



EMPLOYEE BENEFITS AND UNWINDING DISCOUNTS

THE CORRESPONDENCE

Let the correspondence speak for itself¹:

From: David Maxwell, Coalface Software Solutions
Sent: Tuesday, 8 February 2005 1:12 PM
To: Technical Secretary
Subject: AASB 119 - Employee benefits

“These questions are asked only in relation to other employee benefits liabilities (long service leave, annual leave and vested sick leave not expected to be paid within 12 months). Any superannuation fund influences can be ignored.

1. I seem to recall that when the Australian exposure draft for this Standard was released, it was proposed that the "unwinding of the discount" in the present value calculation would be permitted to be disclosed as part of the employee benefits cost, rather than as an interest cost. I am unable to identify anything in the Standard to this effect
What is the correct disclosure?

2. If interest cost is to be disclosed as such, is it fair to say the following:
"Provided there is no material variation between opening and closing liabilities, interest cost is calculated as the opening liability multiplied by the discount rate at the start of the year".

Date: Tue, 8 Feb 2005 14:58:32 +1100
Topic: AASB 119 - Employee benefits
From: "Technical Secretary" <Techsec@icaa.org.au>
Sender: "Claire Locke" <Claire@icaa.org.au>
To: "David Maxwell"

David

1. AASB 119 requires the unwinding of the discount to be treated as interest expense (para 61 and 82). The ED adopting IAS 19 commented that AASB 1028 currently includes it in employee expense.

My understanding is that the interest cost should be included as a borrowing cost in the P&L (as indicated in the ED), but like you, I cannot put my finger on a reference. The ED is still available on the AASB website (www.aasb.com.au) under 'old' EDs. I have contacted the AASB to ask them about the disclosure, and will let you know.

2. Following the guidance in AASB 119 para 82 your assumption seems reasonable.

Subject: FW: AASB 119 - Employee benefits
Date: Thu, 10 Feb 2005 11:11:23 +1100
Topic: AASB 119 - Employee benefits
From: "Claire Locke" <Claire@icaa.org.au>

1. ICAA and AASB email disclaimers have been omitted, and we have added emphasis.

© DG & AB Maxwell
Coalface Software Solutions
PO Box 5450
Wagga Wagga NSW 2650

Tel 02 6925 9988
Mob 0408 293 396
Fax 02 6925 9922
davemax@ozemail.com.au
www.coalface.com.au

ABN 34 065 129 377

The opinions expressed in this data sheet are the professional views of the authors and are intended to promote the development of improved accounting practices in Local Government.

They may not represent the best practice for your Council, which should be determined by consultation between the Council's officers and Auditor.

None of DG & AB Maxwell, Coalface Software Solutions or the presenters will accept any liability to any person arising from the views expressed in this document.

This document may be copied freely provided copyright is acknowledged and this



EMPLOYEE BENEFITS AND UNWINDING DISCOUNTS

EMPLOYEE BENEFITS
AND
UNWINDING DISCOUNTS

To: <davemax@ozemail.com.au>

The answer from the AASB staff - you were right, they did change the standard so the interest cost is a component of the employee benefit cost.

-----Original Message-----

From:

[Claire Locke] Sent: Wednesday, 9 February 2005 2:24 PM

To: Technical Secretary; Claire Locke

Subject: FW: AASB 119 - Employee benefits

The Pending AASB 119 released in May 2004 had identified that the unwinding of a discount should be included as an interest cost (in the differences section), however, this was changed in the final AASB 119 released July 2004 following the AASB discussion at the June 2004 meeting. A brief description of the issue raised was included in the AASB Action Alert (available on the AASB website) for the June 2004 meeting. The action alert stated in respect of Employee Benefits that the Board "noted the inconsistency between the requirement in AASB 119 to include interest cost (the unwinding of a discount) in the calculation of employee benefits, in contrast to the requirement in Pending Standard AASB 137 Provisions, Contingent Liabilities and Contingent Assets as a borrowing cost."

The requirement in AASB 119 to include the unwinding of a discount as part of the employee benefit is stemming from paragraph 129 which states:

"For other long-term employee benefits, an entity shall recognise the net total of the following amounts as expense...

(a) ...

(b) interest cost;

(c) ..."

Because a "net" total employee expense including the interest cost is required to be disclosed, then the amount is included as part of the employee benefits expense rather than as a borrowing (interest) cost. AASB 119 does not require specific disclosures about other long-term employee benefits (see paragraph 131), however **separate disclosure of the interest cost (unwinding of the discount) may be warranted when it is material.**

Any views or opinions are solely those of the author.

From: David Maxwell, Coalface Software Solutions

Sent: Thursday, 10 February 2005 3:08 PM

To: Technical Secretary

Subject: AASB 119 - Employee benefits

That is the answer that I wanted to hear, BUT ...

AASB 119.129 refers to recognising, NOT disclosure.

If it is actually meaning disclosure, then the reference to paragraph 82 that appears in (b) is superfluous.

I would expect, in the normal course of events, that there would be separate disclosure of actuarial gains and losses, and if not, why all the commentary etc. and the calculation in the Appendix of expected return on any plan assets?

Having heard the answer I wanted, I now have to believe the answer I heard.

To be continued ...

This document is issued subject to disclaimer.

© DG & AB Maxwell, Coalface Training, PO Box 5450, Wagga Wagga NSW 2650

AIFRS HOTSPOTS

EMPLOYEE BENEFITS AND UNWINDING DISCOUNTS



INTERPRETATION

If the amount of the unwinding of present value discounts is material *it must be separately disclosed.*

Based on our available statistics, we estimate that the total *provisions for employee benefits* across all NSW Councils at 30 June 2003 to have been approximately \$700 million, for which the unwinding of present value discount cost would approximate \$36 million. Even when spread between 150 Councils, this is probably a *material amount*.

Councils should therefore do the necessary calculation in order to determine its materiality.

The calculation is not difficult

In practical terms:

1. Calculate the present value of the estimated future cash outflow at the start of the period, using the *Coalface Software Solutions Employee Benefits* spreadsheet and the interest rates posted on the Coalface website www.coalface.com.au.
2. Calculate the present value of the estimated future cash outflow at the end of the period, using the *Coalface Software Solutions Employee Benefits* spreadsheet and the interest rates posted on the Coalface website www.coalface.com.au.
3. Calculate the average liability.
4. Apply the discount rate at the start of the period (appears in cell B3 of our Excel file) to the average liability. This is the interest cost.
5. Journal the interest cost to interest expense.