

# **Exposure Draft**

Accounting Standard for Local Bodies (ASLB) 42

## **Social Benefits**

(Based on corresponding IPSAS 42)

*(Last date of comments: November 22, 2019)*



*Issued by*

The Committee on Public and Government Financial Management

The Institute of Chartered Accountants of India

**New Delhi**

**Exposure Draft**  
**Accounting Standard for Local Bodies (ASLB) 42, ‘Social Benefits’**

	<b>Contents</b>
	Paragraphs
Objective .....	1–2
Scope .....	3–4
Definitions.....	5
Recognition of a Liability for a Social Benefit Scheme .....	6–9
Recognition of an Expense for a Social Benefit Scheme .....	10–11
Measurement of a Liability for a Social Benefit Scheme .....	12–20
Measurement of an Expense for a Social Benefit Scheme .....	21
Disclosure .....	22–25
Application Guidance	
Implementation Guidance	
Illustrative Examples	
Appendix 1 Comparison with IPSAS 42, ‘Social Benefits’	

# **Exposure Draft**

## **Accounting Standard for Local Bodies (ASLB) 42**

### **Social Benefits**

#### **Invitation to Comment**

*The Committee on Public and Government Financial Management of the Institute of Chartered Accountants of India invites comments on any aspect of this Exposure Draft of Accounting Standard for Local Bodies (ASLB) 42, 'Social Benefits'. Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, contain a clear rationale and, where applicable, provide a suggestion for alternative wording.*

*Comments should be submitted in writing to the Secretary, Committee on Public and Government Financial Management, The Institute of Chartered Accountants of India, ICAI Bhawan, Post Box No. 7100, Indraprastha Marg, New Delhi – 110 002, so as to be received not later than November 22, 2019. Comments can also be sent by e-mail at [caslb@icai.in](mailto:caslb@icai.in) and [cpf.aslb@icai.in](mailto:cpf.aslb@icai.in)*

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### **Draft**

## **Accounting Standard for Local Bodies 42**

### **Social Benefits**

*(This Accounting Standard includes paragraphs set in **bold italic** type and plain type, which have equal authority. Paragraphs in bold italic type indicate the main principles. This Accounting Standard should be read in the context of its objective and the 'Preface to Accounting Standards for Local Bodies'<sup>1</sup>.)*

The Accounting Standards for Local Bodies (ASLB) 42, 'Social Benefits', issued by the Council of the Institute of the Chartered Accountants of India, will be recommendatory in nature in the initial years for use by the Local Bodies. This Standard will be mandatory for local bodies in a State from the date specified in this regard by the State Government concerned<sup>2</sup>.

The following is the text of the Accounting Standards for Local Bodies:

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<sup>1</sup> Attention is specifically drawn to paragraph 4.2 of the 'Preface to Accounting Standards for Local Bodies', according to which Accounting Standards are intended to apply only to items which are material.

<sup>2</sup> Reference may be made to the paragraph 7.1 of the 'Preface to Accounting Standards for Local Bodies' providing the discussion on the compliance with the Accounting Standards for Local Bodies.

## Objective

1. The objective of this Standard is to improve the relevance, faithful representativeness and comparability of the information that a reporting entity provides in its financial statements about social benefits as defined in this Standard. The information provided should help users of the financial statements and general purpose financial reports assess:
  - (a) The nature of such social benefits provided by the entity;
  - (b) The key features of the operation of those social benefit schemes; and
  - (c) The impact of such social benefits provided on the entity's financial performance, financial position and cash flows.
2. To accomplish that, this ASLB establishes principles and requirements for:
  - (a) Recognising expenses and liabilities for social benefits;
  - (b) Measuring expenses and liabilities for social benefits;
  - (c) Presenting information about social benefits in the financial statements; and
  - (d) Determining what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the social benefits provided by the reporting entity.

## Scope

3. *An entity that prepares and presents financial statements under the accrual basis of accounting should apply this Standard in accounting for social benefits.*
- 3A. *This Standard applies to all entities described as Local Bodies in the 'Preface to the Accounting Standards for Local Bodies'<sup>3</sup>.*
4. *This Standard applies to a transaction that meets the definition of a social benefit. This Standard does not apply to cash transfers that are accounted for in accordance with other Standards:*
  - (a) *Financial instruments;*
  - (b) *Employee benefits that are within the scope of ASLB 39,*

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<sup>3</sup> Refer paragraph 1.3 of the 'Preface to the Accounting Standards for Local Bodies'.

*'Employee Benefits'<sup>4</sup>; and*

*(c) Insurance contracts<sup>5</sup>.*

*Paragraphs AG1–AG3 provide additional guidance on the scope of this Standard.*

## **Definitions**

5. *The following terms are used in this Standard with the meanings specified:*

**Social benefits**<sup>6</sup> *are cash transfers provided to:*

- (a) Specific individuals and/or households who meet eligibility criteria;*
- (b) Mitigate the effect of social risks; and*
- (c) Address the needs of society as a whole.*

*Paragraphs AG4–AG8 provide additional guidance on this definition.*

**Social risks** *are events or circumstances that:*

- (a) Relate to the characteristics of individuals and/or households – for example, age, health, poverty and employment status; and*
- (b) May adversely affect the welfare of individuals and/or households, either by imposing additional demands on their resources or by reducing their income.*

*Paragraphs AG9–AG10 provide additional guidance on what is encompassed by social risks.*

## **Recognition of a Liability for a Social Benefit Scheme**

6. *An entity should recognise a liability for a social benefit scheme when:*

- (a) The entity has a present obligation for an outflow of resources that results from a past event; and*
- (b) The present obligation can be measured in a way that achieves the qualitative characteristics and takes account of constraints on*

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<sup>4</sup> ASLB 39 is under formulation.

<sup>5</sup> The guidance with regard to financial instruments and insurance contracts may be obtained from other corresponding pronouncements as per the hierarchy prescribed in paragraph 15 of the ASLB 3, 'Accounting Policies, Changes in Accounting Estimates, and Errors'.

<sup>6</sup> In India, social benefits may be provided by the Local Bodies through some of the schemes covered under direct benefit transfer scheme.

*information in general purpose financial reports as set out in the 'Conceptual Framework for General Purpose Financial Reporting by Local Bodies'<sup>7</sup>.*

*Outflow of Resources*

7. A liability must involve an outflow of resources from the entity for it to be settled. An obligation that can be settled without an outflow of resources from the entity is not a liability.
8. There may be uncertainty associated with the measurement of the liability. The use of estimates is an essential part of the accrual basis of accounting. Uncertainty regarding the outflow of resources does not prevent the recognition of a liability unless the level of uncertainty is so large that the qualitative characteristics of relevance and faithful representativeness cannot be met. Where the level of uncertainty does not prevent the recognition of a liability, it is taken into account when measuring the liability.

*Past Event*

9. The past event that gives rise to a liability for a social benefit scheme is the satisfaction by each beneficiary of all eligibility criteria to receive a social benefit payment. The satisfaction of eligibility criteria for each social benefit payment is a separate past event.

Paragraphs AG11–AG14 provide additional guidance on the recognition of a liability.

**Recognition of an Expense for a Social Benefit Scheme**

10. *An entity should recognise an expense for a social benefit scheme at the same point that it recognises a liability.*
11. An entity should not recognise an expense for a social benefit scheme where a social benefit payment is made prior to all eligibility criteria for the next payment being satisfied. Rather, an entity should recognise a payment in advance as an asset in the balance sheet, unless the amount becomes irrecoverable, in which case it should recognise an expense.

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<sup>7</sup> Conceptual Framework is at advanced stage of issuance.

## Measurement of a Liability for a Social Benefit Scheme

### *Initial Measurement of the Liability*

12. *An entity should measure the liability for a social benefit scheme at the best estimate of the costs (i.e., the social benefit payments) that the entity will incur in fulfilling the present obligations represented by the liability.*
13. An entity's best estimate of the costs (i.e., the social benefit payments) that the entity will make takes into account the possible effect of subsequent events on those social benefit payments.
14. [Refer to Appendix 1]
15. Paragraphs AG15–AG18 provide additional guidance on measuring the liability.

### *Subsequent Measurement*

16. *The liability for a social benefit scheme should be reduced as social benefit payments are made. Any difference between the cost of making the social benefit payments and the carrying amount of the liability in respect of the social benefit scheme is recognised in surplus or deficit in the period in which the liability is settled.*
17. [Refer to Appendix 1]
18. *Where a liability has yet to be settled, the liability should be reviewed at each reporting date, and adjusted to reflect the current best estimate of the costs (i.e., the social benefit payments) that the entity will incur in fulfilling the present obligations represented by the liability.*
- 19–20. [Refer to Appendix 1]

## Measurement of an Expense for a Social Benefit Scheme

21. *An entity should initially measure the expense for a social benefit scheme at an amount equivalent to the amount of the liability measured in accordance with paragraph 12. Where the entity makes a social benefit payment prior to all eligibility criteria for the next payment being satisfied, it should measure the payment in advance or expense recognised in accordance with paragraph 11 at the amount of the cash transferred.*

## Disclosure

22. *The objective of the disclosures as per this Standard, together with the*

*information provided in the balance sheet, income and expenditure statement, statement of changes in net assets/equity annexed to the balance sheet and statement of cash flows, is for entities to give users of the financial statements a basis to assess the effect that social benefits may have on the financial position, financial performance and cash flows of the entity. Paragraphs 23–25 specify requirements on how to meet this objective.*

23. *An entity should disclose information that:*

- (a) Explains the characteristics of its social benefit schemes; and*
- (b) Explains the demographic, economic and other external factors that may affect its social benefit schemes.*

24. To meet the requirements of paragraph 23, an entity should disclose:

- (a) Information about the characteristics of its social benefit schemes, including:
  - i. The nature of the social benefits provided by the schemes (for example, retirement benefits, unemployment benefits, child benefits).
  - ii. Key features of the social benefit schemes, such as a description of the legislative framework governing the schemes, a summary of the main eligibility criteria that must be satisfied to receive the social benefits, and a statement about how additional information about the scheme can be obtained.
  - iii. A description of how the schemes are funded, including whether the funding for the schemes is provided by means of a budget appropriation, a transfer from another entity, or by other means. If a scheme is funded (whether in full or in part) by social contributions, the entity should provide:
    - a. A cross reference to the location of information about those social contributions and any dedicated assets (where this information is included in the entity's financial statements); or
    - b. A statement regarding the availability of information on those social contributions and any dedicated assets in another entity's financial statements and how that information can be obtained.



- iv. A description of the key demographic, economic and other external factors that influence the level of expenditure under the social benefit schemes. This description may be presented in aggregate where the same demographic, economic and other external factors impact a number of social benefit schemes in a similar manner.
- (b) The total expenditure on social benefits recognised in the income and expenditure statement, analysed by social benefit scheme.
- (c) A description of any significant amendments to the social benefit schemes made during the reporting period, along with a description of the expected effect of the amendments. Amendments to a social benefit scheme include, but are not limited to:
  - i. Changes to the level of social benefits provided; and
  - ii. Changes to the eligibility criteria, including the individuals and/or households covered by the social benefit scheme.

In making the disclosures required by this paragraph, an entity should have regard to the requirements of paragraphs 45–47 of ASLB 1, *Presentation of Financial Statements*, which provide guidance on materiality and aggregation.

25-36. [Refer to Appendix 1]

### Application Guidance

*This Appendix is an integral part of ASLB 42*

#### Scope (see paragraphs 3–4)

- AG1. This Standard is applied in accounting for transactions and obligations that meet the definition of a social benefit in paragraph 5 of this Standard. This Standard does not address transactions that are addressed in other ASLB, such as employee pensions (which are accounted for in accordance with ASLB 39, ‘*Employee Benefits*’) and financial instruments.
- AG2. Similarly, this Standard does not apply to insurance contracts even if the risk covered by the insurance contract is a social risk as defined in paragraph 5 of this Standard.
- AG3. This Standard does not apply to collective and individual services. The definition of social benefits only includes cash transfers, not the provision of services. This Standard does not apply to cash transfers to individuals and households that do not address social risks, for example emergency relief.

#### Definitions (see paragraph 5)

*Guidance on the Definition of Social Benefits*

- AG4. Social benefits are cash transfers (including transfers in the form of cash equivalents, for example pre-paid debit cards) provided to individuals and/or households. Services provided by an entity are not social benefits. In some cases, an entity may provide vouchers that allow individuals and/or households to access services, or may reimburse individuals and/or households for costs incurred in accessing services. The economic substance of these transactions is that an entity is paying for the provision of the services; such transactions do not, therefore, meet the definition of a social benefit. Where an entity provides vouchers or reimbursements, the individual and/or household has no discretion over the use of the benefit. By contrast, social benefits provide cash transfers that may be used indistinguishably from income coming from other sources.
- AG5. Some entities may provide cash transfers in the form of cash equivalents that have limited restrictions on the use of the cash transfer. For example, a local body may provide a pre-paid debit card that can be used to purchase any item except alcohol and tobacco products. Such limited restrictions do not contravene the principle that social benefits provide cash transfers that may be used indistinguishably from income coming from other sources. Pre-paid debit cards with limited restrictions are cash transfers, not the provision of

services by a local body.

AG5A. The Social Benefit Scheme may also be managed by an entity in the same way as an Insurance contract is managed. In some circumstances, an entity may be required to make contributions to a social benefit scheme on behalf of those individuals and/or households who could not afford to do so. Such contributions may be made by the entity administering the scheme or some other entity. For example, an entity may be required to make contributions to a retirement pension scheme for those individuals who are unemployed. Where the contributions relate to specified individuals and/or households (which in some cases will require the contributions to be credited against the individuals' contribution accounts), the contributions made by an entity are to be considered as social benefit payment.

AG6. Social benefits are only provided when eligibility criteria to receive a social benefit payment when it is next paid are met. For example, a local body may provide unemployment benefits to ensure that the needs of those whose income during periods of unemployment would otherwise be insufficient are met. Although the unemployment benefit scheme potentially covers the population as a whole, unemployment benefits are only paid to those who are unemployed, i.e., those who meet the eligibility criteria. In some cases, eligibility criteria may relate to citizenship or residence, for example where an entity pays a universal basic income to all adult residents.

AG7. The assessment of whether a benefit is provided to mitigate the effect of social risks is made by reference to society as a whole; the benefit does not need to mitigate the effect of social risks for each recipient. An example is where a local body pays a retirement pension to all those over a certain age, regardless of income or wealth, to ensure that the needs of those whose income after retirement would otherwise be insufficient are met. Such benefits satisfy the definition criteria that they are provided to mitigate the effect of social risks.

AG8. Social benefits are organised to ensure that the needs of society as a whole are addressed. This distinguishes them from benefits provided through insurance contracts, which are organised for the benefit of individuals, or groups of individuals. Addressing the needs of society as a whole does not require that each social benefit covers all members of society; in some cases, social benefits are provided through a range of similar benefits that cover different segments of society. A social benefit that covers a segment of society as part of a wider system of social benefits meets the requirement that it addresses the needs of society as a whole.

#### *Guidance on the Definition of Social Risks*

AG9. Social risks relate to the characteristics of individuals and/or households—for example, age, health, poverty and employment status. The nature of a social risk is that it relates

directly to the characteristics of an individual and/or household. The condition, event, or circumstance that leads to or contributes to an unplanned or undesired event arises from the characteristics of the individuals and/or households. This distinguishes social risks from other risks, where the condition, event, or circumstance that leads to or contributes to an unplanned or undesired event arises from something other than the characteristics of an individual or household.

AG10. For example, unemployment benefits are social benefits because the condition, event, or circumstance covered by the unemployment benefit arises from characteristics of the individuals and/or households – in this case a change in an individual’s employment status. By contrast, aid provided immediately following an earthquake is not a social benefit. The condition, event, or circumstance that leads to or contributes to an unplanned or undesired event is an active fault line, and the risk is that a possible earthquake causes damage. Because the risk relates to geography rather than individuals and/or households, this risk is not a social risk.

#### *Recognition of a Liability for a Social Benefit Scheme*

AG11. In accordance with paragraph 9 of this Standard, the past event that gives rise to a liability for a social benefit scheme is the satisfaction by each beneficiary of all eligibility criteria to receive a social benefit payment. Being alive at the point at which the eligibility criteria are required to be satisfied may be an eligibility criterion, whether explicitly stated or implicit. Other ongoing eligibility criteria may be relevant for some social benefit schemes. For example, many unemployment benefits are only payable while the individual remains resident in the jurisdiction; residence is an ongoing eligibility criterion. For a liability to be recognised, a beneficiary must satisfy the eligibility criteria (to receive a social benefit payment) at, or prior to, the reporting date, even if formal validation of the eligibility criteria occurs less frequently.

AG12. Where a beneficiary has not previously satisfied the eligibility criteria for the next payment, or there has been a break in satisfying the eligibility criteria, a liability is recognised at the point that the eligibility criteria for the next payment are first satisfied or when all the eligibility criteria are satisfied again. Examples may include:

- (a) Reaching retirement age (in the case of a retirement pension);
- (b) The death of a partner (in the case of a survivor benefit);
- (c) Becoming unemployed (in the case of an unemployment benefit without a waiting period); and
- (d) Being unemployed for a specified period (in the case of an unemployment benefit with a waiting period).

An entity will recognise a liability where beneficiaries satisfy the eligibility criteria (to receive a social benefit payment) at, or prior to, the reporting date. Where a beneficiary satisfies the eligibility criteria for a social benefit payment prior to the point at which the next social benefit payment will be made, but after the reporting date, no liability is recognised, as there is no present obligation as at the reporting date.

AG13. Where a beneficiary has previously satisfied the eligibility criteria, and there has been no break in satisfying those criteria, a liability for social benefits is recognised each time the criteria are satisfied.

AG14. Whether being alive is a separate eligibility criterion will depend on the characteristics of each individual social benefit scheme. For some schemes, separate consideration of being alive is not required as it is indirectly addressed by another eligibility criterion. For example:

- (a) An unemployment benefit may only be payable to those who have become unemployed and are available for work (which implicitly includes being alive).
- (b) Being alive may not be an eligibility criterion for the recipient of the social benefit. A child benefit may be paid to the parents or guardian of the child; the payment of the benefit may be dependent on the child being alive, and not on the status of the parent or guardian.
- (c) Benefits may be transferred to a survivor following the death of the beneficiary.

An entity needs to consider how being alive affects the recognition of each particular social benefit scheme, taking all relevant factors into consideration.

#### *Measurement of a Liability for a Social Benefit Scheme*

AG15. In accordance with paragraph 12 of this Standard, an entity should measure the liability for a social benefit scheme at the best estimate of the costs (i.e., the social benefit payments) that the entity expects to make in fulfilling the present obligation represented by the liability. Satisfaction of the eligibility criteria for each social benefit payment is a separate past event, and the liability for each payment is measured separately. The maximum amount to be recognised as a liability is the costs the entity expects to incur in making the next social benefit payment. This is because social benefit payments beyond this point are future events for which there is no present obligation.

AG16. In measuring the liability, an entity takes into account the possibility that beneficiaries may cease to be eligible for the social benefit prior to the next point at which eligibility criteria for the next payment are required (implicitly or explicitly) to be satisfied. Examples include:

- (a) The death of the beneficiary (where no survivor benefits are payable);

- (b) Commencing employment (in the case of an unemployment benefit); and
- (c) Exceeding the maximum period for which a social benefit is provided (where an unemployment benefit is provided for a limited period).

The extent to which such events affect the measurement of the liability will depend on the terms of the scheme. For example, an unemployment benefit is payable on the 15<sup>th</sup> of each month, and the reporting date is December 31. If the payment to be made on January 15 relates to unemployment up to December 15, then at the time the eligibility criteria for the next social benefit payment are met, the amount due will be known and is recognised at the reporting date. No adjustment for beneficiaries subsequently ceasing to be eligible is required.

However, if the payment on January 15 relates to unemployment between December 16 and January 15, measurement of the liability to be recognised at the reporting date is based on an estimate of the extent to which eligibility criteria for a payment have been satisfied.

AG17. Because a liability cannot extend beyond the point at which eligibility criteria for the next payment will be next satisfied, liabilities in respect of social benefits will usually be short-term liabilities. Consequently, prior to the financial statements being authorised for issue, an entity may receive information regarding the eligibility of beneficiaries to receive the social benefit. *ASLB 14, 'Events After the Reporting Date'*, provides guidance on using this information.

AG18-25. [Refer to Appendix 1]

## **Appendix B**

[Refer to Appendix 1]

## Implementation Guidance

*This guidance accompanies, but is not part of, ASLB 42*

IG1. The purpose of this Implementation Guidance is to illustrate certain aspects of the requirements of ASLB 42.

### Recognition and Measurement of Liabilities and Expenses in ASLB 42

IG2. **Where a retirement pension is paid monthly in arrears, will the liability at the reporting date be the same as the amount paid in the following month?**

IG3. The liability at the reporting date is unlikely to be exactly the same as the amount paid the following month. The extent of the difference will depend on the circumstances of the retirement benefit. Factors that will affect the extent of the difference include the following:

- (a) Timing differences. The payment in the month following the reporting date may include payments that do not form part of the liability at that reporting date. For example, an entity prepares its financial statements as at December 31. If retirement benefits are paid on the 15<sup>th</sup> of each month, the payment made on January 15 may include payments made to individuals who reached retirement age between January 1 and January 15. The payments to these individuals will not form part of the liability as at December 31, because, at that date, those individuals had not met the eligibility criteria for the retirement pension.
- (b) Incomplete information. The information which is used to calculate payments may be incomplete, and consequently the payment in the following month may not exactly match the liability at the reporting date. For example, payments are usually calculated a number of days prior to the payment being made. Changes in circumstances notified after that date are not reflected in the payment, but are adjusted in subsequent periods.

IG4. In considering the liability to be recognised as at the reporting date, entities may find it helpful to refer to the discussion of materiality in ASLB 3, '*Accounting Policies, Changes in Accounting Estimates and Errors*'.

IG5. **How do breaks in meeting the eligibility criteria for a social benefit scheme affect the recognition and measurement of the liability?**

IG6. For a social benefit scheme that has ongoing eligibility criteria (other than being alive, where this is an eligibility criterion) an individual may alternate between periods when they meet the eligibility criteria for the next social benefit payment, and periods when they do not meet those eligibility criteria. In these circumstances, each instance of an individual satisfying the eligibility criteria is recognised and measured separately.



IG7. For example, an entity prepares its financial statements as at December 31. As at that date, an individual was unemployed, and eligible to receive unemployment benefits. Consequently, the entity has a present obligation to the individual at the reporting date. The individual finds temporary employment on January 10 and ceases to be eligible for the unemployment benefits. This employment ends on January 24, when the individual once more becomes eligible for unemployment benefits. Only the first period of unemployment might be included in the liability at the reporting date, as the eligibility criteria for the subsequent period were not satisfied until after that reporting date.

## **Illustrative Examples**

*These examples accompany, but are not part of, ASLB 42*

### **Scope and Definitions**

*Illustrating the Consequences of Applying Paragraphs 3–5 and AG1–AG10 of ASLB 42*

IE1. The following scenarios illustrate the process for determining whether a transaction is within the scope of ASLB 42, ‘*Social Benefits*’. These scenarios portray hypothetical situations. Although some aspects of the scenarios may be present in actual fact patterns, all facts and circumstances of a particular fact pattern would need to be evaluated when applying ASLB 42.

*Example 1–Provision of Retirement Benefits to Employees of Local Bodies*

IE2. Employees of Local Body A are entitled, under the terms of their employment contracts, to retirement benefits once they reach the age of 65. The employees are required to contribute a percentage of their salary while they are employed. The retirement benefits provided are based on the final salary of the employees, and their length of service.

IE3. The retirement benefits are cash transfers provided to specific individuals who meet eligibility criteria. The retirement benefits are intended to mitigate social risks, in that they are intended to ensure that the employees have sufficient income once they reach retirement age.

IE4. However, the retirement benefits do not address the needs of society as a whole, as they are only available to former employees of Province A. The retirement benefits are paid as compensation for employment services rendered. It follows that the retirement benefits do not meet all the elements of the definition of a social benefit. Consequently, the retirement benefits are outside the scope of ASLB 42. The retirement benefits are employee benefits, and are accounted for in accordance with ASLB 39, ‘*Employee Benefits*’.

*Example 2–Provision of Retirement Pension*

IE5. Local Body B pays a minimum state retirement pension to all citizens and residents who have reached the retirement age of 65. The said retirement pension is governed by legislation. Individuals are required to make contributions during their working life, based on their salary. However, the retirement pension pays the same amount to each retiree regardless of the contributions made.

IE6. The retirement benefits are provided as cash transfers to specific individuals who meet eligibility criteria. The retirement benefits are intended to mitigate social risks, in that they are intended to ensure that individuals and households have sufficient income once they reach retirement age.

IE7. The retirement benefits address the needs of society as a whole. Paragraph AG7 of ASLB 42 notes that the “assessment of whether a benefit is provided to mitigate the effect of social risks is made by reference to society as a whole; the benefit does not need to mitigate the effect of social risks for each recipient. An example is where a local body pays a retirement pension to all those over a certain age, regardless of income or wealth, to ensure that the needs of those whose income after retirement would otherwise be insufficient are met.”

IE8. Consequently, the retirement pension is within the scope of ASLB 42.

*Example 3–Provision of Universal Healthcare Services*

IE9. Local Body C provides basic healthcare services to all its citizens, and to other individuals who meet residency requirements. The healthcare services are provided free at the point of delivery.

IE10. The healthcare services are provided to specific individuals who meet eligibility criteria. The healthcare services are intended to mitigate social risks, in that they are intended to ensure that the welfare of individuals and households is not adversely affected by ill health. In doing so, they address the needs of society as a whole.

IE11. However, Local Body C is providing services rather than cash transfers. Consequently, the healthcare services are outside the scope of ASLB 42.

*Example 4–Provision of Disability Pensions*

IE12. Local Body D pays disability pensions to individuals who have a permanent disability that prevents them from working, regardless of their age. A disability pension is only payable after a medical examiner certifies that the disability is permanent, and that the disability will prevent the individual affected from undertaking paid employment. The level of disability pension is dependent on the individual, and is intended to cover basic needs and to allow the individual to pay for an appropriate level of care.

IE13. The disability pensions are provided as cash transfers to specific individuals who meet eligibility criteria. The disability pensions are intended to mitigate the social risk of ill health, in that they are intended to ensure that the welfare of individuals and households is not adversely affected by disability. In doing so, they address the needs of society as a whole.

IE14. Consequently, the disability pensions are within the scope of ASLB 42.

*Example 5–Provision of Unemployment Benefits*

IE15. Province E pays unemployment benefits to individuals who are resident in the province and who become unemployed. The unemployment benefits are payable for a maximum of

one year, and there is a two week 'waiting period' before the unemployment benefits are payable.

IE16. The unemployment benefits are provided as cash transfers to specific individuals who meet eligibility criteria. The unemployment benefits are intended to mitigate social risks, in that they are intended to ensure that individuals and households have sufficient income during periods of unemployment. In doing so, they address the needs of society as a whole.

IE17. Consequently, the unemployment benefits are within the scope of ASLB 42.

#### *Example 6–Provision of Emergency Relief*

IE18. Following an earthquake that has caused significant damage in a region, Local Body F provides emergency relief to assist with reconstruction and with providing services such as temporary housing to those affected by the earthquake.

IE19. Some costs will relate to providing benefits as cash transfers to specific individuals who meet eligibility criteria. Other costs will relate to the provision of assets and services, for example the reconstruction of roads damaged by the earthquake.

IE20. The provision of assets, such as the reconstruction of roads, or services to specific individuals is not a cash transfer and consequently is outside the scope of ASLB 42.

IE21. The emergency relief provided as cash transfers does not mitigate the effects of social risks, but instead mitigates the effects of a geographical risk – the risk of earthquake. Paragraph AG10 of ASLB 42 explains that risks that do not relate to the characteristics of individuals and/or households – for example, risks related to the characteristics of geography or climate, such as the risk of an earthquake or flooding occurring – are not social risks. Consequently, the emergency relief is outside the scope of ASLB 42.

IE22. Following a natural disaster, individuals and/or households may subsequently become eligible for other benefits, for example unemployment benefits. These benefits may be social benefits if they satisfy the definition of a social benefit (including the requirements that they are cash transfers and they mitigate social risks).

#### *Illustrating the Consequences of Applying Paragraphs 6–21 and AG11–AG18 of ASLB 42*

##### *Example 7*

IE23. The following example illustrates the process for recognising and measuring the liability and expense for a retirement pension. This example is not based on actual transactions.

IE24. Local Body H provides a retirement pension to its citizens and permanent residents. The pension scheme pays a fixed amount of Rs. 250 per month to each individual who has reached the retirement age of 65. Amounts are paid in full to those individuals who

satisfied the eligibility criteria in full at the end of the previous month.

IE25. Local Body H prepares its financial statements as at December 31. Retirement pensions are paid at the end of each month.

IE26. As at December 31, 20X1, Local Body H recognised a liability for retirement pensions of Rs. 1,950,500. During 20X2, Local Body H paid retirement pensions as follows:

<b>Month(s)</b>	<b>Pensions Paid Rs.)</b>
January 20X2	1,950,500
February–December 20X2	<u>22,258,000</u>
Total	24,208,500

IE27. During January 20X3, Local Body H pays retirement pensions totaling Rs. 2,095,750.

IE28. As at December 31, 20X2, Local Body H recognises a liability for retirement pensions payable to those who satisfied the eligibility criteria at that date. Consequently, Local Body H recognises a liability of Rs. 2,095,750, the full amount of the retirement pensions paid in January.

IE29. During 20X2, the total amount recognised as an expense is Rs.24,353,750. The breakdown of this amount is as follows:

	<b>Rs.</b>
Pensions paid in February 20X2 (recognised in January 20X2) to December 20X2 (recognised in November 20X2)	22,258,000
Pensions paid in January 20X3 (recognised in December 20X2)	<u>2,095,750</u>
Total	24,353,750

*Example 8*

IE30. The following example illustrates the process for recognising and measuring the liability and expense for a retirement pension. This example is not based on actual transactions.

IE31. Local Body I provides a retirement pension to its citizens and permanent residents. The pension scheme pays a fixed amount of Rs. 100 per month (in arrears) to each individual who has reached the retirement age of 70. Amounts are pro-rated in the months in which an individual reaches the retirement age, and in the months in which an individual dies.

IE32. Local Body I prepares its financial statements as at December 31. Retirement pensions are paid at the end of each month.

IE33. As at December 31, 20X7, Local Body I recognised a liability for retirement pensions of Rs.2,990,656. During 20X8, Local Body I paid retirement pensions as follows:

Month(s)	Pensions Paid (Rs.)
January 20X8	3,024,997
February–December 20X8	33,435,183
Total	<u>36,460,180</u>

IE34. In this example, it is assumed that Local Body I has complete information at the date it pays retirement pensions. Consequently, the difference between the amount paid in January 20X8 (Rs.3,024,997) and the liability recognised as at December 31, 20X7 (Rs. 2,990,656) represents the pro-rated retirement pensions paid to those who reached retirement age during January 20X8 (Rs. 34,341).

IE35. On January 31, 20X9, Local Body I pays retirement pensions totaling Rs. 3,053,576. There are three elements to this payment:

	Rs.
Full pensions paid to those pensioners eligible at December 31, 20X8 and remaining eligible at January 31, 20X9	2,979,600
Pro-rated pensions paid to those pensioners eligible at December 31, 20X8 who died during January 20X9	36,420
Pro-rated pensions paid to those who reached retirement age during January 20X9	37,556
Total	<u>3,053,576</u>

IE36. As at December 31, 20X8, Local Body I recognises a liability for retirement pensions payable to those who satisfied the eligibility criteria at that date. Because its 20X8 financial statements are issued after the January 20X9 retirement pensions have been paid, Local Body I uses the information available at that time to prepare its financial statements.

IE37. Consequently, Local Body I recognises a liability of Rs. 3,016,020. This includes the full pensions paid to those pensioners eligible at December 31, 20X8 and remaining eligible at January 31, 20X9 (Rs. 2,979,600) and the pro-rated pensions paid to those pensioners eligible at December 31 who died during January 20X9 (Rs. 36,420). The liability does not include the pro-rated pensions paid to those who reached retirement age during January 20X9 because they had not satisfied the eligibility criteria as at December 31, 20X8.

IE38. During 20X8, the total amount recognised as an expense is Rs. 36,485,544. The breakdown of this amount is as follows:

	<b>Rs.</b>
Pro-rated pensions paid to those who reached retirement age during January 20X8 (recognised in January 20X8)	34,341
Pensions paid between February 20X8 and December 20X8 and recognised in the financial year January 1, 20X8 to December 31, 20X8	33,435,183
Full pensions paid to those pensioners eligible at December 31, 20X8 and remaining eligible at January 31, 20X9 (recognised in December 20X8)	2,979,600
Pro-rated pensions paid to those pensioners eligible at December 31, 20X8 who died during January 20X9 (recognised in December 20X8)	36,420
Total	36,485,544

### *Example 9*

IE39. The following example illustrates the process for recognising and measuring the liability and expense for an unemployment pension. This example is not based on actual transactions.

IE40. Local Body J provides unemployment benefits to its citizens and permanent residents. The unemployment benefit scheme pays monthly amounts of 50% of an individual's previous salary, to a maximum of Rs. 500 per month (in arrears). Unemployment benefits are payable for a maximum of eighteen months. To be eligible to receive benefits, an individual must have been in paid employment in the Local Body's jurisdiction for at least 100 days in the past twelve months. Eligibility commences fourteen days after the individual last worked. Amounts are pro-rated in the months in which an individual first meets the eligibility criteria, and in the months in which an individual's eligibility comes to an end (finding paid employment, becoming self-employed, expiry of the eighteen month maximum period, moving out of the Local Body's jurisdiction or dying).

IE41. Local Body J prepares its financial statements as at June 30. Unemployment benefits are paid on the 15<sup>th</sup> day of each month.

IE42. As at June 30, 20X1, Local Body J recognised a liability for unemployment benefits of Rs.125,067. During the financial year July 1, 20X1–June 30, 20X2, Local Body J paid unemployment benefits as follows:

<b>Month</b>	<b>Unemployment Benefits Paid (Rs.)</b>
July 20X1	129,745
August 20X1–June 20X2	1,582,131
Total	1,711,876

IE43. In this example, it is assumed that Local Body J has complete information at the date it pays unemployment benefits. Consequently, the difference between the amount paid on July 15, 20X1 (Rs. 129,745) and the liability recognised as at June 30 20X1 (Rs.125,067) represents the pro-rated unemployment benefit paid to those who became eligible for unemployment benefits between July 1, 20X1 and July 15, 20X1 (Rs. 4,678).

IE44. On July 15, 20X2, Local Body J pays unemployment benefits totaling Rs. 132,952. There are four elements to this payment:

	<b>Rs.</b>
Unemployment benefits paid to unemployed persons eligible at June 15, 20X2 and remaining eligible at July 15, 20X2	113,120
Pro-rated unemployment benefits paid to those unemployed persons eligible at June 15, 20X2 whose eligibility had come to an end by July 15, 20X2	9,975
Pro-rated unemployment benefits paid to those unemployed persons who became eligible between June 15, 20X2 and June 30, 20X2	5,045
Pro-rated unemployment benefits paid to those unemployed persons who became eligible between July 1, 20X2 and July 15, 20X2	4,812
Total	<u>132,952</u>

IE45. As at June 30, 20X2, Local Body J recognises a liability for unemployment benefits payable to those who satisfied the eligibility criteria at that date. Because its July 20X1–June 20X2 financial statements are issued after the July 20X2 unemployment benefits have been paid, Local Body J uses the information available at that time to prepare its financial statements.

IE46. Consequently, Local Body J recognises a liability of Rs. 128,140. This includes:

- (a) The unemployment benefits paid to those unemployed persons eligible at June 15, 20X2 and remaining eligible at July 15, 20X2 (Rs. 113,120);
- (b) The pro-rated unemployment benefits paid to those unemployed persons eligible at June 15, 20X2 whose eligibility had come to an end by July 15, 20X2 (Rs. 9,975); and
- (c) The pro-rated unemployment benefits paid to those unemployed persons who became eligible between June 15, 20X2 and June 30, 20X2 (Rs. 5,045).

IE47. The liability does not include the pro-rated unemployment benefits paid to those who became eligible between July 1, 20X2 and July 15, 20X2 because they had not satisfied the eligibility criteria as at June 30, 20X2.

IE48. During the financial year July 1, 20X1–June 30, 20X2, the total amount recognised as an expense is Rs. 1,714,949. The breakdown of this amount is as follows:



	<b>Rs.</b>
Pro-rated unemployment benefits paid in July 20X1 to those who became eligible between July 1, 20X1 and July 15, 20X1 (recognised in July 20X1)	4,678
Unemployment benefits paid in between August 20X1 and June 20X2 and recognised in the financial year July 1, 20X1–June 30, 20X2	1,582,131
Unemployment benefits paid in July 20X2 to unemployed persons eligible at June 15, 20X2, both those remaining eligible and those whose eligibility had come to an end by July 15, 20X2; and those unemployed persons who became eligible between June 15, 20X2 and June 30, 20X2 (recognised in June 20X2)	128,140
	<hr/> 1,714,949

## Appendix 1

*Note: This Appendix is not a part of the Accounting Standard for Local Bodies. The purpose of this Appendix is only to bring out the major differences, if any, between Accounting Standard for Local Bodies (ASLB) 42 and the corresponding International Public Sector Accounting Standard (IPSAS) 42, ‘Social Benefits’.*

### **Comparison with IPSAS 42, ‘Social Benefits’**

1. Different terminologies have been used in the draft ASLB 42 as compared to corresponding IPSAS 42, e.g., the terms ‘statement of income and expenditure’, ‘balance sheet’ and ‘entities’ have been used in place of ‘statement of financial performance’, ‘statement of financial position’ and ‘public sector entities’.
2. The following paragraphs of IPSAS 42 have been deleted. In order to maintain consistency with the corresponding IPSAS 42, the paragraph numbers have been retained:
  - I. Paragraphs 14, 17, 19, 20 and AG 18 pertaining to discounting of liabilities and discount rate have been deleted in line with ASLB 19, ‘Provisions, Contingent Liabilities and Contingent Assets’/other earlier issued ASLBs and keeping in view that the Local Bodies in India are at very initial stages of implementation of accrual basis of accounting.
  - II. Paragraph 32 pertaining to reporting on long term sustainability of an entity’s finances has been deleted as it is not relevant in the context of Local Bodies in India.
  - III. Paragraphs 33-34 pertaining to transitional provisions have been deleted as a separate ASLB corresponding to IPSAS 33, ‘First-time Adoption of IPSASs’ is being formulated which would contain all transitional provisions at one place.
  - IV. Paragraphs 35-36 pertaining to effective date have been deleted as ASLB 42 would become mandatory for Local Bodies in a State from the date specified by the State Government concerned.
  - V. Paragraphs 25-31, AG 19-25 pertaining to insurance approach have been deleted as only one approach of recognition and measurement of social Benefits have been retained instead of two approaches (general approach, insurance approach) as in IPSAS 42 in order to have a simplified approach for local bodies in India. Since only one approach has been retained the term “general approach” is also not being used.

3. With regard to financial instruments and insurance contracts, the reference of paragraph 15 of ASLB 3, '*Accounting Policies, Changes in Accounting Estimates and Errors*' has been provided in the ASLB 42 in the footnote for guidance. (paragraph 4)
4. Paragraph 3A pertaining to applicability of ASLBs has been inserted in ASLB 42 in line with other issued ASLBs.
5. Appendix B of IPSAS 42 has been deleted as revision of already issued ASLBs will be taken up at later stage.
6. Consequential changes resulting from the above departures have been made in the draft ASLB 42.