement of its commitment to a plan to permanently close a department which will affect the employment of 300 workers (planned closure on 30 June 20X7). The entity wishes to retain a maximum of 50 workers and has therefore offered its employees the choice of a voluntary redundancy package calculated as $15m for all employees or a 20% reduction in gross salaries. It is expected that 90% of the workers will accept the voluntary redundancy offer.

At 31 December 20X6, the entity has a present obligation to pay termination benefits to 90% of the employees who are expected to accept the offer.

On 31 December 20X6, the entity could account for the obligation for termination benefits arising from the aforementioned commitment as follows:

	Dr	Cr
DR Statement of Comprehensive Income (Termination Benefits)	$13.5m	
CR Provision for termination benefits		$13.5m

To recognise the obligation for termination benefits arising from the commitment permanently close a department.