

# Accounting alert

Analysis of the latest accounting developments delivered to you via e-mail

## AASB issues revised standard on employee benefits

On 23 December 2004, the Australian Accounting Standards Board (AASB) released a revised AASB 119 'Employee Benefits' and associated amendments to other Accounting Standards (contained in omnibus standard AASB 2004-3 'Amendments to Australian Accounting Standards'). Differences between AASB 119, as issued in July 2004, and the revised Standard relate primarily to requirements in relation to defined benefit plans.

This *Accounting Alert* provides an overview of these developments.

### Overview

In making this Standard, the AASB revised their previous decisions in relation to disallowing the adoption of the 'corridor' approach to accounting for defined benefit plans. Consequently, the revised Standard allows a choice of three methods: full recognition through profit or loss (per the July 2004 Standard), the 'corridor' approach, or a new third option introduced by the IASB, full recognition directly in retained earnings.

Revised AASB 119 is applicable to annual reporting periods beginning on or after 1 January 2006 with early adoption permitted for annual reporting periods beginning on or after 1 January 2005. Entities who do not early adopt the revised Standard will not be able to avail themselves of the additional options for the recognition of actuarial gains and losses associated with defined benefit plans unless the requirements in AASB 108 'Accounting Policies, Changes in Accounting Estimates and Errors' are satisfied.

The revised Standard also requires extensive additional disclosures and specifies how group entities should account for defined benefit group plans in their separate financial statements. Entities should note that the proposal in the exposure draft to allow group entities that met specified criteria to treat group plans as multi-employer plans was not carried through to the final Standard.

### The 'corridor' approach

In contrast to the full recognition of actuarial gains and losses required by the other two options permitted by the revised Standard, the 'corridor' approach requires only a portion of the actuarial gains or losses to be recognised in the profit and loss if the net cumulative unrecognised actuarial gains or losses of the **previous** reporting period exceeded the greater of:

- 10% of the present value of the defined benefit obligation (before deducting plan assets); and
- 10% of the fair value of plan assets at that date;

these limits being calculated and applied to each plan separately.

The portion to be recognised is the excess determined above divided by the expected average remaining working lives of the employees participating in the plan. A faster method of recognition may be adopted, as long as it is applied consistently, and is applied to both actuarial gains and losses. The systematic method applied to the recognition of actuarial gains and losses can be applied to the amounts within the corridor.

Any unrecognised actuarial gains or losses will form part of the defined benefit liability (or asset) recognised in the balance sheet. The asset ceiling test, amended for the 'corridor' approach, will apply.

*Significant changes to previous Australian requirements for accounting for post-employment benefits*

*Options largely available only to early adopters*

*Additional disclosures and requirements in relation to group plans*

*Exposure draft proposal to treat certain group plans as multi-employer plans not adopted*

*Recognise a portion of actuarial gains and losses only where the net cumulative unrecognised actuarial gains and losses exceeds the 'corridor'*

<p><i>All actuarial gains and losses may be recognised outside the profit and loss</i></p> <p><i>Recycling is not permitted</i></p>	<p><b>Full recognition directly in retained earnings</b></p> <p>Under this option, entities are required to recognise all actuarial gains and losses and any amounts required to be recognised as a result of the asset ceiling, outside the profit and loss, and directly in retained earnings. These amounts are disclosed in a statement of changes in equity titled 'statement of recognised income and expense', an example of which is illustrated in Part C of the Appendix to AASB 101 'Presentation of Financial Statements' (as amended by AASB 2004-3).</p> <p>Recycling of the actuarial gain or loss and any adjustments arising from the asset ceiling through profit and loss is not permitted. Entities electing to apply this accounting policy must apply it to all their defined benefit plans and for all actuarial gains and losses.</p>
	<p><b>Accounting by group entities</b></p> <p>AASB 119 requires that a multi-employer defined benefit plan be accounted for as a defined contribution plan where sufficient information is not available to allow defined benefit accounting. The revised Standard extends the requirement by specifying that, in such instances, where there is a contractual agreement between the plan and its participants that determines the allocation of plan surpluses or deficits, participating entities shall recognise the asset or liability that arises from the contractual agreement and the resulting income or expense in the profit or loss.</p> <p>The Standard states that defined benefit plans that share risks among entities under common control are not multi-employer plans. The revised Standard specifies that entities with such plans shall measure the plan in accordance with AASB 119, on the basis of assumptions that apply to the plan as a whole, and:</p> <ul style="list-style-type: none"> <li>• where there is a contractual agreement or stated policy for charging the net defined benefit cost to parties, the separate financial statements of the plan participants should reflect the allocation</li> <li>• where no such agreement or policy exists, the net defined benefit cost shall be recognised in the separate financial statements of the group entity that is legally the sponsoring employer for the plan. The other group entities shall recognise a cost equal to their contribution payable for the period</li> <li>• requires additional disclosures to be made in the notes to the financial statements. The revised Standard notes that participation in such a plan is a related party transaction, and AASB 124 has been amended accordingly by AASB 2004-3.</li> </ul>
<p><i>Extensive additional disclosures required</i></p>	<p><b>Additional disclosure requirements</b></p> <p>Revised AASB 119 requires significant additional disclosures which provide information about trends in the assets and liabilities in a defined benefit plan and the assumptions underlying the components of the defined benefit costs, and which bring the disclosures closer in line to that of revised SFAS 132 <i>Employers' Disclosures about Pensions and Other Postretirement Benefits</i>.</p> <p>The new disclosures include:</p> <ul style="list-style-type: none"> <li>• reconciliations showing the movement in plan assets, reimbursements rights recognised as an asset and defined benefit obligations</li> <li>• information about plan assets</li> <li>• information about the sensitivity of defined benefit plans to changes in medical cost trend rates</li> <li>• information about trends in the defined benefit plan</li> <li>• information about future contributions to the defined benefit plan</li> <li>• information about actuarial gains and losses recognised in the statement of recognised income and expense</li> <li>• information about the nature of the defined benefit plan.</li> </ul> <p>Entities should be aware that, in accordance with AASB 101, comparative disclosures will be required, regardless of whether the Standard is early adopted, and accordingly should maintain a record of the information required to compile such disclosures. The transitional provisions and AASB 1 (as amended by AASB 2004-3) provide only limited relief to the additional disclosure requirements.</p>

*The requirements of AASB 1 must be applied on early adoption of the revised Standard together with the suite of A-IFRS*

*Optional exemption from retrospective application for entities applying the 'corridor' approach*

### Early adoption of the revised Standard

When an entity early adopts this Standard, application of this Standard will begin in the first annual reporting period beginning on or after 1 January 2005 in the context of adopting all Australian equivalents to IFRS (A-IFRS).

If an entity elected to apply the 'corridor' approach to accounting for its defined benefit plans, on first-time adoption cumulative actuarial gains and losses from the inception of each defined benefit plan would need to be determined and split between recognised and unrecognised gains and losses at the transition date. However, AASB 1, as amended by AASB 2004-3, contains an optional exemption from retrospective application when the 'corridor' approach is applied, to allow all cumulative actuarial gains and losses to be recognised at the date of transition to A-IFRS, even if the 'corridor' approach is applied for later actuarial gains and losses.

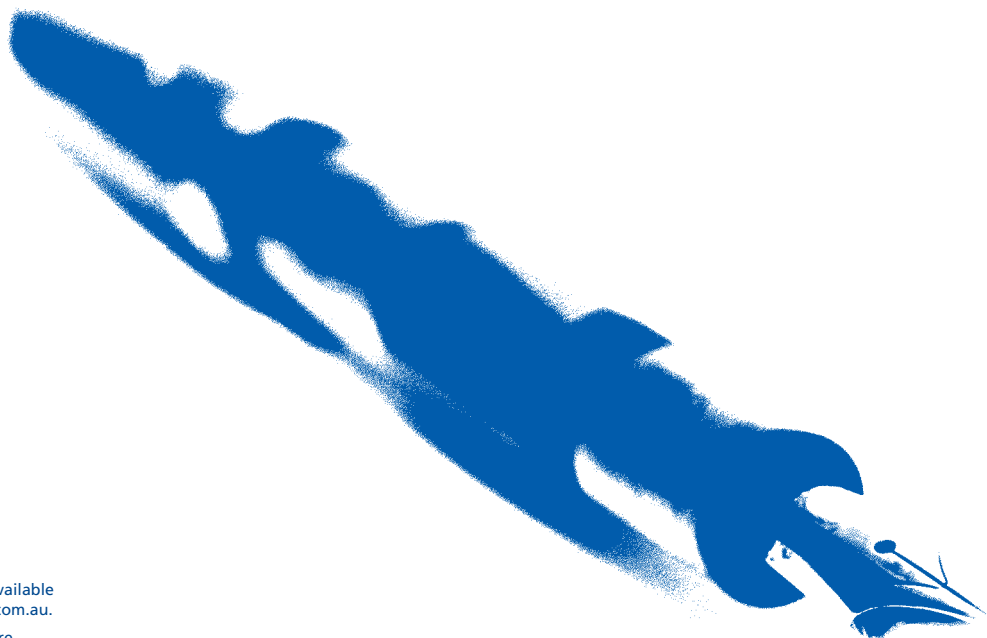
Disclosure of an entity's decision to early adopt the Standard must be made.

Deloitte encourages entities with defined benefit plans to early adopt the revised AASB 119 as permitted, as early adoption provides a choice of accounting policies, as well as the benefits of AASB 1 and the need to not recreate comparative disclosures to comply with the revised Standard for the second annual reporting period under A-IFRS.

### Feedback and assistance

We welcome your feedback on the matters covered in this *Accounting Alert* – please email your comments to [accounting\\_alerts@deloitte.com.au](mailto:accounting_alerts@deloitte.com.au)

For assistance in applying the requirements outlined in your organisation, please contact your local Deloitte office or contact our Lead National Technical Partner, Bruce Porter on (03) 9208 7490, or by email to [bruporter@deloitte.com.au](mailto:bruporter@deloitte.com.au)



This and other Deloitte publications are available on the Deloitte website at [www.deloitte.com.au](http://www.deloitte.com.au).

This Accounting Alert is of a general nature only and is not intended to be relied upon as, nor to be a substitute for, specific professional advice. No responsibility for loss occasioned to any person acting on or refraining from action as a result of any material in this publication can be accepted.

The liability of Deloitte Touche Tohmatsu is limited by, and to the extent of, the Accountants' Scheme under the Professional Standards Act 1994 (NSW).

© 2005 Deloitte Touche Tohmatsu. All rights reserved. Produced in Australia.

01\_05 AM MEL D012429

A member firm of  
**Deloitte Touche Tohmatsu**