



9.0 ACCOUNTING FOR EMPLOYEE BENEFITS

9.1 Introduction

This chapter covers the following:

- a. Applicable Terms
- b. Applicable Standard
- c. Key IPSAS Provisions
- d. Applicable Accounting Codes
- e. Accounting Documentation
- f. Accounting Procedures
- g. Accounting Treatment

9.2 Applicable Terms:

Employee Benefits are all forms of considerations given by an entity in exchange for services rendered by employees. They are provided to either employees or their dependants, i.e., settled by payments to their spouses, children, or other dependants, or to others, such as insurance companies.

Classification of Employee Benefits - This can be broadly categorised under short term benefits, long term benefits, termination benefits and post-employment benefits. Employment benefits can also be accumulative (e.g. carried forward leave that can be used in future period) and non-accumulative (e.g. maternity leave, sick leave)

Short Term Employee Benefits:

These are benefits (other than termination benefits and equity compensation benefits) that are wholly due to be settled within twelve months after the end of the period in which the employee render the related service. These benefits include items such as:

- a. Wages, Salaries and social security contributions;
- b. Short-term compensated absences (such as paid annual leave and paid sick leave) where the absences are expected to occur within twelve months after the end of the period in which the employees render the related employee service;
- c. Performance related bonuses and profit-sharing payable within twelve months after the end of the period in which the employees render the related service; and
- d. Non-monetary benefits (such as medical care, housing, cars and free or subsidized goods and/or services) for current employees.

Long Term Employee Benefits

These are employee benefits (other than post employment benefits and termination benefits) which do not fall due for settlement within twelve months after the end of the period in which the employee rendered the related services. These benefits may include items such as deferred compensation, long term disability benefits, long-service or sabbatical leave, jubilee or other long-service benefits.

Termination Benefits

These are employee benefits payable as a result of either:

- a. An entity's decision to terminate an employee's employment before the normal retirement date or
- b. An employee's decision to accept voluntary redundancy in exchange for those benefits.

Post Employment Benefits

These are employee benefits (other than termination benefits and equity compensation benefits) which are payable after the completion of

employment through formal and or/informal arrangements. Post employment benefit plans are classified as either defined contribution plan or defined benefit plans, depending on the economic substance of the plan as derived from its principal terms and conditions.

Post-employment benefits plans include:

- a. Pensions, gratuity and unutilised carried forward leave.
- b. Other post-employment benefits, such as post-employment life insurance and post- employment medical care.

Defined Contribution Plans are post employment benefits under which an entity pays fixed contribution into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not own sufficient assets to pay all employees benefits relating to the employees service in the current and prior periods.

Defined Benefits Plans are post-employment plans other than defined contribution plan; in other words:

- a. the entity's obligation is to provide the agreed benefits to current and former employees
- b. Actuarial risks (that benefits would cost more than expected) and investments risks fall, in substance, on the entity.

Multi-employer Plans are defined contribution plans (other than state plans and composite social security programs) or defined benefits plans (other than state plans) that:

- a. Pool the assets contributed by various entities that are not under common control

- b. Uses those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefits levels are determined without regard to the identity of the entity that employs the employees concerned.

Composite Social Security Programs are established by legislation. They operate as multi-employer plans to provide post employment benefits and provide benefits that are not consideration in exchange for service rendered by employees.

Actuarial Gains and Losses Comprise

- a. Experience adjustments (the effects of differences between previous actuarial assumptions and what has actually occurred); and
- b. The effects of changes in actuarial assumptions.

Past Service Cost is the change in the present value of the defined benefits obligation for employee's service in prior period, resulting in the current period from the introduction of, or changes to post employment benefits or other long term employees' benefits.

Employee Benefits differs essentially from **Social Benefits** which are goods and services provided by a government in pursuit of its social policy objectives for which it does not receive consideration that is approximately equal to the value of goods and services provided, directly in return from the recipients of those benefits.

Comparison between Employee Benefits and Social Benefits

	Employee Benefits	Social Benefits
Scope	Entity's Personnel	Selected individuals, group of individuals or the wider population
Consideration for the Benefits	Services rendered by the employee is assumed to be approximately equal in value to benefits provided	The consideration, if any, received by the entity is not approximately equal in value to the goods or services provided

9.3 Relevant Standard

The relevant applicable standard is IPSAS 25 - Employee Benefits

9.4 Key IPSAS Provision

Recognition:

Short Term Employee Benefits

These are generally recognised as liabilities and expenses in the books of accounts as soon as employees have rendered service to an entity during an accounting period (unless capitalisation is appropriate or permitted).

Short Term Compensated Absences, Bonuses and Arrangements

These are also straightforward, a liability and an expense recognized when the reporting entity has a present legal or constructive obligation to make payments as a result of past events and a reliable estimate can be made of the payable amount (unless capitalisation is permitted).

However, the entity's policy as to whether it is accumulative or non-accumulative will determine the bases for recognition.

Where benefit is accumulative and earned over time and capable of being carried forward, the reporting entity should provide for the expected cost. On the other hand, where benefit is non- accumulative, the reporting entity should not recognize liability or expense until the absence occurs.

Long Term Benefits

The amount recognized as a liability for other long-term employee benefits shall be the net total of the following amounts:

- a. The present value of the defined benefit obligation at the reporting date. An entity shall use the ‘projected unit credit method’ to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost.
- b. Minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.

Terminal Benefits

An entity shall recognise termination benefits as a liability and expenses when the entity is committed to either;

- a. Terminate the employment of an employee before the normal retirement date.
- b. Provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.

An entity is committed to a termination when the entity has a detailed formal plan for the termination, and is without realistic possibility of withdrawal.

The detail plan shall include:

- i. The location and approximate number of employees whose services are to be terminated.
- ii. The termination benefits for each job classification or function and

iii. The time at which the plan will be implemented.

Termination benefits are recognised as an expense in the Accounting period when the entity is committed to terminating the services of the employee(s).

Non-monetary Benefits (including housing, cars and free or subsidised goods/services) should be recognized according to the same principles as benefits payable in cash. The amounts are recognized as liability and an expense should be measured at the cost to the employer providing the benefit.

Measurement

Short Term Employee Benefits

The bases for measurement are the rate agreed in the contract of employment between the employees and the employer.

Short Term Compensated Absences

For Short term compensated absences, the entity's policy as to whether it is accumulative or non-accumulative will determine bases for measurement.

Long Term Employee Benefits

The measurement of long term employee benefits is not usually subject to the same degree of uncertainty as the measurement of post-employment benefits. Its method differs from the accounting required for post-employment benefits as follow:

- a. Actuarial gains and losses are recognized immediately
- b. All past service cost are recognized immediately.

The amount recognized as a liability for other long-term employee benefits shall be the net total of the following amounts:

- i. The present value of the defined benefit obligation at the reporting date.

An entity shall use the ‘projected unit credit method’ to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost.

- ii. Minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.

The ‘**Projected Unit Credit Method**’ (sometimes known as the accrued benefit method prorated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

Post Employment Benefits

Defined Contribution Plan

The Federal Government of Nigeria follows a defined Contribution plan for its post-employment benefits.

In order to be classified as a defined contribution plan, a post-employment benefit plan must require the entity to pay fixed contributions into a separate entity.

When an employee has rendered service to an entity during a period, the entity shall measure/recognise the contribution payable to a **Defined Contribution Plan** in exchange for that service.

Defined Benefits Plan

Under a defined benefit plan:

- a. The entity's obligation is to provide the agreed benefits to current and former employees; and
- b. Actuarial risk (that benefits will cost more than expected) and investment risk fall, in substance, on the entity. If actuarial or investment experience is worse than expected, the entity's obligation may be increased.

Accounting by an entity for defined benefit plans involves the following steps:

- a. Using actuarial techniques to make a reliable estimate of the amount of benefit that employees have earned in return for their service in the current and prior periods. This requires an entity to determine how much benefit is attributable to the current and prior periods and to make estimates (actuarial assumptions) about demographic variables (such as employee turnover and mortality) and financial variables (such as future increases in salaries and medical costs) that will influence the cost of the benefit;
- b. Discounting that benefit using the Projected Unit Credit Method in order to determine the present value of the defined benefit obligation and the current service cost;
- c. Determining the fair value of any plan assets;
- d. Determining the total amount of actuarial gains and losses and the amount of those actuarial gains and losses to be recognized;
- e. Where a plan has been introduced or changed, determining the resulting past service cost; and
- f. Where a plan has been curtailed or settled, determining the resulting gain or loss.

Subsequent Recognition/Measurements

Actuarial gains and losses arising from adjustments and changes in actuarial assumptions are charged or credited to accumulated surplus or deficit in the period in which they arise.

An entity needs to determine the present value of a defined benefit obligation with sufficient regularity that the amounts recognized in the financial statements do not differ materially from the amounts that would be determined at the financial position date.

Disclosure

- a. Employee benefits is to be reported on the face of the Principal statements in the GPFS in line with IPSAS 1
- b. In addition, an entity shall disclose in the notes to the GPFS the following:

Short Term & Long Term Employee Benefits

This Standard does not require specific disclosures about short-term and long term employee benefits, other Standards may require disclosures. For example, IPSAS 20 requires disclosures of the aggregate remuneration of key management personnel and IPSAS 1 requires the disclosure of information about employee benefits.

Post Employment Benefit (Defined Contribution);

An entity shall disclose the amount recognised as expenses and accrued as liability.

Where required, an entity discloses information about contributions to defined contribution plans for key management personnel.

Termination

Where there is uncertainty about the number of employees who will accept an offer of termination benefits, a contingent liability exists. An entity discloses information about the contingent liability unless the possibility of an outflow in settlement is remote.

Post-employment Benefits (Defined Benefits)

An entity shall disclose information that enables users of financial statements to evaluate the nature of its defined benefit plans and the financial effects of changes in those plans during the period.

An entity shall disclose the following information about defined benefit plans:

- a. The entity's accounting policy for recognizing actuarial gains and losses;
- b. A general description of the type of plan;
- c. Movements in present value of obligation;
- d. Movements in fair value of plan asset;
- e. Amounts recognised in statement of financial position
- f. Amounts recognised in statement of financial performance;
- g. Effect of changes in medical cost trends;
- h. Actuarial assumptions;
- i. Summary of defined benefit plans for current and previous periods; and
- j. Contingent liabilities arising from post-employment benefit obligations

9.5 Applicable Accounting Codes

NCOA Code	Description
21	Personnel Cost
2101	Salaries And Wages
210101	Salaries And Wages
2102	Allowances And Social Contribution
210201	Allowances
210202	Social Contributions
2103	Social Benefits
210301	Social Benefits

9.6 Accounting Documentation

- a. Annual Leave Roster
- b. Personal Emoluments Record
- c. Annual Leave Journal Voucher
- d. Post Employment Benefit (Pension) Journal Voucher
- e. Cashbook/Bank
- f. Payroll Journal Voucher
- g. Payroll Deduction Journal Voucher
- h. Bank Pay-in Advice
- i. Approved Establishment

9.7 Accounting Procedures

- a. Confirm budgetary provisions for employee benefits
- b. Recognise employee benefits in the various books and ledgers
- c. Recognize and accrue for employee benefits not yet paid for

9.8 Accounting Treatment

Short Term Benefits

S/No	Details	Remark
1	Dr Gross Staff Benefit Cr Net Salary Payable Cr Relevant Deductions	To recognise salary payable to the employees
2	Dr Net Salary Payable Dr Relevant Deductions Cr Cash/Bank	Payment of Net Salary payable and remittance of deductions

9.9 Illustration – 1

The summary balances extracted from the Payroll of Entity XXX for the month of September, 20X3 were as follows: Gross Salary ₦876,000; PAYE Deduction ₦48,000, Pension Deduction ₦75,000, NHIS Deduction ₦42,000 and Net Salary Payable ₦711,000. Due to shortfall in revenue in the month of September, Salary benefits were paid in October.

Accounting Entries

S/No	Details	Code	Dr (₦)	Cr (₦)	Remark
1	Gross Salary	21XXXXXXX	876,000		To recognise Gross Salary, Deductions and Net Salary payable-September, 20X3
	PAYE Deduction	4XXXXXXX		48,000	
	Pension Deduction	4XXXXXXX		75,000	
	NHIS Deduction	4XXXXXXX		42,000	
	Net Salary Payable	4XXXXXXX		711,000	
2	PAYE Deduction	4XXXXXXX	48,000		To recognise payment of outstanding September Salaries in October, 20X3
	Pension Deduction	4XXXXXXX	75,000		
	NHIS Deduction	4XXXXXXX	42,000		
	Net Salary Payable	4XXXXXXX	711,000		
	Cash/Bank	3XXXXXXX		876,000	

Illustration - 2

An Entity XYZ grants its staff overtime allowance bill submitted. The bill for the month was in the sum of ₦300,000.

Accounting Entries

S/No	Details	Code	Dr (₦)	Cr (₦)	Remark
	Staff Benefit Expense	2XXXXXXX	300,000		To recognise monetary staff claims.
	Cash/Bank	3XXXXXXX		300,000	