

Amendments to HKAS 19 Employee Benefits Defined Benefit Plans: Employee Contributions

December Newsletter – Issue No. 08/2013

MAIN FEATURES

- Apply to contributions from employees or third parties
- Simplify the accounting for contributions that are independent of the number of years of employee services
- Effective for annual periods beginning on or after 1 July 2014, with earlier application permitted

Background

In November 2013, the International Accounting Standards Board (“IASB”) published the amendments to International Accounting Standard (“IAS”) 19 Employee Benefits – Defined Benefit Plans: Employee Contributions.

Subsequently in December 2013, the Hong Kong Institute of Certified Public Accountants also issued the same amendments so as to maintain the convergence with International Financial Reporting Standards.



What are the amendments?

According to paragraph 93 of Hong Kong Accounting Standard (“HKAS”) 19 (2011), contributions from employees or third parties set out in the formal terms of the plan either

- reduce service cost (if they are linked to service); or
- reduce remeasurements of the net defined benefit liability (asset) (e.g. if the contributions are required to reduce a deficit arising from losses on plan assets or actuarial losses)

For those contributions that are linked to services, they are attributed to periods of services as a negative benefit. *The amendments clearly specifies that such negative benefit are attributed in the same way as the gross benefit, i.e. attribute to periods of services under the plan’s contribution formula or on a straight-line basis in accordance with paragraph 70 of HKAS 19 (2011).*

Besides, *the amendments also states that if the contributions are independent of the number of years of employee service, such contributions may be recognised as a reduction of the service cost as they fall due. This accounting policy is subject to the entity’s choice (i.e. it is not required method) but it should be applied consistently to all defined benefit plans.*

▶ Examples of contributions that are independent of the number of years of employee service:

- a. Employee contributions that are calculated according to a fixed percentage of salary
- b. Employee contributions that are fixed or an amount depending on the employee’s age

▶ Examples of contributions that are **NOT** independent of the number of years of employee service:

- a. An increasing percentage of salary over the years of service

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