

## ACCOUNTING AND DISCLOSURE FOR EMPLOYEE BENEFITS UNDER IND AS 19: AN EMPIRICAL STUDY OF SELECTED FERTILIZER COMPANIES IN INDIA

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### ABSTRACT

*Accounting Standards have always been a part of our accounting structure. These standards are applied by all entities operating in India as per the applicability guidelines specified in the respective standards. The objective of IND AS 19 is to prescribe the accounting and disclosure for employee benefits.. The basic requirements of the Standard is that the cost of providing employee benefits should be recognized in the period in which the benefit is earned by the employee, rather than when it is paid or payable. In this paper, an attempt has been made to check whether the companies account for the expenses done by paying benefits to employees and make full disclosure of the same or not in financial statements according to IND AS 19. On the basis of this study, the researcher has come to the conclusion that the scenario of IND AS 19 and disclosure practices in India, particularly in case of selected fertilizers companies, is satisfactory.*

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**Keywords:** Accounting Standard, Employee Benefits, Disclosure, Uniformity.

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### Introduction

The study of history of Accounting Standards in India takes us back to the 4<sup>th</sup> Century BC when Kautilya in his Arthshastra states as follows: "All accounts should be in the form prescribed in the 'Arthshastra'. Failure to do so will be punished." This proves that India has a very rich and strong accounting heritage and philosophical backup. Even though accounting practices were not standardized as we have today, but still there was a strong ideology to ensure transparency and reliability of accounting records. Thus Accounting Standards have always been a part of our accounting structure. However, the history of the present shape of Accounting Standards dates back to April 21, 1977 when The Institute of Chartered Accountants of India (ICAI), the apex body of accounting and auditing, constituted the Accounting Standards Board (ASB). Since then the Board is regularly issuing standards on various areas of accounting and as on date there are 28 mandatory Accounting Standards (AS). These standards are applied by all entities operating in India as per the applicability guidelines specified in the respective standards.

Harmonization may be defined as reconciliation or bridging the gap between various views and practices. Thus, International Accounting Harmonization implies the unification of accounting standards of various countries so as to ensure standardization and comparability of financial statements across the globe. The Liberalization, Privatization and Globalization initiative undertaken by the Govt. of India in 1991 integrated the Indian economy with the world economy. Further, it got all the more necessary after the Satyam Computer Services type scams which resulted in an increased demand for transparency, relevance and comparability of financial information and this can be achieved only with internationally acclaimed accounting standards.

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International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) have become the global language of accounting in recent times with around 126 countries around the world accepting IFRS for all or most of the domestic publicly accountable entities (listed companies and financial institutions) in their capital market. Considering the above, Indian Accounting Standards (IND AS) were issued by the Ministry of Corporate Affairs which has been refined and fine tuned to suit the Indian conditions.

The objective of Ind. AS 19 is to prescribe the accounting and disclosure for employee benefits (that is, all forms of consideration given by an enterprise in exchange for service rendered by employees). The basic principle underlying all of the detailed requirements of the Standard is that the cost of providing employee benefits should be recognized in the period in which the benefit is earned by the employee, rather than when it is paid or payable. Ind. AS 19 prescribes recognition, measurement and disclosure rules for expenses, liabilities and assets (for defined benefit funds only) relating to employee benefits. In this paper, an attempt has been made to check whether the companies account for the expenses done by paying benefits to employees and make full disclosure of the same or not in financial statements according to IND AS 19.

### Review of Literature

Employee benefits are defined as a form of compensation paid by employers to employees over and above regular salary or wages. Employee benefits come in many forms and are an important part of the overall compensation package offered to employees. Employee benefits are essential for the development of corporate industrial relations. Employee benefits include child care, elder care, hospitalization programs, social security, vacation, paid holidays and retirement plans (Christoph, 1996). The purpose of employee benefits is to increase the economic security of staff members, and in doing so, improve worker retention across the organization. These are programs an employer uses to supplement the cash compensation that employees receive, to protect the employee and his or her family from financial risks. Benefits constitute an important part of the remuneration package. They are an addition to other forms of cash payment like wages and salaries that are intended to improve the quality of work life for employees and increase their cooperation and productivity (Amah et al, 2013). Jackson and Mathis (2004) mentioned that employee benefits such as health insurance, vacation pay or retirement pension are the important indirect financial rewards. The benefits given by the employer are not only a mechanism to improve the employees' performance, but it also helps to attract applicants in the recruitment process.

### Objectives of the Study

The objectives of the study are as follows:

- To study the components of AS 19 and its implication on selected fertilizer companies in India.
- To study the concept of employee benefits and its impact on the profitability of selected Indian fertilizer companies.
- To check whether the companies account for the expenses done by paying benefits to employees and make full disclosure of the same or not in financial statements.
- To study the divergent practices adopted by the companies for accounting and disclosure of employee benefits in the absence of accounting standard.

### Hypotheses of the Study

In the present study the following hypotheses were framed and tested:

- **Null Hypothesis:** All the sampled fertilizer companies in India follow the Ind. AS 19 and make full disclosure of employee benefits data in the financial statements.
- **Alternative Hypothesis:** All the sampled fertilizer companies in India do not follow the Ind. AS 19 and do not make full disclosure of employee benefits data in the financial statements.
- **Null Hypothesis:** All the sampled fertilizer companies adopt similar method for accounting and disclosure of employee benefits.
- **Alternative Hypothesis:** All the sampled fertilizer companies do not adopt similar method for accounting and disclosure of employee benefits.
- **Null Hypothesis:** The relationship between presentation of employee benefits and profitability of these companies is significant.
- **Alternative Hypothesis:** The relationship between presentation of employee benefits and profitability of these companies is not significant.

### Methodology of the Study

This study is basically based on relevant literature available in the human communication records, such as books, journals, and materials on websites. The contents of AS 19 have been studied meticulously for this purpose. Further, for evaluating the use of AS 19 in fertilizer companies in India, an in-depth search has been made on the Internet for reviewing the annual reports prepared for the period of 2014 to 2019 of some private sector fertilizer companies in India. The data was analyzed with the help of questioner parameter, tabulation and ratio analysis. Due to unavailability of published financial reports of unlisted companies, a sample of five private sector companies located in India has been randomly selected, where contacts with the concerned officials of those companies were made to collect the relevant information. With this limitation as to the published information of unlisted fertilizer companies, this study also suffers from its limitations as to coverage of all aspects of AS 19. Against this backdrop of preliminary aspects of the study, the following sections are devoted to depict the important features of Indian accounting standard 19.

### AS 19 an Overview

From an accounting perspective, we consider that the most comprehensive definition of the employee benefits was surprised by the Indian Accounting Standard Ind. AS 19, which indicates that: "The employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees or for the termination of employment". Also, IND AS 19 identifies and classifies these benefits into five categories namely: (1) Short-term employee benefits, (2) Post-employment benefits, (3) Other long-term employee benefits, (4) Benefits for the employment termination contract, and (5) Compensation in the form of the equity participations.

#### • Short-term Employee Benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service. Short-term employee benefits include the following items:

- Salaries, allowances and social security contributions;
- Short-term compensated absences (such as paid annual leave and paid medical leave), where the absences are expected to occur within twelve months after the end of the period in which the employees render the related service;
- Profit participations and bonuses payable within twelve months after the end of the period in which the employees render the service, and,
- Non-monetary benefits (such as housing, medical care, cars and goods or free services, or subsidized) for the current employees.

Presentation of short term employee benefits- Once the employee renders service to an employer, the expected amount of short-term employee benefits to be paid for such service has to be recognized as a liability or as an expense. It is considered revenue expenditure generally except when any other standard requires it to be capitalized.

#### • Post-employment Benefits

Post-employment benefits are employee benefits (other than termination benefits and short term employee benefits) that are payable after the completion of employment. Post-employment benefits include the following items:

- Retirement or withdrawal benefits and
- Post-employment medical care and post-employment life insurance.

### Presentation of Post Employment Benefits

Table 1 shows the presentation of post employment benefits under IND AS 19.

**Table 1: Presentation of Post-Employment Benefits under IND AS 19**

Components	Presentation
Recognizing current and past periods service cost	Statement of Profit and Loss
Recognize the net interest on the net defined benefit liability or asset arrived using discount rate (beginning of an accounting period)	Statement of Profit and Loss
Re-measurement of defined benefit liability or asset consisting of: <ul style="list-style-type: none"> <li>• Actuarial gains/losses</li> <li>• Return on plan assets</li> <li>• Changes in the asset ceiling effect</li> </ul>	Other comprehensive income (should not be reclassified to Statement of Profit and Loss in subsequent period)

- **Other Long-Term Employee Benefit:**

Other long-term employee benefits are all employee benefits other than short-term employee benefits, post-employment benefits and termination benefits. Other long-term benefits, as IND AS 19 are as follows:

- Long-term compensated absences, such as the departures after a long-service or the long-term departures, with and without employment guarantees;
- Jubilee or other long-term benefits;
- The benefits for the long-term unavailability;
- participation in profits and payable bonuses over a period of twelve months or more after the period in which the employees provides the service concerned, and
- Deferred compensation paid during a period of twelve months or more after the end of the period in which they are earned.

**Presentation of Other Long Term Employee Benefits**

The net total of the following should be recognized in Statement of Profit and Loss, except to the extent that another Ind. AS permits or requires their inclusion in the asset cost:

- Service cost
- Net interest on the net defined benefit liability (asset)
- Re-measurements of the net defined benefit liability (asset)
- **Termination Benefits**

Termination benefits are employee benefits provided in exchange for the termination of an employee's employment 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 an offer of benefits in exchange for the termination of employment.

**Presentation of Termination Benefits**

An employer should recognize termination benefits as a liability and as an expense at the earlier of the following dates:

- The employer can no longer withdraw the offer for those benefits
- The employer recognizes restructuring cost per Ind. AS 37 and involves payment of termination benefits
- **Compensation in the Form of the Equity Participations**

Compensation in the form of the equity participations, including benefits like:

- shares, options on the shares and other equity instruments issued to the employees at a lower price than the fair value at which those instruments would be issued by a third party, and
- Cash payments whose value will depend on the future market prices of the reported actions of the enterprise.

**Disclosures under Ind. AS 19**

Ind. AS 19 requires additional qualitative and quantitative disclosures about Employee benefits. However, Table 2 below depicts a summary of the most significant disclosures entities need to disclose under Ind. AS 19.

**Table 2: A Summary of Disclosures for Employee Benefits under IND AS 19**

Short-term employee benefits
Post-employment benefits
Other long-term employee benefits
Benefits for the employment termination contract
Compensation in the form of the equity participations

**Profile of the Selected Fertilizers Companies**

- **Chambal Fertilizers and Chemicals Limited**

Chambal Fertilizers and Chemicals Limited is one of the largest private sector fertilizer producers in India. It was promoted by Zuari Industries Limited in the year 1985. It has two plants located at Gadepan in Kota district of Rajasthan. The hi-tech nitrogenous fertilizer (urea) plants produce about 2 million ton of Urea per annum. Its first plant was commissioned in 1993 and second plant in 1999. These plants use state-of-the-art technology from Denmark, Italy, United States and Japan.

- **Gujarat State Fertilizers & Chemicals Limited**

GSFC known for its path-breaking achievements was incorporated in 1962 and in 1967 its plants went into production of fertilizers. It was the first company to set up fertilizer plants within a short span of two years of getting requisite approvals, the first industrial complex in the country set up in joint sector and it was the first industrial project to secure direct and active equity participation of farmers.

- **Mangalore Chemicals and Fertilizers Ltd**

Mangalore Chemicals and Fertilizers Limited (MCF) is a Rs.3,700 Crore Fertilizers Manufacturing Company situated in the state of Karnataka, India. MCF is the only manufacturer of chemical fertilizers in the state of Karnataka. The Company has its wide range of products, which include Urea, Granulated Fertilizers, Micronutrients, Di-Ammonium Phosphate, Muriate of Potash, Soil Conditioners and Specialty Fertilizers.

- **Nagarjuna Fertilisers & Chemicals Ltd. (NFCL)**

Nagarjuna Fertilisers & Chemicals (NFCL) is the flagship company of the Nagarjuna Group with an asset base of around Rs 21 billion. It is the largest private sector investment in the south and the first gas-based fertilizer plant in the region. NFCL corporate office is situated at Hyderabad. NFCL is into manufacturing and supplying of plant nutrients in India. Nagarjuna Fertilizers and Chemicals Limited is involved in the production and marketing of a wide range of fertilizers.

- **Tata Chemicals Ltd.**

Tata Chemicals, established in 1939, is one of India's leading manufacturers of inorganic chemicals and fertilisers. It has an annual turnover of over Rs 35,042 million and is a part of the USD 14.25 billion Tata Group. The company operates in two segments, fertilisers and inorganic chemicals. The fertilisers segment consists of urea, phosphoric fertilizers and other agricultural inputs. Inorganic chemicals segment includes soda ash, marine chemicals, salt, caustic soda, bulk chemicals and cement.

#### Data Analysis and Findings

**Table 3: Questioner Analysis of Presentation of Employee Benefit of Selected Fertilizers Companies for the Year 2014-15 to 2018-19**

Sr. No.	Parameters of Analysis	CFCL	GSFC	MCF	NFCL	TCL
1	Is the company a public sector company or a private sector company?	Private sector	Private sector	Private sector	Private sector	Private sector
2	Does the company disclose employee benefits in Director's report or in the financial statements or in both?	Both in the Director's report as well as in financial statements	Both in the Director's report as well as in financial statements	Both in the Director's report as well as in financial statements	Both in the Director's report as well as in financial statements	Both in the Director's report as well as in financial statements
3	Is the directors also included employees in calculating employee benefits?	Yes	Yes	Yes	Yes	Yes
4	Does the company disclose employee benefits in financial statement as liability or as expenses or in both as per rules?	Both as per rules	Both as per rules	Both as per rules	Both as per rules	Both as per rules
5	Is the short term employee benefits presented as employee benefits expenses in profit and loss account?	Yes	Yes	Yes	Yes	Yes
6	Is the short term employee benefits presented as other expenses in profit and loss account?	No	No	No	No	No

7	If yes, what is the different policy for short term employee benefits?	NA	NA	NA	NA	NA
8	Does the company make provision for long term benefits like gratuity and other post retirement benefits?	Yes	Yes	Yes	Yes	Yes
9	Does the company show unpaid benefits as current liabilities or non-current liabilities in balance sheet?	Yes	Yes	Yes	Yes	Yes
10	Does the company disclose termination benefits in related years?	Yes	Yes	Yes	Yes	Yes

On the basis of study of annual reports of Chambal fertilizers and Chemicals Ltd. from 2014-15 to 2018-19, it is found that CFCL follows Indian Accounting Standard 19 and discloses employee benefits data in the books of accounts. However, the particular director and employee benefit not disclosed by the company in the annual reports anywhere. Therefore, it can be stated that CFCL follows Indian Accounting Standard 19 and discloses employee benefits data in the books of accounts. But the disclosure is partial. The company does not make full disclosure of employee benefit data in the financial statements. The values of the Gujarat State Fertilizers & Chemicals Limited during the study period under review have been depicted in the table 3. It is understood from the table that during the study period the company disclose all the components of Indian Accounting Standard which is related to employee benefits. The table 3 also revealed that during the year 2014-15 to 2018-19, the answers are positive for the Mangalore Chemicals and Fertilizers Ltd. indicating that the presentation policy of the company is very good about employee benefit expenses.

The analysis results of the other two companies are also very good. The analysis result shows that Nagarjuna Fertilizers & Chemicals Ltd. (NFCL) and Tata Chemicals Ltd. both companies are keeping fair policy to disclosure employee benefits expenses like; salary, wages and bonus, contribution to provident and other funds, gratuity expenses, post retirement medical benefits, workmen and staff welfare expenses and employee share based payment expenses in financial statements according to Ind. AS 19.

### Conclusion

On the basis of study of annual reports of selected fertilizers companies from 2014-15 to 2018-19, it is found that all the sampled firms follows Indian Accounting Standard 19 and discloses employee benefits data in the books of accounts. However, the particular director and employee benefit not disclosed by the some companies in the annual reports anywhere. Therefore, it can be stated that fertilizers companies in India follows Indian Accounting Standard 19 and discloses employee benefits data in the books of accounts. It is also concluded that all the sampled fertilizer companies adopt similar method for accounting and disclosure of employee benefits.

### Limitations of the Study

This study had the following limitations:

- The study was limited to five years only i.e. from the year 2014-15 to 2018-19.
- The study was limited to selected private companies of India.
- The study used the secondary data for analysis and interpretations collected from the published annual reports of the companies.
- The study has been carried out mainly by employing questioner parameter analysis.

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