

- 1. AS 15 - Employee Benefits**
- 2. AS 22 - Accounting for Taxes on Income**
- 3. AS 29 - Provisions, Contingent liabilities & Contingent Assets**

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KNOWLEDGE THAT MATTERS. EXPERIENCE THAT COUNTS.

What are we covering today

- Background
- Key principles of Accounting Standards (AS 15, AS 22 and AS 29)
- Expert Advisory Opinion issued by ICAI on above standards
- Extracts from listed companies accounts
- Common mistakes

AS - 15
Employee Benefits

Objective

The company should recognize:

- a liability when an employee has provided service in exchange for employee benefits to be paid in the future
- an expense when the enterprise consumes the economic benefit arising from service provided by an employee in exchange for employee benefits

Background

- Employee benefits includes all forms of consideration to employees in exchange of services rendered payable under legal requirement, formal plans, informal practices etc.
 - During service
 - Short term benefits (like wages, leave etc.) - Accrual basis & no discounting is required
 - Long term benefits (like long service leave) - Actuarial valuation required as per project unit credit method
 - Post employment
 - On or after retirement
 - Defined contribution plan
 - Defined benefits plan
 - Termination benefits
 - Terminated employee
 - Voluntary retirement

Note - Employee share based payments are not covered under this AS

Key concepts and principles

- Defined contribution – Monthly contribution and further obligation like PF, ESIC
- Defined benefit - The liability remains with the company to fund the deficit like gratuity trust, PF trust etc.
- Past Service cost – Change in defined benefit obligation for employee service in prior period resulting from introduction of or changes in plans. Accounting treatment also specified in standard for such past service cost.
- Actuarial gain / loss comprise of experience adjustments and effects of changes in actuarial assumption.
 - To be charged / credited to Statement of P&L
 - Detailed actuarial valuation of defined benefit plan may be made once in 3 years
- Extensive disclosure requirements. However exemptions are given partly to SMC
- Guidance also given for accounting treatment of insured benefits, vesting and non-vesting leave

Relevant EAO

- Accounting treatment of accumulated unencashable half-pay leave. [finalized in April 2014]
- Exempt Provident Fund - disclosure and valuation as per Accounting Standard (AS) 15, 'Employee Benefits. [July 2013]
- Accounting for provident fund contribution in case of provident fund trust run by the holding company. and Disclosure requirements for defined benefit plans in case of group administration plans [Feb' 2012]
- Accounting for leave liability. [Nov'2011]
- Provision for leave travel concession benefits provided to employees [July' 2009 and Jan'2009]
- Reimbursement of hometown settlement expenses on retirement, Post retirement medical facilities, Employee Family Benefit Scheme [Jan'2008]
- Provision for provident fund liability on accrued encashable earned leave liability [May 2007]
- Whether annual leave / sick leave benefit should be treated as long term benefit [May 2007]

Extracts from listed companies

Name of company	Benefits	Remarks
Tata Motors Limited	Bhavishya Kalyan Yojana	Unfunded defined benefit plan, monthly payments to dependents of deceased or disabled employee equals to 50% of salary drawn or a specified amount whichever is higher. Company accounts for this liability as per actuarial valuation
ACC Limited	Silver Jubilee long service awards & accumulated leave	To be availed or encashed beyond 12 months. Actuarial valuation is done. The allocation between short term and long term provision have been made as per actuary report.
Persistent Systems Limited	Long term leave	Actuarial valuation is done and entire liability is classified as current liability in the balance sheet since it does not have an unconditional right to defer its settlement for 12 m after reporting date.
Coal India Limited	Other employee benefit	LTA / LTC, Life cover, group personal accident insurance scheme, settlement allowance, retired executive medical benefit, compensation to dependents of deceased in mines accidents etc. are also valued on actuary basis.

AS-22

ACCOUNTING FOR TAXES ON INCOME

Background

- The background of the standard is based on basic matching concept
- Includes determination of the amount of the expense or savings related to taxes on income in respect of an accounting period and the disclosure of such an amount in the financial statements.
- Includes all domestic taxes & foreign taxes.

Key terms

- Accounting income (loss) :- Net profit or loss for a period, as reported in statement of P&L, before deducting tax expenses or adding back tax savings.
- Taxable income (tax loss) :- Income or loss for a period determined in accordance with the tax laws, based on which tax payable (recoverable) is determined.
- Tax expense :- Aggregate of current tax and deferred tax charged or credited to statement of profit and loss.
- Timing difference :- Differences between taxable income and accounting income for a period that originate in one period and capable of reversal in one or more subsequent periods.
- Permanent differences :- Differences between taxable income and accounting income for a period that originate in one period and do not reverse subsequently.

Recognition

- Tax expenses for the period comprises of current tax and deferred tax.
- Deferred tax should be recognized for all the timing differences, subject to the consideration of prudence in respect of deferred tax assets.
- Principles of reasonable certainty
 - To recognize DTA on timing difference other than unabsorbed depreciation & loss
- Principles of virtual certainty supporting by convincing evidence
 - DTA due to unabsorbed depreciation & loss
- Reassessment of unrecognized DTA at each balance sheet date
 - Principles of reasonable / virtual certainty to be applied
- Guidance is given for DT on timing differences which reverse during and after tax holiday period.

Measurement

Particulars	Explanation
Current tax	Measured at the amount expected to be paid to (recovered from) the taxation authorities, using the applicable tax rates and laws.
Deferred tax	Measured at using tax rates and laws that have been enacted or substantively enacted by the balance date
Value	DTA / DTL should not be discounted to present value
Companies falling under MAT	Deferred tax has to be recognised using regular tax rates and not the tax rate under section 115JB of the Income Tax Act

Presentation and Disclosure

- Principles laid down for off-setting assets and liabilities
- Separate line item for deferred tax assets / liabilities
- Break up of DTA / DTL into major components
- Nature of evidence supporting recognition of DTA (in case unabsorbed depreciation and loss)
- Excess / short provision of tax relating to earlier years to be separately disclosed
- Presentation of MAT as per GN on Accounting for credit available in respect of MAT
- To be disclosed on face of balance sheet - Deferred tax will always be non-current item as per GN on Revised Schedule VI [after the head investments / after head unsecured loans]
- FAQ no. 31 on Revised Schedule VI provides clarity on classification of provision of current tax (net of advance) or vice versa in financials

Relevant EAO

- Applicability of tax rate in interim financial results [finalized on 5-9-2014]
- Treatment of income tax paid for earlier years against the uncontested demand received during the current period [finalized on 3-9-2013]
- Off-setting of various components of tax and disclosure of tax expenses in results published as per listing agreement [finalized on 12-8-2011]
- Treatment of tax expense on deemed income under section 56(2)(viiia) of the Income-tax Act, 1961 arising on purchase of investments [finalized on 12-8-2011]
- Accounting treatment of MAT Credit in case of c/f loss [finalized on 16-3-2011]
 - Refer the GN on MAT
- Virtual certainty in respect of deferred tax assets [Aug'09, Dec'09, Jan'10]
- Creation of DTA in respect of provision for final mine closure expenditure [Apr'06]
- Disclosure of interest on shortfall in payment of advance tax [June 2005]

ICDS

- Income Computation and Disclosure Standards (ICDS) are effective from FY 2015-2016
- This will have to be considered for the advance tax payments and provision for tax for the quarter ending on 30th June 2015
- Objective to introduce ICDS
 - to reduce litigation / follow consistency
 - smooth transition of Ind AS
- Debatable points and issues which needs to be resolved:
 - Inconsistency with current GAAP and Ind AS like mark-to-market losses not allowed, capitalization of borrowing costs, recognizing contingent assets based on reasonable certainty, only percentage completion method allowed for revenue recognition
 - Disclosure requirements laid down but not clear where to disclose
 - Implication on tax audits

Extracts from listed companies

- DTA recognised on losses without considering virtual certainty. Auditors have qualified the recognition of such DTA
 - HT Media Limited
 - BSNL
 - King Fisher Airlines Ltd.
 - V2 Retail Limited
 - Hanung Toys & Textile Limited (also in this case DTA was recognised on losses which we claimed in tax return filed after due date)
- As per CAG, AS 22 was not followed and also not reported by statutory auditors
 - Prize Petroleum Corporation Limited - DTA recognised on losses without considering virtual certainty



AS-29

**Provisions, Contingent Liabilities and
Contingent Assets**

Background

- Objective of the standard:
 - Appropriate recognition criteria and measurement bases are applied to provisions and contingent liabilities
 - Sufficient information is disclosed in the notes to the financial statements to enable users to understand their nature, timing and amount
 - Appropriate accounting for contingent assets
- Standard does not cover the following items:
 - Financial instruments that are carried at fair value
 - Executory contracts, except where the contract is onerous
 - Insurance enterprises from contracts with policy- holders
 - Those covered by another Accounting Standard like AS 7 construction contracts, AS 15 Employee Benefits, AS 22 taxes on income.

Key terms

Particulars	Explanation	
Contingent liability	Possible obligation from past events dependent upon contingent event not wholly within the control of enterprise	Present obligation arising from past events but is not recognised since outflow of resources is not probable or reliable estimate cannot be made
Contingent assets	Possible asset from past events	Dependent upon contingent event not wholly within the control of enterprise
Present obligation	Obligation probable to exist	Obligation is more likely than not
Possible obligation	Obligation not probable to exist	-
Provision	a liability which can be measured	By using a substantial degree of estimation.
Onerous contract	Unavoidable costs of meeting the obligation	Which will exceed the economic benefits expected to be received under it.

Recognition

Scenario	There is a present obligation that probably requires an outflow of resources and a reliable estimate can be made of the amount of obligation	There is a possible obligation or a present obligation that may, but probably will not, require an outflow of resources	There is a possible obligation or a present obligation where the likelihood of an outflow of resources is remote
Provision required	Yes [para 14]	No [para 26]	No [para 26]
Disclosure required	Yes [para 66 / 67]	Yes to disclose contingent liability [para 68]	No [para 68]

Note - Provision should not recognized for future operating losses and contingent assets not to be recognized / not to be disclosed.

Measurement

- Best Estimate to settle the obligation
 - judgment of the management / past experience
 - supplemented by experience of similar transactions
 - reports from independent experts
 - evidence provided by events after the balance sheet date
 - uncertainty does not justify the creation of excessive provisions or a deliberate overstatement of liabilities
- Obligation not to be discounted at present value
- To consider future events relevant for measuring the obligation amount
- Tax consequences of the provision, and changes in it, are dealt with under AS 22, Accounting for Taxes on Income.
- Guidelines are given for recognizing reimbursement from another party.

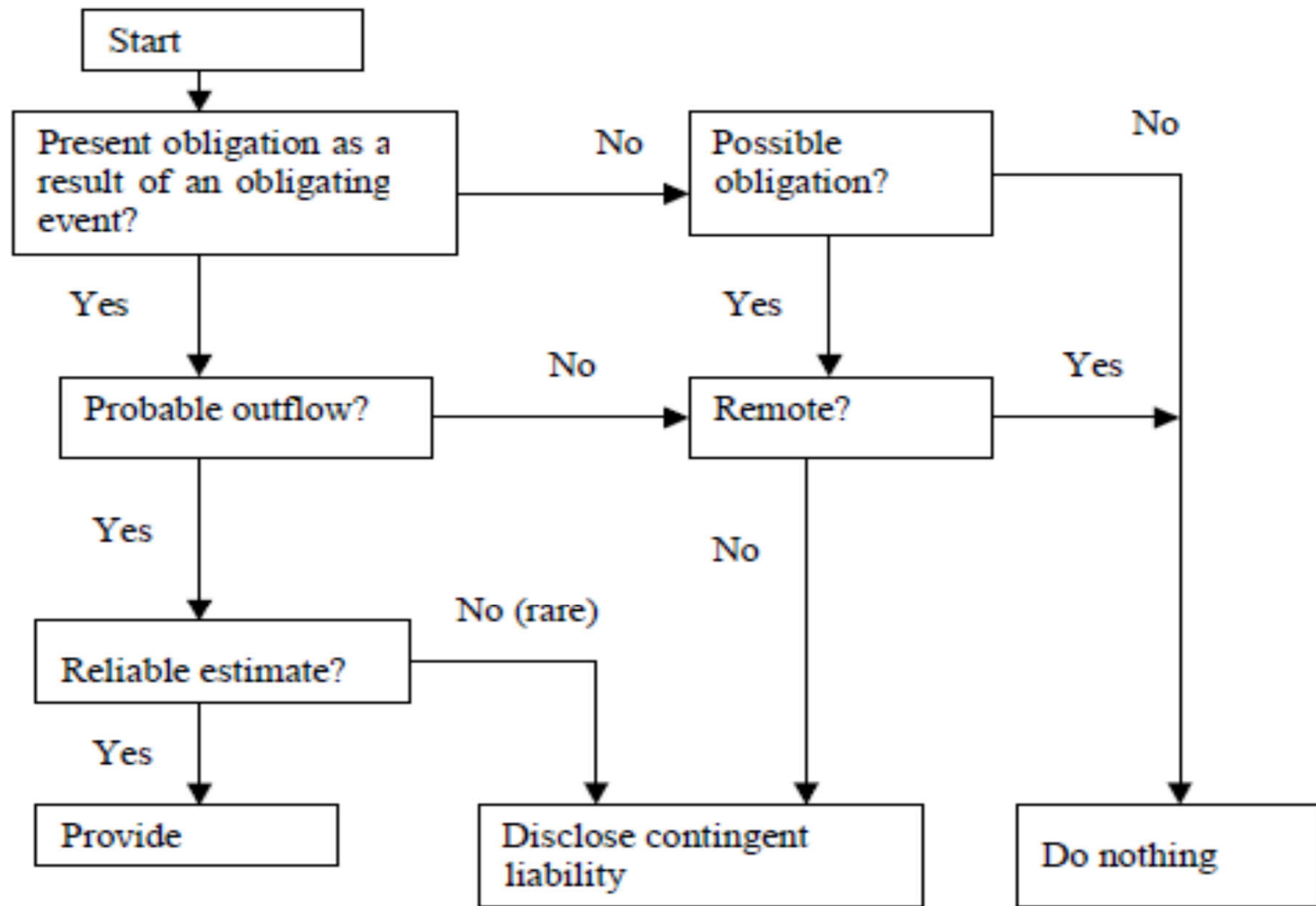
Changes in provisions & utilization of provision

- Provisions to be reviewed at each balance sheet date
- Adjusted to reflect the current best estimate
- To write back provision if no longer probable / required
- A provision should be used only for expenditures for which the provision was originally recognized

Disclosure requirement

- For each class of provisions [SMC are exempted to disclose]
 - Movement
 - Brief description for each class of provision,
 - Expected timing of outflow
 - Any indication of the uncertainties about the outflow
 - Disclose the major assumption made concerning future events
 - Amount of any expected reimbursement
- Similar disclosure are also there for each class of contingent liability. If disclosure is not made due to not practicable then this facts should be disclosed.
- Principles given for aggregating the class of provisions and contingent liabilities [para 69]
- If disclosure is expected to prejudice seriously the position of the enterprise in a dispute – then disclosure is not required but facts to be given and reason for not disclosing.

Decision tree



Relevant EAO

- Presentation of write back of provisions no longer required in statement of P&L [March 2015]
- Provision for disputed interest liability on term loan [Jan'10]
- Provision towards resettlement and rehabilitation schemes [Jan'09]
- Provision towards environmental aspects – Hydro Power Stations [Jan'09]

Extracts from listed companies

Name of company	Particulars
Jet Airways Limited	Redelivery of Aircraft: technical inspection, maintenance checks, repainting costs prior to its redelivery and the cost of ferrying the aircraft to the location as stipulated in the lease agreements.
Maruti Suzuki Limited	Provision for warranty & product recall represents estimated outflow in respect of warranty and recall cost for products sold. Timing of outflow is uncertain.
Hotels, Banks, Airlines	Loyalty bonus / Reward points :- Actuarial valuation is done.
ACC Limited	Provision not made against penalty imposed by CCI which is contested.
ACC Limited	Provision made for mine restoration expenses :- Mines restoration expenditure is incurred on an ongoing basis and until the closure of the mine. The actual expenses may vary based on the nature of restoration and the estimate of restoration expenditure.
Siemens Limited	Provision for loss order :- expected loss on construction contracts is recognised when it is probable that the contract costs will exceed total contract revenue.



Common Mistakes (AS 15)

Observation

- Accounting policy with regards to the Employee Benefits states that since the company does not have any defined retirement benefit scheme with respect to Contribution to the Government Provident Fund and ESI, AS-15 issued by ICAI is not considered applicable.
- Companies Accounting policy states that no provision for gratuity and other termination benefits has been made for the current year. The gratuity and other retirement benefits, as and when paid, shall be charged to Revenue account in the year of payment.

Requirement

- Paragraph 1 of AS-15 provides that this standard should be applied by an employer in accounting for all employee benefits, except employee share based payments.
- Paragraphs 11, 51 and 134 of AS 15 mandates to recognize the liabilities for gratuity and other termination benefits to be accounted on accrual basis instead of payment basis. Moreover as per section 128(1) of the Companies Act, 2013, books of accounts of the Company shall be kept on accrual basis.

Common Mistakes (AS 15)

Observation

- **Disclosure for defined benefits plan**
Disclosure is made with regard to the present value of the DBO, FV of plan assets, surplus / deficit in the plan, the experience adjustments of plan assets and liabilities only for current and previous reporting period.
- Provision for gratuity has been made in the accounts in respect of employees who have completed qualifying period of service.

Requirement

- As per 120 (n) of AS 15, disclosure is required for current annual period and previous four annual periods in regard to the present value of the DBO, FV of plan assets, surplus / deficit in the plan, the experience adjustments of plan assets and liabilities.
- As per Guidance on implementing AS 15, issued by Accounting Standards Board, though the employee's right to receive the benefit is conditional on future employment, there is a probability that the employee would serve for the minimum period of 5 years. The obligation arises when the employee renders the service though the benefit is not vested. Hence, obligation needs to be provided for first 5 years of service of all employees.

Common Mistakes (AS 15)

Observation

- It has been noted that although the liabilities for gratuity have been provided for but not separately shown in the Profit and Loss Account.
- While the accounting policy of the employee benefits indicate to be in the nature of define benefits viz. gratuity, no disclosure were made in respect of the same in the Notes to accounts. It only mention that gratuity and Leave encashment has been recognized as per actuarial valuation.

Requirement

- In terms of Clause 5(i)(a)(ii) of Part II, Schedule III to the Companies Act, 2013, 'Contribution to Provident and Other Funds' is a separate line item. Since the Company's gratuity liability is funded, the amount debited to Profit and Loss Account should be disclosed separately. Disclosing the same under the head 'Salaries and Wages' is not correct.
- Paragraph 120 [clauses (a) to (o)] of AS 15 requires extensive disclosure in respect of defined benefit plans.

Common Mistakes (AS 15)

Observation

- The company has not given the disclosure of expected payment of contribution to gratuity trust in the next accounting year.
- PF trust is managed by company however it is mentioned that it is defined contribution plan.

Requirement

- As per 120 (o) of AS 15, disclosure is required for employers best estimate of contributions expected to be paid to the plan during the next accounting year.
- Such plan would be categorized as defined benefit plan. Since the Company is responsible for interest rate shortfall, the obligation should have been treated as “Defined Benefit plan” and not ‘Defined Contribution plan”. Further all the disclosures as required by AS 15 in regard to Defined benefit plan has not been given.

Common Mistakes (AS 15)

Observation

- The Company has not made an assertion as required by Para 120(l) of AS 15
- Figure of provision for employee benefits given in notes to accounts does not match with the figures as per balance sheet. Cross reference was also not given in respective notes.
- Broad category of plan assets in which funds are invested by trust are not disclosed.

Requirements

- An enterprise should include an assertion under the actuarial assumptions to the effect that estimates of future salary increases, considered in actuarial valuation, take account of inflation, seniority, promotion and other relevant factors, such as supply and demand in the employment market.
- Such discrepancies should be avoided. There would be some additional provisions towards employee benefits however disclosures are not given in notes to accounts.
- It is required to be disclosed as per Para 120 (h) of AS 15.

Common Mistakes (AS 15)

Observation

- “The Company has Defined Contribution Plans for post-employment benefits namely Provident Fund and Superannuation Fund which are recognized by the Income Tax Authorities. These funds are administered through trustees and the Company’s contributions thereto are charged to revenue every year.”
- “Defined Contribution Plans:
- The Company has recognized the contribution made in Statement of Profit and Loss.
- The Rules of the Company’s Provident Fund administered by a Trust require that if the Board of the Trustees are unable to pay interest at the rate declared for Employees’ Provident Fund by the Government under para 60 of the Employees’ Provident Fund Scheme, 1952 for the reason that the return on investment is less or for any other reason, then the deficiency shall be made good by the Company. Having regard to the assets of the fund and the return on the investments, the Company does not expect any deficiency in the foreseeable

Requirements

- Since the Company is responsible for interest rate shortfall, the obligation should have been treated as “Defined Benefit plan” and not ‘Defined Contribution plan”.
- Further all the disclosures as required by AS 15 in regard to Defined benefit plan has not been given.

Common Mistakes (AS 22)

Observation

- Deferred tax assets and liabilities are disclosed / classified under Shareholder's funds or Current Assets, Loans & Advances or Provisions.
- In the Profit and Loss Account of the company, Provision for current tax and deferred tax have not been shown separately.

Requirement

- Explanation to Paragraph 30 of AS 22 requires that deferred tax liabilities should be disclosed on the face of the Balance Sheet separately after the head 'Unsecured Loans' and deferred tax assets after the head 'Investments'. Hence these disclosures tantamount to non-compliance with AS 22.
- As per AS 22, deferred tax assets and liabilities should be distinguished from assets and liabilities representing current tax for the period under reporting.

Common Mistakes (AS 22)

Observation

- Companies often disclose break of deferred tax assets and liabilities that had been credited or debited to Profit and Loss Account rather than disclosing the break up of balances in the Balance Sheet.
- Companies having unabsorbed depreciation or carried forward of business losses, state that deferred tax asset has been recognized only to the extent of virtual certainty supported by convincing evidence but omit to provide the nature of the evidence on which such virtual certainty has arisen.

Requirement

- Paragraph 31 of AS 22 requires disclosure of the break-up of the deferred tax assets and liabilities into major components of the respective balances.
- Paragraph 32 of AS 22 requires disclosure of the nature of the evidence supporting the recognition of deferred tax assets on account of unabsorbed depreciation or carry forward of losses under tax laws. Hence, such disclosure by company does not fulfill reporting requirement under AS 22.

Common Mistakes (AS 22)

Observation

- Companies in their Annual Report had simultaneously shown the Deferred Tax Liability on liabilities side and Deferred tax Asset on the asset side of the Balance Sheet.
- TDS and advances tax are grouped under short term loans and advances.

Requirement

- As per requirement of paragraph 29 of AS 22 an enterprise should offset deferred tax assets and liabilities if the enterprise has a legally enforceable right to set off assets against liabilities representing current tax and the deferred tax assets and liabilities relate to taxes on income levied by the same governing tax laws.
- As per FAQ No 31 issued by ICAI in May 2012, advance payment of taxes (net of provision) either relating to current or previous year are Non-current in nature and hence the disclosure is not in accordance with ICAI guidance
- FAQ 31- Xx xx Current year advance tax (net of provision) as well as past year's advance tax (net of provision) shall generally be classified as non-current as these are not likely to arise in the short term".

Common Mistakes (AS 22)

Observation

- Deferred tax assets in respect of unabsorbed depreciation and carry forward losses are recognised if there is virtual certainty that there will be sufficient future taxable income available to realise such losses. Other deferred tax assets are recognised if there is reasonable certainty that there will be sufficient future taxable income available to realise such assets.

Requirement

- The accounting policy in regard to recognition of Deferred Tax assets on Other assets based on reasonable certainty where there are carried forward losses/ depreciation is not in accordance with para 17 read with Explanation. Expert Advisory opinion (May 2010 CA Journal) has also opined that virtual certainty criteria will have to be applied to entire asset (except recognition of asset to the extent of deferred tax liability).

Common Mistakes (AS 29)

Observation

- Under the Schedule of Provisions given in the Annual Reports of the Company, it has been noted that certain provisions have been recognized viz. provision for warranty but no disclosures have been made.

Requirement

- As per Paragraph 66 of AS 29 for each class of provision the enterprise disclose movement in provision.
- Moreover as per Paragraph 67 an enterprise, except SMC, should disclose for each class of provision brief description of the nature of obligation and the expected timing of resulting outflow, indication of uncertainties about those outflows, the amount of any expected reimbursement.

Common Mistakes (AS 29)

Observation

- Notes to Accounts of the Company states the company has not made provision for warranty in respect of certain goods considering that the company can claim the warranty cost from the original supplier.

Requirement

- As per Paragraph 46 of AS 29 Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement should be recognized when, and only when, it is virtually certain that reimbursement will be received if the enterprise settles the obligation and the reimbursement should be treated as separate asset, amount of which should not exceed amount of provision. Hence, disclosure by the company tantamount to non-compliance with AS 29.

Common Mistakes (AS 29)

Observation

- Notes to accounts of the company states “Cases have been filed by some of the buyers for the damages which have been disputed by the Company. Pending disposal of these cases, liability, if any, could not be determined and hence provision thereof could not be made.”
- Company, in its notes to accounts, stated that in respect of certain disallowances and additions made by the Income Tax Authorities, appeals are pending and adjustments, if any, will be made after the same are finally determined

Requirement

- As per Paragraph 68 of the AS 29, unless the possibility of any outflow in settlement is remote, an enterprise should disclose for each class of contingent liability at the balance sheet date a brief description of the nature of such liability and if practicable an estimate of its financial effect, indication of uncertainties and possibility of any reimbursement. Hence company has not followed the requirement of AS 29.
- As per Paragraph 10.4 of AS 29 contingent liability is a possible obligation that arises from past events whose existence will be confirmed by occurrence or non-occurrence of future events not wholly within control of entity or a present obligation that arises from past events but is not recognized because it is not probable that an outflow of resources embodying economic benefits will be required to settle obligation or reliable estimate of the amount cannot be made.



Thank you

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