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IAS® Standard 19 Employee Benefits

CASE STUDY - IAS 19 EMPLOYEE BENEFITS

Introduction

The objective of IAS 19 Employee Benefits is to prescribe the accounting and disclosure for employee benefits. The main principle underlying all of the detailed requirements of IAS 19 is that the cost of providing employee benefits shall be recognized in the period when services are provided, rather than when employee benefits are paid or payable. The standard outlines how each category of employee benefits is measured, providing detailed guidance, in particular, about post-employment benefits.

The entity or employer is the organization sponsoring the pension plan. It incurs the cost and makes contributions to the pension fund. The fund or plan is the entity that receives the contributions from the employer, administers the pension assets, and makes the benefit payments to the retired employees (pension recipients).

A defined benefit plan outlines the benefits that employees will receive when they retire. These benefits typically are a function of an employee's years of service and of the compensation level in the years approaching retirement.

In accounting for an entity's pension plan, two questions arise. (1) What is the defined benefit obligation that an entity should report in financial statements? (2) What is the pension expense for the period?

This case has been prepared to explain how the defined benefit pension plans will be accounted and reported by the entities.

The Case Information

Star sponsors a defined benefit pension plan for its 50 employees. On January 1, 2022, the entity's accountant provided the following information related to the pension plan.

Defined Benefit Plan Asset (January 1, 2022)	CU 340,000
Defined Benefit Plan Liability (January 1, 2022)	CU 480,000
Plan Asset / Liability	CU 140,000
Other Comprehensive Income - Loss	CU 22,000

As a result of the operation of the plan during 2022, the actuary provided the following additional data at December 31, 2022.

Current Service Cost	CU 90,000
Return on Plan Assets	CU 34,000
Contributions Paid In	CU 170,000
Benefits Paid Out	CU 21,000

The discount rate is 7%. Changes in actuarial assumptions result in a defined benefit obligation end-of-year balance of CU 670,000.

Discussion Questions

a) Compute pension expense for Star for the year 2022.

b) Indicate the pension amounts reported in the financial statements.

SOLUTION OF CASE STUDY – IAS 19 EMPLOYEE BENEFITS

Using the data given above, the table presents the beginning balances and all of the pension entries recorded by Star in 2022. Star records the beginning balances for the defined benefit plan liability and defined benefit plan asset on the first line of table.

	Defined Benefit Plan Liability	Defined Benefit Plan Asset
January 1, 2022	**480,000**	**340,000**
Service Cost	90,000	
Interest Expense	33,600*	
Interest Revenue		23,800**
Contributions Paid		170,000
Benefits Paid	(21,000)	(21,000)
Asset Gain		10,200***
Liability Loss	87,400****	
December 31, 2022	**670,000**	**523,000**

    * CU 33,600 = 480,000 * 7%
    ** CU 23,800 = 340,000 * 7%
    *** CU 10,200 = 34,000 – 23,800
    **** CU 87,400 = 670,000 – (480,000+90,000+33,600-21,000)

Star records the service cost component, which increases pension expense by CU90,000 and increases the liability (defined benefit plan liability) by CU90,000. Star accrues the interest expense component, which increases both the liability and the pension expense by CU33,600 (the beginning defined benefit liability multiplied by the discount rate of 7 percent). In the third line Star records the interest revenue component, which increases plan assets and decreases pension expense by CU23,800. This is computed by multiplying the beginning plan assets by the discount rate of 7 percent. In the fourth line Star records the contribution (funding) of assets to the pension fund, thereby decreasing cash by CU170,000 and increasing defined benefit plan assets by CU170,000. In the fifth line Star records the benefit payments made to retirees, which results in equal CU21,000 decreases to the defined benefit plan assets and the defined benefit plan liability.

	Current Pension Expense	Other Comprehensive Income	Plan Asset / Liability**
January 1, 2022		**(22,000)**	**140,000**
Service Cost	90,000		
Interest Expense	33,600		
Interest Revenue	(23,800)		
Asset Gain		10,200	
Liability Loss		(87,400)	
			7,000*
December 31, 2022	**99,800**	**(99,200)**	**147,000**

* CU 7,000 comes from the following journal entry.

** Defined Benefit Plan Asset – Defined Benefit Plan Liability

Asset and liability gains and losses are recognized in other comprehensive income.

For the year 2022 Star Entity should make the following journal entry:

Dr. Pension Expense   99,800

Dr. Other Comprehensive Income   77,200*

    Cr. Cash   170,000

    Cr. Plan Asset / Liability   7,000

* CU77,200 = 87,400 – 10,200

The pension amounts reported in the 2022 financial statements are as follows.

Star Entity's Statement of Profit and Loss and Other Comprehensive Income For the Year 2022 (in CU)	
Pension Expense	(99,800)
Other Comprehensive Income	
Asset Gain	10,200
Liability Loss	(87,400)

Star Entity's Statement of Financial Position As of December 31, 2022 (in CU)	
Plan Liability	147,000
Other Comprehensive Income	
Other Comprehensive Income	(99,200)