Accounting Standard, Statutory and Tax Audit aspects relating to social security payments

April 2019

Accounting Standard aspects

Impact of Supreme Court Ruling on PF wages

Following are key points to consider for accounting impact of Supreme Court ruling:

Whether the entity should make

- Provision for contributions for earlier years (retrospective effect)?

- Disclosure for Contingent liability?

- Disclose as exceptional item or include in Contribution to Provident and other funds?

Payment of Provident Fund contributions to Exempt PF trust

EPF Private Trust is a trust authorised by the EPFO to maintain provident fund accounts of employees of a firm or company subject to certain conditions. One of the condition is Exempt Provident Fund is liable to pay the minimum rate of interest declared by the government irrespective of the interest earned by the fund.

Payments to such trust should be treated as defined benefit plan and should be valued by actuary.

Accounting for the constructive obligation

An entity shall account **not only for its legal obligation** under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the entity's **informal practices**. Informal practices give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the entity's informal practices would cause unacceptable damage to its relationship with employees.

Statutory Audit aspects

Below are some of important statutory audit aspects:

To check whether
- the entity has identified the eligible employees and assessed the impact of Supreme Court ruling?
- the entity calculated the amount payable on correct salary including fixed allowance?
- Appropriate disclosures are made in financial statements?

In general, to check whether
- the entity identified all the statutory dues applicable for the entity?
- the entity deducted and contributed at the rates prescribed by respective laws?
- the entity paid all the statutory dues within due dates?
- the entity paid all the amounts deducted from employees to Government?
- the entity sent correct data to actuary for the purpose of actuarial valuations?
- the assumptions considered by Actuary are appropriate?
- the entity made all the required disclosures as per applicable Accounting Standards and Schedule III?
- If there are any delays in remittances or any amount unpaid for more than 6 months as on Balance Sheet date, consider reporting in CARO 2016 appropriately.

Tax Audit aspects

Following are relevant clauses where details of PF, ESI, Gratuity, etc., are disclosed:

Clause 20(b) of Form 3CD:	Details of contributions received from employees for various funds as referred to in section 36(1)(va)
Clause 21 of Form 3CD:	Please furnish the details of amounts debited to the profit and loss account, being in the nature of capital, personal, advertisement expenditure etc., (VI) Expenditure by way of penalty or fine for violation of any law for the time being in force (e) provision for payment of gratuity not allowable under section 40A(7)
Clause 26(B) of Form 3CD:	In respect of any sum referred to in clauses (a), (b), (c), (d), (e) or (f) of section 43B the liability for which:- a. paid on or before the due date for furnishing the return of income of the previous year under section 139(1); b. not paid on or before the aforesaid date.

Questions

Q&A

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