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IAS® Standard 26 Accounting and Reporting by Retirement Benefit Plans



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CASE STUDY - IAS 26 ACCOUNTING AND REPORTING BY RETIREMENT BENEFIT PLANS

Introduction

Retirement benefit plans provide for the establishment of a fund. Employees can make to various organisations such as a mutual aid institution or a solidarity fund during their working period payments in the form of monthly payments or as a lump sum after retirement. On the other hand, the organisation tries to create resources for the payments it will make to the employees after their working life by converting these payments into investments. For this reason, it is very important to inform the employees who makes the payments in order to benefit themselves in their retirement.

The aim of this case study is to clarify how to create a retirement benefit plan and how to make the necessary calculations under the IAS 26 standard.

The Case Information

AR-DE company was established in 1950 in Istanbul. The company, which started its activities as a weaving workshop, has turned into a textile and apparel company operating globally with more than 70 years of experience. As of 2022, a total of 350 people works in the company. In AR-DE Company which adopts a company policy that cares about its employees, many employees continue to work until their retirement. Therefore, "AR-DE Pension Fund Foundation" was established in 2000 to meet the retirement and social assistance obligations of employees. Through this foundation, retirement benefit plans are created within the framework of IAS 26, with deductions from employees' salaries, optional payments and employer contributions. This foundation is responsible for the management of fund assets and benefits.

The actuarial present value of the accumulated retirement benefit plans belonging to the AR-DE Pension Fund Foundation is calculated based on current salaries within the scope of IAS 26. AR-DE Pension Fund Foundation plans contributions to the employees by calculating a percentage of their current annual salary, which varies according to seniority. Accordingly, the contributions paid according to the working hours and the average monthly salaries of the employees are as follows:

Seniority	Number of Employee	Average Monthly Salary	Employee Contribution	Employer Contribution
5-15 Years	200	CU1,500	5%	8%
15 Years >	100	CU2,500	1%0	8%

Additionally, 80% of the contributions are invested in government bonds at an annual interest rate of 10% and 20% is invested in various stocks. The average return on stocks is estimated at 15%. The company has prepared a plan to ensure that an employee's annual retirement benefit is equal to 3% of years of service multiplied by the final average salary (FAS). FAS is determined by the average of the 3 highest consecutive salaries.

Investments within the scope of AR-DE Pension Fund Foundation pension benefit plan are shown at their fair values in the financial statements. While the foundation prefers low-risk financial instruments such as government bonds and treasury bills, it also invests in stocks and other securities. The company generates significant income from its investments. As of 2022, the investments of the company under the pension benefit plan are as follows:

Investment of AR-DE Pension Fund Foundation (at fair value)

Equities	CU2,100,480
Bonds and Debentures	CU11,514,880
Other Investment Instruments	CU300,340

The retirement benefit plan includes payments in the form of a lump sum or pension to those who retire from the company, a lump sum payment to his heirs in case of death of employees, and payment in case of incapacity of employee due to an accident. Other assets and liabilities of the business are as follows:

Debt for brokerage commission	CU14,400
Accrued benefits	CU82,260
Total of Benefits Paid to Participants in 2022	CU385,280
Administrative expenses	CU264,400
Net assets available for benefits at the beginning of the period	CU14,151,800

Discussion Questions

1. Prepare the defined contribution plan of the AR-DE company by making the necessary calculations.
2. Arrange the statements of net assets available for benefits and the changes in net assets available for benefits by making the defined contribution plan of the AR-DE company.

SOLUTION OF CASE STUDY - IAS 26 ACCOUNTING AND REPORTING BY RETIREMENT BENEFIT PLANS

The Company plans contributions to its employees by calculating a percentage of their current annual salary, which varies according to seniority. So the percentages applied are as follows:

There are 100 employees working in the company for more than 15 years and also there are 200 employees working in the company between 5 and 15 years. The average annual salary of the employees can be calculated as follows:

5-15 Years → 1,500 (average monthly salary) x 12 x 200 (number of employees) = CU 3,600,000

15 Years Above → 2,500 (average monthly salary) x 12 x 100 (number of employees) =
CU 3,000,000

According to these salaries the contributions of employees and employer will be calculated as follows:

5-15 Years → CU 3,600,000 x 0,05 = 180,000 (by employee) and

CU 3,600,000 x 0,08 = 288,000 (by employer)

15 Years Above → CU 3,000,000 x 0,10 = 300,000 (by employee) and

CU 3,000,000 x 0,08 = 240,000 (by employer)

So we can calculate the investment returns as follows:

For 5-15 Years:

$(180,000 + 288,000) \times 0.8 = 374,400 \rightarrow 374,400 \times 0.1 = 37,440$

$(180,000 + 288,000) \times 0.2 = 93,600 \rightarrow 93,600 \times 0.15 = 14,040$

} 51,480

For 15 Years Above:

$(300,000 + 240,000) \times 0.8 = 432,000 \rightarrow 432,000 \times 0.1 = 43,200$

$(300,000 + 240,000) \times 0.2 = 108,000 \rightarrow 108,000 \times 0.15 = 16,200$

} 59,400

Based on these calculations, AR-DE Company prepares a defined contribution plan as follows

Seniority	Average Annual Salary	Employee Contribution	Employer Contribution	Total Contribution	Investment Return
5-15 Years	CU 3,600,000	CU 180,000	CU 288,000	CU 468,000	CU 51,480
15 Years >	CU 3,000,000	CU 300,000	CU 240,000	CU 540,000	CU 59,400
TOTAL	CU 6,600,000	CU 480,000	CU 528,000	CU 1,008,000	CU 110,880

Other data in the case are as follows:

Investment of AR-DE Pension Fund Foundation (at fair value)

Equities: 2,100,480

Bonds and Debentures: 11,514,880

Other Investment Instruments: 300,340

The company's debt for brokerage commission is CU 14,400.

The accrued benefits total is CU 82,260.

The total of Benefits Paid to Participants in 2022 is CU 385,280.

The administrative expenses of CU 264,400 were incurred.

At the beginning of 2022, the net assets available for benefits of the company is CU 14,151,800.

Accordingly, the statements of net assets available for benefits and the changes in net assets available for benefits are prepared as follows.

THE STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS DECEMBER 31, 2022	
	2022(CU)
ASSETS	
Investment in the AR-DE Pension Fund Foundation (at fair value)	
Equities	2,100,480
Bonds and Debentures	11,514,880
Other Investment Instruments	300,340
Total Investments	13,915,700
Receivables	
Company Contributions	528,000
Accrued income	80,640
Total Receivables	608,640
Total Assets	14,524,340
LIABILITIES	
Liabilities for Brokerage Commissions	14,400
Benefits Payable	82,260
Total Liabilities	96,660
NET ASSETS AVAILABLE FOR BENEFITS	14,621,000

THE STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS DECEMBER 31, 2022	
	2022(CU)
ADDITIONS TO NET ASSETS	
Investment Income (Including changes in fair value)	110,880
Contributions:	
Employee	480,000
Employer	528,000
Total Addition	1,118,880
DEDUCTIONS FROM NET ASSETS:	
Benefits Paid to Participants	385,280
Administrative Expenses	264,400
Total Deduction	649,680
Net Increase in Net Assets	469,200
Net Assets Available for Benefits (Beginning of Year)	14,151,800
NET ASSETS AVAILABLE FOR BENEFITS (END OF YEAR)	14,621,000