



Solution 75.36

| | |
|--------------------|---|
| Component | Pensions and other post-employment benefits |
| Index | Classification of benefit plans |
| Short title | Voluntary termination benefits |

Attention: This guidance is based on the revised standards and interpretations that are mandatory for accounting periods commencing 1 January 2005. A company may early adopt an individual revised standard, but only in its entirety. Guidance based on the previous version of the standards is included in the "Applying IFRS 2004" guidance.

Issue

Termination benefits are employee benefits payable as a result of either [IAS19R.7]:

- an entity's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits

Should a liability be recognised for voluntary termination benefits?

Background

An entity restructures its operations in a particular location. It agrees with trade unions during December 20X3 a plan to reduce staff numbers in that location by 100 by February 20X4. Management communicated an offer of 5,000 for voluntary redundancy by the end of January 20X4. If sufficient staff do not accept the offer, management will terminate the employment of additional staff to reach the target of 100. Employees terminated involuntarily are entitled to a termination payment of 4,000 each.

Management estimate at 31 December 20X3 that 60 employees will accept the voluntary termination within the stated time.

Solution

Yes, a liability should be recognised at 31 December 20X3. Management should recognise a provision for termination benefits of 460,000 (40 employees x 4,000 plus 60 employees x 5,000). The contingent liability of 40,000 for the additional amount that would be payable if the maximum number of employees accepted the termination voluntarily should also be disclosed.

The measurement of voluntary termination benefits should be based on the number of employees expected to accept the offer.