

POSTEMPLOYMENT BENEFITS

Postemployment benefits – employee benefits payable AFTER completion of employment

- May be *funded* or *unfunded*
 - Funded – Employer *contributes* to a FUND, from which the employees will get their *benefits*
 - Unfunded – Employer does not maintain a fund for the employees’ benefits

Types:

1. Defined Contribution Plan – What is defined, or fixed, is the CONTRIBUTION of the employer. Whatever the resulting amount of the fund will be in the future will be the basis of the benefits of the employees.
 - Contribution is fixed, benefits vary
 - Employees bear the investment risk in the fund
 - Once the contribution is paid, the employer has no more obligation
2. Defined Benefit Plan – What is defined, or fixed, is the BENEFIT of the employees.
 - Benefits are fixed, contributions vary
 - Employer bears the investment risk in the fund

Defined Contribution Plan

- Periodic contribution to the fund is recorded as an expense (i.e., pension expense, employee benefit expense or any appropriate account)
- If the actual contribution for the period is less than the required fixed contribution, account for the difference as a liability; if the contribution for the period is more than the required fixed contribution, account for the difference as a prepayment

Entries:

- Actual Contribution = Required Contribution

Employee benefit expense	xxx	
Cash		xxx
- Actual Contribution < Required Contribution

Employee benefit expense	xxx	
Cash		xxx
Accrued employee benefit expense		xxx
- Actual Contribution > Required Contribution

Prepaid employee benefit	xxx	
Employee benefit expense	xxx	
Cash		xxx

Defined Benefit Plan

- Same concept as defined contribution plan, wherein contributions are accounted for as expense, HOWEVER, two memorandum accounts are maintained: (1) Plan Asset; and (2) Defined Benefit Obligation or DBO
- Plan asset represents the *fund*, from which the benefits of the employees will be paid out of, and is measured at *fair value*. DBO represents the liability to be paid to the employees.
- If Plan Asset > DBO, there is a *prepaid employee benefit*; if Plan Asset < DBO, there is an *accrued employee benefit expense*. The computation is as follows:

Plan Asset	xxx	
Defined Benefit Obligation		(xxx)
Prepaid (Accrued) Employee Benefit		xxx(xxx)

Plan Asset

	Plan Asset		
Beginning balance	xxx	xxx	Settlement
Contribution	xxx	xxx	Remeasurement Loss - OCI
Interest income	xxx		
Remeasurement Gain - OCI	xxx	xxx	Ending balance

- **Contribution** represents the actual contribution made by the employer during the period
- **Interest income** is based on the *discount rate* on the plan asset (same rate is used for interest expense in DBO) (Interest income for the period = discount rate * beginning balance of Plan Asset)

- **Remeasurement Gain (Loss)** is presented in OCI. This represents the difference between the *actual return on the plan assets* and the *interest income* (e.g., if the beginning balance of the Plan Asset is P5 million, the discount rate is 10%, and the actual return on the plan asset is P600,000, the *actual increase* in the FVPA shall be P600,000: P500,000 represents interest income, P100,000 is presented in OCI as remeasurement gain)
- **Settlement** represents payment to the employees, thus, will decrease the fund

Defined Benefit Obligation (DBO)

	DBO		
Settlement	xxx	xxx	Beginning balance
		xxx	Service cost
Gain on Settlement	xxx	xxx	Loss on Settlement
Remeasurement Gain – OCI	xxx	xxx	Interest expense
Ending balance	xxx	xxx	Remeasurement Loss - OCI

- The **Service Cost** in the T-account is comprised of *current service cost* and *past service cost*
 - Current service cost is the increase in the present value of DBO from, as the term implies, employee services in the current period
 - Past service cost, as the term implies, is based on employee services from past period/s, resulting from the introduction or amendment of a plan; this is recorded as expense *immediately*
- **Gain or loss on settlement** represents the difference between the amount disbursed from the plan asset (or the settlement price) and the present value of the DBO at the date of settlement; for instance, if the present value of DBO is P1,000,000, and the settlement price is P800,000, there is a resulting gain on settlement of P200,000
- Note: To compute for the Service Cost related to the DBO, we simply combine the *Service Cost (in the T-account containing the current service cost and past service cost)* and any *Gain (or Loss) on Settlement*.
- **Interest expense** is based on the same discount rate on the plan asset
(Interest expense for the period = discount rate * beginning balance of DBO)
- **Remeasurement Gain (Loss)** are changes in the present value of the DBO

Computation of Employee Benefit Expense and Defined Benefit Cost

Service Cost*	xxx
Net Interest Expense (Income)**	xxx(xxx)
Employee Benefit Expense	xxx
Remeasurement Gain (Loss) - OCI	xxx(xxx)
Defined Benefit Cost	xxx

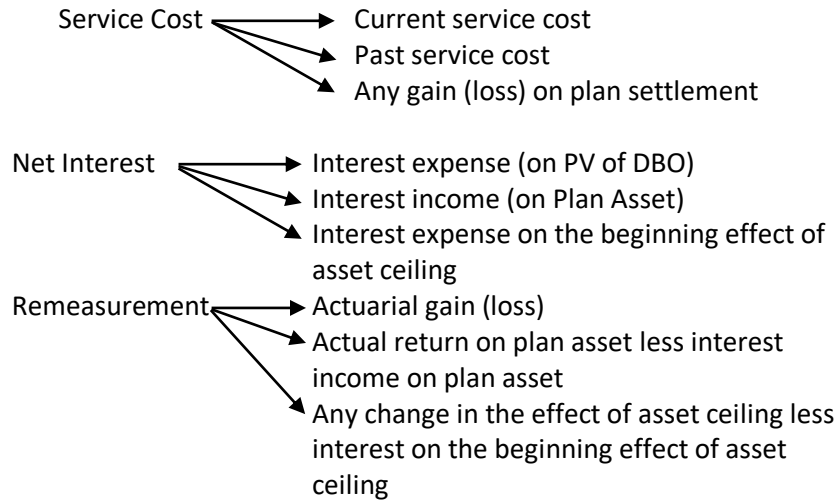
*Includes any gain or loss on settlement

**Net interest expense(income) = interest expense – interest income

Effect of Asset Ceiling

- If Plan Asset is greater than DBO, there is a resulting prepaid employee benefit
- The prepaid employee benefit is tested for asset ceiling
 - Asset ceiling – sum of the present value of any expected future benefits from *over-funding*
- The asset ceiling, as the term implies, is the ceiling or the maximum amount of the prepaid employee benefit to be presented in the financial statements
- In case the resulting prepaid employee benefit is more than the asset ceiling, the prepayment is written down to the asset ceiling; the decrease is an adjustment to gain or loss – OCI of the Plan Asset

Summary



SAMPLE PROBLEMS

PROBLEM 1

AKITA Corporation established a pension plan for its employees under a defined contribution plan, starting January 2, 2023. The entity is required to contribute P500,000 to the plan annually.

On December 31, 2023, due to the decline in financial performance, the entity was only able to contribute P400,000. In 2024, the entity was able to recover and contribute P800,000 to the fund on December 31, 2024. On December 31, 2025, the entity was only able to contribute P150,000.

By the end of 2025, some retirees, who are expecting to receive P300,000, only received P250,000 because of the decline in the balance of the fund.

Requirements:

1. How much is the employee benefit expense for 2023, 2024, and 2025?
2. How much is the resulting prepaid employee benefit/accrued employee benefit expense by the end of 2023, 2024, and 2025?

PROBLEM 2

At the beginning of the current year, DALMATIAN Corporation had the following balances related to a defined benefit plan:

Fair value of plan assets	P5,750,000
Present value of defined benefit obligation	6,500,000

The actuary provided the following data for the year:

Current service cost	P600,000
Settlement discount rate	10%
Expected return on plan assets	8%
Actual return on plan assets	P700,000
Contribution to the plan	900,000
Benefits paid to retirees	100,000

Requirements:

1. What amount should be reported as employee benefit expense?
2. What amount should be reported as remeasurement gain under other comprehensive income?
3. What is the defined benefit cost?
4. What amount should be reported as prepaid (accrued) benefit expense at year-end?
5. Prepare the journal entries for the year.

PROBLEM 3

At the beginning of the current year, ESKIMO DOG Corporation reported the fair value of plan assets at P6,700,000, and the present value of defined benefit obligation at P7,600,000. The entity revealed the following data for the current year:

Current service cost	P1,450,000
Past service cost	300,000
Discount rate	10%
Actual return on plan assets	P500,000
Contribution to the plan	1,500,000
Benefits paid to retirees	800,000

Requirements:

1. What amount should be reported as employee benefit expense?
2. What amount should be reported as remeasurement gain or loss?
3. What amount should be reported as prepaid (accrued) benefit expense at year-end?
4. Prepare the journal entries for the year.

PROBLEM 4

At the beginning of the current year, FOXHOUND Company reported the fair value of plan assets at P6,000,000 and the present value of defined benefit obligation at P8,000,000. During the year, the entity made a lump sum payment to certain plan participants in exchange for their rights to received specified postemployment benefits.

The lump sum payment was P800,000 and the present value of the defined benefit obligation settled was P1,000,000.

Current service cost for the year is P900,000; actual return on plan assets total to P800,000; contributions made to the plan total to P700,000; and the discount rate is 12%.

Requirements:

1. How much is the employee benefits expense for the year?
2. Determine the prepaid (accrued) employee benefit expense at year-end.

PROBLEM 5

GERMAN SHEPHERD Company presented the following data for 2024:

Fair value of plan asset, January 1	P1,000,000
Return on plan assets	120,000
Contributions made to the fund	30,000
Present value of defined benefit obligation, January 1	1,200,000
Current service cost	300,000
Benefits paid during the period	50,000
Discount rate	10%

Requirements:

1. Determine the prepaid (accrued) employee benefit expense for January 1, 2024.
2. Determine the prepaid (accrued) employee benefit expense for December 31, 2024, provided that the asset ceiling is:
 - a. P250,000
 - b. P180,000

PROBLEM 6

GOLDEN RETRIEVER Corporation gathered and provided the following information during the current year:

Fair value of plan assets, January 1	P6,000,000
Fair value of plan assets, December 31	7,900,000
Present value of defined benefit obligation, January 1	5,000,000
Present value of defined benefit obligation, December 31	5,900,000
Current service cost	900,000
Actual return on plan assets	900,000
Contributions made to the plan	1,000,000
Decrease in PV of DBO due to change in actuarial assumptions	500,000
Discount rate	10%

The asset ceiling for January 1 and December 31 are P700,000 and P1,200,000, respectively.

Requirements:

1. Determine the prepaid (accrued) employee benefit expense for January 1.
2. Determine the prepaid (accrued) employee benefit expense for December 31.
3. What amount should be reported as employee benefit expense for the year?
4. What amount should be reported as net remeasurement gain for the year?