

PwC Reporting *InBrief*

Payment of Gratuity (Amendment) Act, 2018



In brief

On 29th March 2018, Central Government notified the Payment of Gratuity (Amendment) Act, 2018 (“the Act”). The Act increases the ceiling of the amount of gratuity payable to employees from Rs.10 lakhs to Rs.20 lakhs. Under the Act, gratuity is payable on termination of employment upon an employee completing at least five years of continuous service.

The amendment will impact the amount of gratuity provision to be recognised by entities in the financial statements for the quarter or year ended 31 March 2018 for those entities which estimated the liability using Rs. 10 lakhs as ceiling. Additionally, this may impact the amount of future contributions to fund any such increase in the gratuity obligation.

Let’s understand the impact of the amendment on the Ind AS financial statements as of and for the period ended 31 March 2018.

The notification in The Official Gazette of India can be accessed at the following link:

<http://egazette.nic.in/WriteReadData/2018/184299.pdf>

Let's talk

Many entities may have provided for gratuity benefit to its employees limited to the Rs. 10 lakhs ceiling specified under the Payment of Gratuity Act, 1972. Gratuity is classified and recognised as a post-employment defined benefit obligation. The amendment is a positive past service cost which results in increase in the gratuity obligation. Past service cost shall be recognised as an expense in the Statement of Profit or Loss in the quarter or year ended 31 March 2018.

In detail

Paragraph 8 to Ind AS 19 *Employee benefits* defines past service cost as the change in the present value of the defined benefit obligation for employee service in prior periods, resulting from a plan amendment or a curtailment.

An entity shall recognise past service cost as an expense when the plan amendment occurs.

The amendment has been notified by the Central Government before the period ended 31 March 2018. The amendment will increase the amount of gratuity benefit payable to employees, and accordingly meets the definition of a past service cost. Consequently, the entire amount relating to such past service cost shall be recognised immediately in the Statement of Profit or Loss in the quarter/ year ended 31 March 2018. Unlike Indian GAAP, unvested past service cost shall not be spread over a future service period under Ind AS.

Before determining the amount of past service cost, an entity shall re-measure the net defined benefit liability/ (asset) using the current fair value of plan assets and current actuarial assumptions (including current market interest rates and other current market prices) reflecting the benefits offered under the plan before the amendment.

Disclosure of the reconciliation of defined benefit obligation required in accordance with Paragraphs 140 and 141 of Ind AS 19 shall separately disclose the impact of the past service cost resulting from the increase in gratuity ceiling limit on the amount of defined benefit obligation.

The takeaway

Companies should carefully evaluate the impact of the amendment as they gear for the quarterly or year-end 31 March 2018 reporting. The impact of the amendment may vary depending on the existing terms of the gratuity benefit offered by entities to its employees. Early engagement with actuarial experts is encouraged.

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