

23 April 2026



The Institute of  
Chartered Accountants of India

FACILITATOR

**CA. Amit Garg**

Fellow Chartered Accountant  
Audit & Assurance • RNBP & Co.

98185 88733



#### PROFESSIONAL PROFILE

- ▶ Amit Garg is a Fellow Chartered accountant and leads the Audit and Assurance practice in his firm RNBP & Co. .
- ▶ 20+ years of professional experience in Assurance & Advisory Services; previously with **S.R. Batliboi & Co. LLP** (EY member firm) for over 12 years in Audit & Assurance.
- ▶ Extensive experience in **IFRS, Ind AS, IGAAP**, Ind AS implementation, ICFR, SOX Testing, Business Process re-engineering, statutory audits, tax audits, Capital Market transactions and due diligence.
- ▶ Faculty for IFRS / Ind AS courses at **ICAI, Indian Corporate Law Service Academy (MCA) and Delhi University**. Corporate trainer on Ind AS and IFRS.
- ▶ **Developed and launched FinSoEasy360** — financial reporting software that generates Schedule III compliant Ind AS / AS standalone and consolidated financial statements along with related-party auto-elimination entries, lease accounting and dashboard reports. ([www.finsensor.ai](http://www.finsensor.ai))

REFRESHER COURSE ON ACCOUNTING STANDARDS

# AS 15 (Revised 2005)

## *Employee Benefits*

---

A deep-dive workshop for Chartered Accountants — scope, recognition, measurement, actuarial valuation, and contentious judgement areas

BY AMIT GARG

## SESSION ROADMAP

# What we will cover

---

- 1 Scope & regulatory context
- 2 Four categories of employee benefits
- 3 Short-term benefits
- 4 DC vs DB — the critical distinction
- 5 Defined Benefit Plans & PUC method
- 6 Actuarial assumptions
- 7 Gratuity valuation walkthrough
- 8 Leave encashment & other long-term
- 9 Termination benefits
- 10 Nuance: Trust PF — DC or DB?
- 11 Nuance: Compensated absences trap
- 12 Audit pitfalls & SMC reliefs
- Q & A

# Scope, regulatory context & who must apply



## Notified under Companies (AS) Rules, 2021

AS 15 (revised 2005) is issued by ICAI and notified under Section 133 of the Companies Act, 2013 read with the Companies (Accounting Standards) Rules, 2021. It applies to all enterprises that follow Indian GAAP — i.e., companies NOT required to prepare Ind AS financial statements. Ind AS entities apply Ind AS 19 instead.



## Who is an 'employee' under AS 15?

Full-time, part-time, permanent, casual or temporary — including whole-time directors and other management personnel. Independent contractors and non-executive directors are NOT employees for AS 15 purposes.



## What is out of scope?

Employee share-based payments (covered by ICAI's Guidance Note on Accounting for Employee Share-based Payments) and benefits to directors who are not employees within the meaning of the standard.

## REAL-LIFE

A listed company with net worth > ₹500 cr — follows Ind AS 19. A typical unlisted engineering Company with net worth of ₹120 cr continues to follow AS 15.

Classification matters — the same gratuity scheme is accounted for under different disclosure requirements depending on which framework applies.

# Four categories of employee benefits



## Short-term benefits

*Wholly due within 12 months*

**EXAMPLES**

Salaries, wages, bonuses, STI, short-term compensated absences, non-monetary perks

**ACCOUNTING**

Recognise on undiscounted basis when employee renders service.



## Post-employment benefits

*Payable after service ends*

**EXAMPLES**

Gratuity, pension, post-retirement medical, PF (employer side)

**ACCOUNTING**

DC — contribution as expense. DB — actuarial valuation, PUC method.



## Other long-term benefits

*Not wholly due within 12 months*

**EXAMPLES**

Encashable earned leave (carried forward), long-service awards, sabbatical

**ACCOUNTING**

Actuarial valuation, but actuarial gains/losses straight to P&L.



## Termination benefits

*Triggered by cessation, not service*

**EXAMPLES**

VRS schemes, severance pay, redundancy compensation

**ACCOUNTING**

Recognise when enterprise has demonstrable commitment to terminate.

# Short-term employee benefits — the easy one

## KEY PRINCIPLES

### Undiscounted basis

No actuarial valuation. Recognise expense / accrual when service is rendered.

### Bonus and profit-sharing

Recognise if — (a) present legal OR **constructive obligation** to pay, AND (b) amount is reliably estimable. Even a customary practice creates constructive obligation.

### Compensated absences — short-term

If expected to occur within 12 months AND entitlement vests: recognise at undiscounted cost based on expected usage. Non-accumulating leave (sick leave, casual leave typically) — expense when taken.

### Non-monetary benefits

Subsidised housing, company car, medical insurance for current employees — recognise cost to enterprise (not market value of benefit to employee).



## PRACTICAL EXAMPLE

### Performance Bonus at an IT Services Co.

**Scenario:** FY25-26 P&L target met in Q4. Bonus pool = 10% of PAT, paid in July-26.

**Q:** *Do you accrue in FY25-26?*

**A: Yes.** Service rendered in FY25-26. Obligation is reliably measurable (formula-driven) and legally enforceable (contractual). Pay date is irrelevant for recognition.

**Nuance:** *Even if pool is discretionary but customarily paid for 5+ years, a constructive obligation exists. Management letter of representation will usually confirm intent.*

## THE CRITICAL DISTINCTION

# Defined Contribution vs. Defined Benefit

*Classification determines everything that follows. Get this wrong and the entire accounting — provision, actuarial report, disclosures, tax impact — is wrong.*

### DEFINED CONTRIBUTION

*"Pay-and-forget"*

#### Obligation

Limited to the agreed periodic contribution. Once paid — done.

#### Risk bearer

Employee — if fund underperforms or actuarial estimates go wrong, the employee absorbs it.

#### Accounting

Contribution paid/payable = expense. No actuary required. Simple disclosure.

#### Typical examples

Statutory PF (where employer deposits with RPF), NPS, superannuation with an insurance company.

### DEFINED BENEFIT

*"Promise-a-benefit"*

#### Obligation

To pay a specified benefit (formula-based) regardless of fund's actual performance.

#### Risk bearer

Employer — must top up shortfalls, absorb actuarial losses, fund investment underperformance.

#### Accounting

Present value of obligation (PUC method) LESS fair value of plan assets. Actuary required. Extensive disclosure.

#### Typical examples

Gratuity (Payment of Gratuity Act), pension (employer-sponsored), post-retirement medical, **trust-based PF** (see Slide 13).

# Statutory Provident Fund



## Statutory PF with RPFC — classic DC

Under the Employees' Provident Funds & Miscellaneous Provisions Act, 1952, the employer contributes 12% of Basic + DA (subject to wage ceiling). Once the contribution is deposited with the Regional PF Commissioner, the employer has NO further obligation. Investment return risk sits with the EPFO / Government.



## Accounting entry — illustrative

Dr Employee Benefits Expense (P&L)	₹ 12,00,000
Cr Bank / Employer Contribution Payable	₹ 12,00,000

*(Being employer's PF contribution for the month – wholly expensed)*

No actuarial report, no plan assets, no present value computation. Unpaid contributions at year-end = accrued expense (not actuarial liability).



### WATCH OUT

## When DC becomes DB

If the employer has a secondary obligation (e.g., top up the fund if the declared PF interest rate falls short of a guaranteed rate), the entire scheme becomes a **defined benefit plan**.

This is exactly the issue for **Trust-based PFs** — see Slide 13.

Similarly, if a 'DC' scheme has a guaranteed minimum return, a cap on employee contributions, or a benefit formula linked to final pay — look through the label to the **economic substance**.

# Projected Unit Credit (PUC) method

Para 65 of AS 15 mandates the PUC method. Each period of service gives rise to one more unit of benefit entitlement — measured using final (projected) salary levels.

## BALANCE SHEET LIABILITY

### Present value of Defined Benefit Obligation

*(PV of future benefits attributable to service rendered to date)*

### MINUS Fair value of Plan Assets

*(if plan is funded through a separate trust / insurer policy)*

### MINUS Unrecognised Past Service Cost

*(amortised on straight-line basis over the vesting period)*

## = NET DEFINED BENEFIT LIABILITY

## P & L COMPONENTS

1. Current service cost
2. Interest cost
3. Expected return on plan assets *(deducted)*
4. Actuarial gains / losses — *recognised immediately in P&L (AS 15)*
5. Past service cost (amortised)
6. Settlement / curtailment effects



**Key AS 15 vs Ind AS 19 divergence** — Under AS 15, ALL actuarial gains/losses are recognised in P&L. Under Ind AS 19, they are recognised in OCI (re-measurements) and are not recycled. This materially changes P&L volatility — flag early to management.

# Inputs that drive the DBO

## Discount rate

Market yield on Government of India securities at balance sheet date, for a term consistent with the duration of the obligation.

### AUDIT FOCUS

*Para 78 — currency & tenor must match liability. A 6-yr DBO discounted at 10-yr G-Sec = incorrect.*

## Salary escalation

Expected long-term average annual salary growth rate — includes inflation, promotions, merit increments, seniority.

### AUDIT FOCUS

*Benchmark against the entity's past 5-year history and industry compensation surveys.*

## Attrition rate

Expected rate of employees leaving the company, typically stratified by age band or service band.

### AUDIT FOCUS

*Higher attrition = lower DBO. Aggressive attrition assumption is a common earnings-management lever.*

## Mortality

Indian Assured Lives Mortality (IALM) tables — currently IALM 2012-14 Ultimate is the actuarial standard for India.

### AUDIT FOCUS

*Mortality has material impact on pensioner / post-retirement medical schemes, lower for pure gratuity.*

*Per the ICAI ASB Guidance Note, the Board of Directors owns the assumptions — not the actuary. The actuary provides expert technical advice; management accepts or adjusts based on entity-specific context.*

## WORKED EXAMPLE

# Gratuity actuarial valuation – step by step

### SCENARIO

#### Mr. A — Senior Manager at a mid-sized manufacturer

Current age: 55 years

Past service: 5 years (vested; Payment of Gratuity Act threshold met)

Current monthly salary: ₹ 26,000 (Basic + DA)

Retirement age: 60 years (5 years to go)

### Assumptions

Discount rate (G-Sec yield): 8.00% p.a.

Salary escalation: 5.00% p.a.

Attrition pre-60: 1% (senior band)

Mortality: IALM 2012-14 Ultimate

### COMPUTATION

**Step 1 — Accrued benefit on current salary**

$$15 / 26 \times ₹26,000 \times 5 = ₹ 75,000$$

**Step 2 — Project salary to retirement (5 yrs @ 5%)**

$$₹26,000 \times (1.05)^5 = ₹ 33,185$$

**Step 3 — Projected benefit at retirement**

$$15 / 26 \times ₹33,185 \times 10 \text{ yrs of service} = ₹ 1,91,452$$

**Step 4 — Allocate to past service (5 / 10)**

$$₹1,91,452 \times 5 / 10 = ₹ 95,726$$

**Step 5 — Discount back 5 years @ 8% + mortality / attrition probabilities**

$$\approx ₹95,726 / (1.08)^5 \times \text{Prob}(\text{survive \& stay}) \approx \text{DBO} = ₹ 65,000 \text{ (approx)}$$

# Other long-term benefits



## The hybrid category

Benefits that are not wholly due within 12 months of the end of the period in which they are earned — but are NOT post-employment. Examples: encashable earned leave, long-service awards, sabbatical entitlements, deferred cash incentives vesting > 12 months.



## Measurement — similar to DB, but simpler P&L

- PV of obligation using PUC method, **same as DB plans**
- Less fair value of plan assets (if any — rare for leave)
- Actuarial gains/losses → **recognised in P&L immediately (same as DB)**
- No unrecognised past service cost — **fully recognised when incurred**



### CLASSIFICATION TRAP

## Leave encashment: short-term or long-term?

Per ICAI ASB Guidance on AS 15 (Issue 3): an earned-leave entitlement that can be **accumulated and carried forward** typically qualifies as **other long-term benefit** — requires actuarial valuation.

Many companies wrongly classify all leave as short-term because they assume it will be encashed within the year. Test: can the employee **carry it forward indefinitely?** If yes — long-term.

*See Slide 14 for the practical implications.*

# Termination benefits — triggered by cessation

## CORE PRINCIPLE (Para 132-136)

Recognise termination benefits as a liability and an expense when — and only when — the enterprise has a present obligation to pay AND is demonstrably committed to either terminate or provide such benefits. This typically requires a detailed formal plan that leaves no realistic possibility of withdrawal.



### Detailed formal plan

Identifies location, function, approximate number of employees, benefits offered, and expected date of implementation.



### Communication

Plan is communicated to affected employees / unions, creating a valid expectation that it will be carried out.



### Short implementation window

Timeframe makes changes to the plan unlikely. Intentions alone without actionable plan do NOT trigger recognition.



## PRACTICAL EXAMPLE — VRS AT A PSU

**Scenario** — Board approves a VRS on 25-Mar-2026 (before year-end). Scheme window opens 01-Apr-2026, closes 31-May-2026. Of 400 eligible employees, 180 had opted by 31-Mar-2026; remaining have time to decide.

**Treatment** — Liability recognised for 180 who have opted (obligation crystallised). For the remaining 220, recognise only when options are tendered. Payment expected > 12 months from reporting date = discount to PV. If payable within 12 months = undiscounted (short-term).

# Trust-based Provident Fund: DC or DB?

*The question auditors ask every year:* Is the company's trust-managed PF a DC plan, or is it a DB plan?

## THE ICAI VIEW (ASB Guidance — Issue 2)

Under the EPF & MP Act, 1952, trust-exempted PFs MUST credit members' accounts at a rate not less than the EPFO-declared rate. If the trust's investments earn less, the employer makes good the shortfall. This shortfall obligation — however remote — makes the scheme a DEFINED BENEFIT plan requiring actuarial valuation.

### DC TREATMENT — WHEN?

Statutory PF deposited directly with **RPFC**

- Government bears investment risk
- Employer has no top-up obligation
- Accounting = contribution as expense

### DB TREATMENT — MANDATORY WHEN?


**Trust-exempted PF under EPF Act**

- Employer bears interest-rate shortfall risk
- Actuarial valuation of **interest-rate guarantee** required
- Shortfall, if any, recognised as DB liability

# Compensated absences — a 4-way classification

Two independent tests drive the classification:

	VESTING (encashable)	NON-VESTING (lapses on exit)
SHORT-TERM <i>(expected use &lt; 12 mths)</i>	<p><b>Accrue at undiscounted cost</b></p> <p>Based on expected use. If unused leave will be paid on accrual, recognise the full cost.</p>	<p><b>Expense when taken</b></p> <p>No liability. Sick leave, casual leave typically fit here. Cost recognised in month of usage.</p>
OTHER LONG-TERM <i>(can be carried forward)</i>	<p><b>Actuarial valuation (other LT)</b></p> <p>PV of expected future obligation using PUC method. Actuarial gains/losses → P&amp;L. Most earned leave sits here.</p>	<p><b>Usually NOT provided for</b></p> <p>If absence lapses on exit and no encashment right exists, accounting is generally on 'taken' basis — but test carefully.</p>

 **Example** — An IT services co. allows earned leave up to 60 days to be encashed on exit. Classification: **vesting + long-term** → actuarial valuation required (even though leave is 'normal' entitlement).

# What goes wrong in practice — and SMC exemptions



## COMMON AUDIT FINDINGS

### What auditors catch most often

- 1 **Wrong discount rate basis** — using PLR or FD rate instead of G-Sec yield.
- 2 **Tenor mismatch** — 10-yr G-Sec used for a 4-yr duration liability.
- 3 **Missing leave encashment actuarial** — classified as short-term in error.
- 4 **Trust PF treated as DC** — interest-rate shortfall valuation skipped.
- 5 **Bonus not accrued** — delayed until declaration / payment date.
- 6 **Data errors to actuary** — stale salary data, missing joiners, ghost employees in census.
- 7 **Recognition timing** — VRS liability booked when board approves, not when plan becomes demonstrable.



## SMC RELIEF

### Small & Medium Companies exemptions

*Qualifying SMCs (proviso to Para 116) may avail:*

- Relief from discounting of other long-term benefits
- Relief from recognising / disclosing detailed components of DB expense
- Simplified disclosures — still need actuarial valuation for DB plans

*SMC criteria (summary): Not listed, turnover ≤ ₹250 cr, borrowings ≤ ₹50 cr, not a subsidiary of non-SMC.*

# Key Takeaways

---

## 01

Classification is everything. Get short-term / post-employment / other long-term / termination right before anything else.

## 02

Look through the label. "PF" doesn't automatically mean DC — test for interest-rate guarantee.

## 03

Under AS 15 (not Ind AS 19), all actuarial gains/losses hit P&L. Flag to management before first-time adoption.

## 04

Discount rate must match tenor and currency. The duration of the DBO — not retirement age — drives tenor.

## 05

Earned-leave encashment is typically long-term. Needs actuary. Not a short-term accrual.

## 06

Termination benefits require a demonstrable commitment — board approval alone is not enough.

*Discussion & Questions*

---

*Thank You*

Presented by: Amit Garg  
E-mail ID- amit.garg@finsensor.ai  
Contract No. 98185 88733

---