Topic 5: EMPLOYEE BENEFITS

5.1. NATURE AND CLASSIFICATION OF EMPLOYEE BENEFITS

5.1.1. Nature of employee benefits

1⁰ Conceptual nature of employee benefit costs

When a company or other entity employs a new worker, that worker will be offered a **package of pay and benefits**. Some of these will be short-term and the employee will receive the benefit at about the same time as he or she earns it, for example basic pay, overtime and so on. Other employee benefits are **deferred**, however, the main example being retirement benefits (i.e a pension).

The cost of these deferred employee benefits to the employer can be viewed in various ways. They could be described as **deferred salary** to the employee. Alternatively, they are a **deduction** from the employee's true gross salary, used as a tax-efficient means of saving. In some countries, tax efficiency arises on retirement benefit contributions because they are not taxed on the employee, but they are allowed as a deduction from taxable profits of the employer.

2⁰ Definition

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

5.1.2. Categories of employee benefits

IAS 19 recognises four categories of employee benefits, and proposes a different accounting treatment for each. These **four** categories are as follow:

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

- Wages and salaries
- Social security contributions
- Paid annual leave
- Paid sick leave
- Paid maternity/paternity leave
- Profit shares and bonuses
- Paid jury service
- Paid military service
- Non-monetary benefits, e.g medical care, housing, cars, free or subsidised goods

Post-employment benefits: employee benefits that are payable after the completion of employment (other than termination benefits and short-term employee benefits). e.g pensions and post-employment medical care and post-employment insurance

Other long-term employee benefits: all employee benefits other than short-term employee benefits, post-employment benefits and termination benefits. eg profit shares, bonuses or deferred compensation payable later than 12 months after the year end, sabbatical leave, long-service benefits and long-term disability benefits.

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

(a) entity's decision to terminate an employee's employment before the normal retirement date, or
(b) employee's decision to accept an offer of benefits in exchange for the termination of employment. eg early retirement payments and redundancy payments.

Benefits may be paid to the employees themselves, to their dependents (spouses, children, etc.) or to third parties.

5.1.3. Accounting treatment of short-term and post-employment benefits

1⁰ Short-term employee benefits

As a basic rule, IAS 19 states the following:

(a) A **liability** should be recognised when an employee has provided a service in exchange for benefits to be received by the employee at some time in the future.

(b) An **expense** should be recognised when the entity consumes the economic benefits from a service provided by an employee in exchange for employee benefits.

The basic double entry may therefore be (depending on the nature of the employee benefits):
Dr Employment cost (charged as an expense in the income statement)
Cr Liability for employee benefits

The principles for **short term employee benefits** are the same as for any expense that is accrued over a period. In other words, the accounting for **short term employee benefits** is simple because there are **no actuarial assumptions** to be made, and there is **no requirement to discount** future benefits (because they are all, by definition, payable no later than 12 months after the end of the accounting period).

- **Unpaid short-term employee benefits** as at the end of an accounting period should be recognized as an accrued expense. Any short-term benefits **paid in advance** should be recognised as a prepayment (to the extent that it will lead to, eg a reduction in future payments or a cash refund).
- The **cost of short-term employee benefits** should be recognised as an **expense** in the period when the economic benefit is given, as employment costs (except insofar as employment costs may be included within the cost of an asset, eg property, plant and equipment).

Example: A company allows each employee five weeks of paid holiday in each calendar year (1 January to 31 December). Any holiday not taken by the end of one year can be carried forward to the next calendar year. If some employees have not taken their full holiday entitlement by the end of the year, a liability should be recognised for the monetary value of the holiday entitlement that is carried forward to the next year. In this way the cost of the full five-week holiday entitlement is charged as an expense in the current year, even if some of the entitlement has been carried forward as a liability in the statement of financial position.

2⁰ Post-employment benefits

The most significant post-employment benefit is a pension benefit and its accounting treatment is the most complex aspect of IAS 19. A pension plan (also called a postemployment benefit plan or scheme) consists of a pool of assets, together with a liability for pensions owed to employees. Pension plan assets normally consist of investments, cash and (sometimes) properties. The return earned on the assets is used to pay pensions. There are two main types of pension plan:

- defined contribution plans
- defined benefit plans.

Funded vs Unfunded plan

In the case of funded scheme, contributions are paid into a separate fund that is usually administered by trustees who invest the contributions and meet the pension commitments. In unfunded schemes,

contributions are not placed in a separate fund but are reinvested in the employer's business and pensions are subsequently paid on a 'pay-as-you-go' basis. An unfunded pension scheme is obviously the more risky from the point of view of the employees.
We will concentrate on unfunded schemes where the assets are held by the employer on whom falls the liability of paying the actual pension.

Contributory vs Non-contributory

Some schemes are contributory, where the employees and the employer share the cost, while others are non-contributory, where the whole cost falls on the employer.

5.2. ACCOUNTING FOR DEFINED CONTRIBUTION PLAN

5.2.1. Funding mechanism

In a defined contribution pension scheme, the employer pays an agreed amount of money ('defined contributions') at regular intervals into a post-employment plan (a pension fund for the employee). The contributions of cash into the pension fund are invested by the fund in a range of investments, to earn a return and increase the value of the fund. When an employee retires, he or she is paid a pension out of the fund.
The size of the employee's pension therefore depends on the performance of the investments in the fund, and the employee bears the risk of poor performance by the fund investments.
As the name 'defined contribution' implies, the company's obligation to pay a pension to the employee is limited to the agreed amounts of contribution. The company is not required to make good any shortfalls if the pension fund does not have enough assets to pay pension benefits that the employee would like to have. In effect, the employee bears the risk of a poor-performing fund, not the employer. In this situation, the employee bears the uncertainty regarding the value of the pension that will be paid upon retirement.
In summary, the amount of pension received by the employee is not pre-determined, but will depend on the size of the fund when the employee retires. The size of the fund depends on:

- the amount of contributions that have been paid into the fund for the employee, and
- the returns earned by the investments in the fund.

5.2.2. Accounting treatment of contributions to defined contribution plans

The pension payable on retirement depends on the contributions paid into the plan by the employee and the employer. The employer's contribution is usually a fixed percentage of the employee's salary. The employer has no further obligation after this amount is paid.
Defined contribution plans present few accounting problems (it is straightforward), other than ensuring that an accrual is made, where required, for contributions due, but not yet paid, at the reporting date. So, the annual cost to the employer is reasonably predictable.

(a) The **obligation** is measured by the amounts to be contributed for that period.
(b) There are no actuarial assumptions to make.
(c) If the obligation is settled in the current period (or at least no later than 12 months after the end of the current period) there is **no requirement for discounting**.

IAS 19 requires the following:

(a) The expense of providing pensions in the period is normally the same as the amount of contributions paid. **Contributions** payable to a DC plan should be recognised as an **expense** in the period they are payable (except if labour costs are to be included within the cost of assets).
(b) Unpaid contributions at the end of the year will be shown in the statement of financial position as

an **accrual/liability** and any **prepaid contributions** (**excess contributions)** will be shown as an asset (a **prepayment**) but only to the extent that the prepayment will lead to, eg a reduction in future payments or a cash refund.

5.2.3. Disclosure requirements

(a) A **description** of the plan

(b) The amount recognised as an **expense** in the period

Example: An entity makes contributions to the pension fund of employees at a rate of 5% of gross salary. The contributions made are $10,000 per month for convenience with the balance being contributed in the first month of the following accounting year. The wages and salaries for 2016 are $2.7m.

Required: Calculate the pension expense for 2016, and the accrual/prepayment at the end of the year.

Answer

This appears to be a defined contribution scheme.

The charge to income should be: $2.7m × 5% = $135,000

The statement of financial position will therefore show an accrual of $15,000, being the difference between the $135,000 and the $120,000 paid in the year.

5.3. ACCOUNTING FOR DEFINED BENEFIT PLAN

5.3.1. Funding mechanism and the role of actuary

Funding

A clear distinction must be made between the pension scheme funding (i.e. actual cash contributions into the scheme) and its accounting treatment (i.e. cost to be charged to the SPL and other statements).

In defined contribution schemes, the contributions are determined and the employees receive pensions on the basis of whatever amounts are available from those contributions and the returns earned from their investment. The risks in such a scheme fall entirely upon the shoulders of the employees.

Such a scheme poses few problems for the accountant. Amount to be charged as the cost of providing pensions is clearly determinable as the amount payable to the scheme by the employer in respect of a particular year.

Under a defined benefit scheme the retirement benefits are determined, sometimes on the basis of average salary over the employee's period of service, but more often on the basis of salary in the final year or years before retirement. For such a scheme the cost of pensions in a particular year is, as we shall see, much more difficult to determine. It depends not only upon the contribution payable in respect of a year but also upon the pensions that will be paid in the future. The pensions payable depend on such factors as the future rate of increase in wages and salaries, the number of staff leaving the scheme before retirement and life expectancy of pensioners and, where relevant, their dependents.

In addition, the cost in the year of providing future pensions depends upon the rate of return to be earned on contributions and reinvested receipts. It is the need to take a very long-term view in the face of great uncertainties that makes accounting for defined benefit schemes such an interesting and difficult problem for the accountant.

A defined benefit pension plan has some similarities to a defined contributions scheme. An employer makes regular contributions into a pension fund for its employees, and the money paid into the fund is invested. The fund is used to provide pension benefits to employees when they retire.

The major difference between defined benefit and defined contribution schemes is that in a defined benefits scheme, the employer guarantees the amount of pension benefits that its employees will receive after they retire. The risk remains with the employer. The entity recognises both the liability for future pension payments, together with the plan assets.

The amount that an employee will receive is usually linked to the number of years that he or she has worked for the company, and the size of his/her annual salary at retirement date (or on leaving the company). For example, the RSSB provides a scheme promising a pension of: $S \times (30\% + 2\%Y)$.
Where "S" represents the higher of the last 3 or 5 years' monthly average salary (years of service just before retirement). "Y" is the number of years above 15 years, that is each additional year (above 15) earns an additional 2% which is a bonus determined by the presidential decree. The contribution rate to the scheme is 6% on employee's monthly salary (employee 3%, and employer 30%).
In recent years, a large number of major employers have closed down their defined benefits schemes to new employees and replaced them with defined contribution schemes.

Role of an actuary

Pensions involve, by their nature, long-term issues including such things as life expectancy. Thus actuaries play a key part in assessing the regular contribution and in valuing the liabilities, although their role in valuing assets will be of less significance.
An actuary is a highly qualified specialist in the financial impact of risk and uncertainty. An actuary advises the companies on the conduct of their pension plans. That is how much to pay in contributions into the pension plan each year, in order to ensure there are sufficient funds to cover the company's obligation to make the pension payments.
This involves making a large number of economic and demographic assumptions:

- **Economic Assumptions:** interest rate, inflation, salary scale, etc.
- **Demographic Assumptions.** The examples include:
  - ✓ **Withdrawal assumptions** (how long will participants continue to work for this employer?)
  - ✓ **Mortality assumptions (**how long will people live?
  - ✓ **Retirement Assumptions** (when will participants retire and begin receiving benefits?
  - ✓ **Disability Assumptions (**will participants become disabled and no longer be able to work?)

5.3.2. Recognition and measurement

Accounting for defined benefit plans is much more complex. The complexity of accounting for defined benefit plans stems largely from the following factors:

(a) The future benefits (arising from employee service in current or prior years) **cannot be measured exactly**, but whatever they are, the employer will have to pay them, and the liability should therefore be recognised now. To measure these future obligations, it is necessary to use **actuarial assumptions**.
(b) The obligations payable in future years should be valued, by discounting, on a **present value** basis.
(c) This is because the obligations may be settled in many years' time.
(d) If actuarial assumptions change, the amount of required contributions to the fund will change, and there may be **actuarial gains or losses**. A contribution into a fund in any period will not equal the expense for that period, due to actuarial gains or losses.

Describing the method

There is a **four-step method** for recognising and measuring the expenses and liability of a defined

benefit pension plan. An outline of the method used by an employer to account for the expenses and obligation of a defined benefit plan is given below.

There is a **four-step method** for recognising and measuring the expenses and liability of a defined benefit pension plan.

Step 1 Measure the deficit or surplus:

(a) An **actuarial technique** (**Projected Unit Credit Method**), should be used to make a reliable estimate of the amount of future benefits employees have earned from service in relation to the current and prior years.

(b) The benefit should be **discounted** to arrive at the present value of the defined benefit obligation and the current service cost.

Carrying value of pension plan obligation

PV of pension plan obligations at the beginning of the year	X
Interest cost *(PV of obligations × Discount rate %)**	X
Current service cost (increase in obligations bcs employees work an additional year)	X
Past service cost (if any)	X/(X)
Benefits paid from the fund (= liabilities paid)	(X)
Settlement	(X)
Actuarial gain or (loss) (balancing figure)	X
PV of pension plan obligations at the end of the year	**X**

**The discounted value of these obligations for one year. This is because the obligations are one year nearer, so the PV is higher.*

(c) The **fair value** of any **plan assets** should be deducted from the present value of the defined benefit obligation.

Carrying value of pension plan assets

Pension plan assets at the beginning of the year	X
Interest (Expected return on plan assets (from fund's investments during the year)	X
Contributions paid into the fund	X
Benefits paid from the fund	(X)
Settlement	(X)
Gain or (loss) on re-measurement (OCI) (balancing fig)	X
Pension plan assets at the end of the year	**X**

Step 2 Calculation of net pension liability or asset. The above calculations provide the expected position of the pension scheme at the end of the year, and the expected surplus or deficit:

	Opening	Closing
Present value of plan obligation	X	X
Fair value of plan assets	X	X
Net pension plan assets or liability	**X**	**X**

The surplus or deficit measured in Step 1 may have to be adjusted if a net benefit asset has to be restricted by the **asset ceiling**.

The actuary must provide a current estimate, as at the year end, of what the actual value of the plan assets, the most recent estimate of the PV of existing future obligations and the current estimate of the scheme's surplus or deficit.

Step 3 Determine the amounts to be recognised in **profit or loss**:
In profit or loss for the year in the accounts of the employer, the following items are costs or benefits:

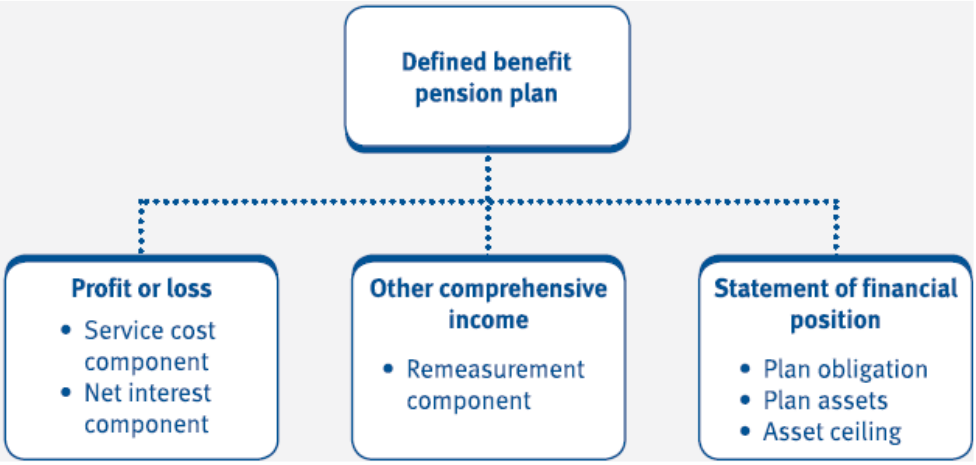
(a) **Current service cost**
(b) Any **past service cost** and **gain or loss on settlement**
(c) **Net interest** on the **net defined benefit liability (asset)**

Recognised in profit or loss	$
Current and *past service* costs: an expense	(X)
Interest cost (unwinding of the discount, see above): an expense	(X)
Expected return on plan assets: a benefit	X
Actuarial gain or (loss)	X/(X)

Step 4 Determine the **re-measurements** of the **net defined benefit liability (asset)**, to be recognized in **other comprehensive income** (items that will **not be reclassified to profit or loss**):

(a) **Actuarial gains and losses**
(b) **Return on plan assets** (excluding amounts included in net interest on the net defined benefit liability (asset))
(c) Any change in the effect of the **asset ceiling** (excluding amounts included in net interest on the net defined benefit liability (asset))

5.3.3. Reporting the amounts in the financial statements



STATEMENT OF FINANCIAL POSITION

In the statement of financial position, the amount recognised as a **defined benefit liability** (which may be a negative amount, ie an asset) should be the following:

(a) The **present value of the defined obligation** at the year end, **minus**
(b) The **fair value of the assets of the plan** as at the year-end (if there are any) out of which the future obligations to current and past employees will be directly settled

Plan assets

Plan assets are:

(a) Assets such as stocks and shares, held by a fund that is legally separate from the reporting entity, which exists solely to pay employee benefits.
(b) Insurance policies, issued by an insurer that is not a related party, the proceeds of which can only be used to pay employee benefits.

Investments which may be used for purposes other than to pay employee benefits are not plan assets.

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

All of the gains and losses that affect the plan obligation and plan asset must be recognised. The **components of defined benefit cost must be recognised as follows** in the statement of profit or loss and other comprehensive income:

Component	***Recognised in***
Service cost	Profit or loss
Net interest on the net defined benefit liability	Profit or loss
Re-measurements of the net defined benefit liability	OCI (not reclassified to P/L)

In short, the movement for the period

The movements on the defined benefit item are due to:

- cash contributions to the plan
- current service cost (to P&L);
- past service cost (to P&L);
- gains or loss on settlement (to P&L);
- net interest (expense or income) (to P&L); and
- re-measurement (to OCI).

Service costs

These comprise:

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

(b) **Past service cost**, which is the change in the obligation relating to service in **prior periods**. This results from amendments or curtailments to the pension plan, and

(c) Any **gain or loss on settlement**.

The detail relating to points (b) and (c) above will be covered in a later section. First, we will continue with the basic elements of accounting for defined benefit pension costs.

Net interest on the defined benefit liability (asset)

Interest calculation

IAS 19 requires that the interest should be calculated on the **net defined benefit liability (asset)**. This means that the amount recognised in profit or loss is the net of the interest charge on the obligation and the interest income recognised on the assets. The calculation is as follows:

Net defined benefit liability or Asset * Discount rate

The **net defined benefit liability/ (asset)** should be measured as at the **start** of the accounting period, taking account of changes during the period as a result of contributions paid into the scheme and benefits paid out.

Discount rate

The **discount rate** adopted should be determined by reference to **market yields** on high quality fixed-rate corporate bonds.

Re-measurements of the net defined benefit liability

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 gains and losses relating to points (a) and (b) above will arise in every defined benefit scheme. The asset ceiling is a complication that is not relevant in every case.

Actuarial gains and losses

Actuarial gains and losses arise for several reasons, and IAS 19 requires these to be recognised, in full in other comprehensive income.

Accounting for the actuarial difference

IAS 19 allows three possible accounting treatments of the actuarial difference.

Option 1: Report the difference in full through the income statement

IAS 19 allows the actuarial difference to be taken to the profit or loss (the income statement) immediately. This would adjust the pension deficit in the company's statement of financial position to its true position.

The journal entry to record the actuarial loss (if actuarial difference is a loss):

Dr Profit or loss	xx	
Cr Pension liability		xx

The journal entry to record the actuarial loss (if actuarial difference is a gain):

Dr Pension asset	xx	
Cr Profit or loss		xx

Example of the role of actuaries for actuarial gains and losses

Let us suppose that at the inception of the scheme the sole employee, Mac, is aged 41 and is due to retire in 24 years' time at 65. It is currently estimated that his life expectancy on his date of retirement will be 15 years. The actuarial calculations might proceed as follows:

- Present salary £20,000
- Assume that Mac's salary will increase by 6% per year
- Hence, salary on retirement = £20,000 $(1.06)^{24} \approx$ £81,000.

If, on retirement, a pension of half final salary is payable, the fund will need to be sufficient to pay £40 500 per annum for 15 years. Assuming, for simplicity, that the retirement pension will be paid at the end of each year and that it is expected that the assets in the fund will earn 8 per cent per annum for the period following retirement, the capital value of the fund at retirement age will need to be £346,660.*

*On the date of retirement, the required balance on the fund x is given by:

$$X = £40{,}500 \sum_{i=1}^{15} (1.08)^{-i} = £346{,}660$$

If we assume that, in the period until retirement, the annual return on investments is only 7%, then 13% of the staff member's salary will need to be paid into the fund.*

Let y be the required fraction of the annual salary which needs to be paid into the fund, then

$$£346{,}660 = y\,£20{,}000 \sum_{i=1}^{24} (1.06)^{i} (1.07)^{24-i} = £346{,}660$$

from which $y = 0.13$

Actuarial gains and losses

Now let us see how things can go wrong, or to be more precise, how things might change. Few, if any, pension funds put all their investments in fixed-interest securities and so the return earned will probably not be 7%. If the assets in, say, five years are worth more than the actuary had expected, how should that gain be treated? Should the surplus be Cred to the profit and loss account immediately or over some future period? A different question is whether the difference between the expected and actual value of the assets should be returned to the employer immediately or used to reduce the future regular payments.

There may also be changes in the actuarial assumptions. Actuarial science is based on averages and people are, on average, living longer. Thus, suppose that five years into the scheme, the actuary revises his estimate of Mac's life expectancy and now expects that he will live for 18 years after retirement rather than 15. The fund will not be sufficient to pay the expected required pension, so what should be done? Should the extra cost be charged to the current profit and loss account immediately or spread over some future period? A different question concerns whether the employer should immediately pay the extra required or simply increase the regular payments to reflect the new assumption.

Return on plan assets

The **return on plan assets** must be calculated. A new valuation of the plan assets is carried out at each period end, using current fair values. Any difference between the new value, and what has been recognised up to that date (normally the opening balance, interest, and any cash payments into or out of the plan) is treated as a 're-measurement' and recognised in other comprehensive income.

Past service cost

Past service cost is the change in the present value of the defined benefit obligation resulting from a plan **amendment** or **curtailment**.

A plan **amendment arises** when an entity either introduces a defined benefits plan or **changes the benefits payable** under an existing plan. As a result, the entity has taken on additional obligations that it has not hitherto provided for. For example, an employer might decide to introduce a medical benefits scheme for former employees. This will create a new defined benefit obligation, that has not yet been provided for.

A **curtailment occurs when** an entity significantly reduces the number of employees covered by a plan. This could result from an isolated event, such as closing a plant, discontinuing an operation or the termination or suspension of a plan.

Past service costs can be either **positive** (if the changes increase the obligation) or **negative** (if the change reduces the obligation).

Gains and losses on settlement

A **settlement** occurs either when an employer enters into a transaction to eliminate part or all of its postemployment benefit obligations (other than a payment of benefits to or on behalf of employees under the terms of the plan and included in the actuarial assumptions).

A curtailment and settlement might **happen together**, for example when an employer brings a defined benefit plan to an end by settling the obligation with a one-off lump sum payment and then scrapping the plan. The gain or losses on a settlement is the difference between:

(a) The **present value of the defined benefit obligation** being settled, as valued on the date of the settlement; and

(b) The **settlement price**, including any plan assets transferred and any payments made by the entity directly in connection with the settlement.

Accounting for past service cost and gains and losses on settlement

An entity should **re-measure the obligation** (and the related plan assets, if any) using current actuarial assumptions, before determining past service cost or a gain or loss on settlement.

The rules for recognition for these items are as follows:

Past service costs are recognised at the earlier of the following dates:

(a) When the plan amendment or curtailment occurs, and

(b) When the entity recognises related restructuring costs (in accordance with IAS 37) or termination benefits.

Asset ceiling test

The term 'asset ceiling' relates to a threshold established by IAS 19 to ensure that any defined benefit asset (ie a pension surplus) is carried at **no more than its recoverable amount**. In simple terms, this means that any net asset is restricted to the amount of cash savings that will be available to the entity in future.

Net defined benefit assets

A net defined benefit asset may arise if the plan has been overfunded or if actuarial gains have arisen. This meets the definition of an asset because **all** of the following apply.

(a) The entity **controls a resource** (the ability to use the surplus to generate future benefits).

(b) That control is the **result of past events** (contributions paid by the entity and service rendered by the employee).

(c) **Future benefits** are available to the entity in the form of a reduction in future contributions or a cash refund, either directly or indirectly to another plan in deficit.

The **asset ceiling** is the **present value** of those future benefits. The **discount rate used is the same** as that used to calculate the net interest on the net defined benefit liability/ (asset). The net defined benefit asset would be reduced to the asset ceiling threshold. Any related write down would be treated as a **re-measurement** and recognised in **other comprehensive income**.

If the asset ceiling adjustment was needed in a subsequent year, the changes in its value would be treated as follows:

(a) **Interest** (as it is a discounted amount) recognised in profit or loss as part of the net interest amount

(b) **Other changes** recognised in profit or loss

Accounting treatment summarized

Step	Item	Recognition
1	**Record opening figures:** o Asset o Obligation	
2	**Interest cost on obligation** o Based on discount rate and PV obligation at start of period. o Should also reflect any changes in obligation during period.	Dr Interest cost (P/L) (x% * b/d obligation) Cr PV defined benefit obligation (SFP)
3	**Interest on plan assets** o Based on discount rate and asset value at start of period. o Technically, this interest is also time	Dr Plan assets (SFP) Cr Interest cost (P/L) (x% * b/d assets)

	apportioned on contributions less benefits paid in the period.	
4	**Current service cost** o Increase in the PV of the obligation resulting from employee service in the current period.	Dr Current service cost (P/L) Cr PV defined benefit obligation (SFP)
5	**Contributions** o As advised by actuary.	Dr Plan assets (SFP) Cr Company cash
6	**Benefits** o Actual pension payments made.	Dr PV defined benefit obligation (SFP) Cr Plan assets (SFP)
7	**Past service cost** o Increase/decrease in PV obligation as a result of introduction or improvement of benefits.	***Positive (increase in obligation):*** Dr Past service cost (P/L) Cr PV defined benefit obligation (SFP) ***Negative (decrease in obligation):*** Dr PV defined benefit obligation (SFP) Cr Past service cost (P/L)
8	**Gains and losses on settlement** o Difference between the value of the obligation being settled and the settlement price.	**Gain** Dr PV defined benefit obligation (SFP) Cr Service cost (P/L) **Loss** Dr Service cost (P/L) Cr PV defined benefit obligation (SFP)
9	**Re-measurements: actuarial gains and losses** o Arising from annual valuations of obligation. o On obligation, differences between actuarial assumptions and actual experience during the period, or changes in actuarial assumptions.	**Gain** Dr PV defined benefit obligation (SFP) Cr Other comprehensive income **Loss** Dr Other comprehensive income Cr PV defined benefit obligation (SFP)
10	**Re-measurements: return on assets (excluding amounts in net-interest)** o Arising from annual valuations of plan assets	***Gain*** Dr FV plan assets (SFP) Cr Other comprehensive income ***Loss*** Dr Other comprehensive income Cr FV plan assets (SFP)
11	**Disclose in accordance with the standard**	Principles of disclosures required by IAS 19