



*Accounting for long service  
awards under IAS 19, Employee  
Benefits.*

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## ***Current accounting practice for long service awards in Zimbabwe***

Do we have long service awards?

Answer is YES

Some companies have these in their employment contracts, and the quantum is usually linked to the salary of individual ( contractual)

Other companies' employment contract do not include long service awards but annually deserving employees are given long service awards, either in kind or in cash (constructive obligation)

Annual charge to income statement based on what I have seen ranges from US\$10k to US\$500k

Current accounting is to recognize expense when paid (cash basis);

Dr Long service awards,

Cr Bank

Recognition of long service awards

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# *Current accounting practice for long service awards in Zimbabwe*

Point in time or an over time expense?

Is there a present obligation to recognize provision for long service awards?

Overtime as the employee provides the service

How should the long service awards obligation be measured?

Using an actuarial technique, the unit credit method, which allows the entity to estimate the benefit that is attributable to current and prior periods

How should the movement in the obligation be accounted?

Recognized in the income statement

Correct journal

Dr long service awards (staff cost p & l account)

Cr long service awards provision (balance sheet account)

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## ***Scope and key definitions and concepts.***

IAS 19, Employee Benefits identifies four categories of employee benefits:

short-term employee benefits, such as; wages, salaries and social security contributions, paid annual leave and paid sick leave, profit-sharing and bonuses and non-monetary benefits (such as medical care, housing, cars and free or subsidised goods or services) for current employees;

post-employment benefits such as retirement benefits (e.g. pensions and lump sum payments on retirement), post-employment life insurance and post-employment medical care;

**other long-term employee benefits**, such as long-service leave or sabbatical leave, jubilee or **other long-service benefits**, long-term disability benefits; and

termination benefits.

The Standard requires an entity:

to account not only for its legal obligation, **but also for any constructive obligation that arises from the entity's practices.**

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## ***Specific reference to long service awards in IAS, 19 Employee Benefits***

Employee benefits include (paragraph 5) :

short-term employee benefits,

post-employment benefits,

other long-term employee benefits, such as the following:

- long-term paid absences such as long-service leave or sabbatical leave;
- **jubilee or other long-service benefits;** and
- long-term disability benefits; and

termination benefits.

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## ***Recognition and measurement***

Actuarial assumptions are required to measure the obligation recognized on the statement of financial position and the expense recognized in the income statement;

**Actuarial assumptions shall be unbiased and mutually compatible and comprise:**

demographic assumptions about the future characteristics of current employees are eligible for benefit and deal with matters such as:

mortality;

rates of employee turnover; and

the proportion of plan members who will be eligible for benefits;

Financial assumptions, dealing with items such as:

- the discount rate;
- benefit levels,.

Actuarial assumptions are unbiased if they are neither imprudent nor excessively conservative.

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## ***Recognition and measurement***

Actuarial assumptions are mutually compatible if they reflect the economic relationships between factors such as inflation, rates of salary increase and discount rates;

Net total of the following are recognized in the income statement:

Service cost;

Net interest on the defined benefit liability (asset); and

Re-measurements of the net defined benefit liability (asset)

Frequency of re-measurement

Sufficient regularity to ensure amounts recognized in the financial statements is not very different from amounts that would be determined at the end of the reporting period.

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## ***Disclosure***

No specific IAS19, disclosure requirements for other long term benefits however IAS 19, recognizes that other standards may require disclosures;

IAS 1; and

IAS 24