

Accounting and Reporting by Retirement Benefit Plans (IAS 26)

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1. Purpose and context of IAS 26

IAS 26 deals with **how retirement benefit plans themselves prepare and present financial statements**. It treats the plan as a separate reporting entity from the employer.

- **Focus of IAS 26: Accounting and reporting by the retirement benefit plan** to participants as a group.
- **Not covered:** Reports to individual members about their personal entitlements, and the employer's accounting for its obligations (that is covered by IAS 19 Employee Benefits).

IAS 26 therefore **complements IAS 19**:

- IAS 19 → employer's financial statements (cost of benefits, liabilities).
- IAS 26 → plan's own financial statements (assets, promised benefits, funding position).

2. Scope of IAS 26

2.1 Entities to which IAS 26 applies

IAS 26 applies to **financial statements of retirement benefit plans** when such statements are prepared.

A **retirement benefit plan** is an arrangement whereby an entity provides benefits for employees on or after termination of service (as an annuity or lump sum), and the benefits or contributions can be determined or estimated in advance from a document or established practice.

The standard applies regardless of:

- **Legal form** of the plan (trust, fund, or other vehicle).
- Whether the plan has **trustees** or separate legal identity.
- Whether assets are invested privately or via **insurance companies**, unless the insurance contract is directly in the name of specific participants and the insurer alone bears the obligation.

2.2 Relationship with other standards

- **IAS 19 Employee Benefits:** Deals with the employer's accounting for retirement benefits.
- **Other IFRS Standards:** Apply to plan financial statements to the extent they are not overridden by IAS 26 (e.g. fair value measurement, financial instruments, etc.).

3. Key definitions and types of retirement benefit plans

3.1 Defined contribution plans

Definition: A retirement benefit plan where the benefits are determined by contributions paid into the plan and investment returns on those contributions. The employer's obligation is limited to the amount it agrees to contribute.

Characteristics:

- Contributions are fixed or determinable (e.g. 10% of salary).
- Benefits depend on:
 - Total contributions, and
 - Investment performance of plan assets.
- **Risk borne by participants:** if investments perform poorly, benefits are lower.

Example: An employer contributes 8% of each employee's salary into a retirement fund. At retirement, the employee receives whatever balance has accumulated (possibly converted to an annuity). There is no guaranteed minimum benefit from the plan itself.

3.2 Defined benefit plans

Definition: A retirement benefit plan where the benefits are determined by a formula (e.g. based on salary and years of service), and the plan (or employer) is obliged to provide those promised benefits, regardless of investment performance.

Characteristics:

- Benefits are usually expressed as:
 - A percentage of final or average salary $\times$ years of service, or
 - A fixed amount per year of service.
- **Risk borne by the plan/employer:** if assets are insufficient, additional funding is required.
- Requires **actuarial valuation** of promised benefits.

Example: A plan promises a pension equal to 1.5% of final salary for each year of service. An employee with 30 years of service and a final salary of R200,000 receives:

$$\text{Annual pension} = 1.5\% \times 30 \times 200,000 = 0.015 \times 30 \times 200,000 = \text{R90,000}$$

3.3 Hybrid or mixed plans

In practice, some plans combine features of both:

- A **defined contribution component** (e.g. individual accounts), and
- A **defined benefit underpin** (e.g. minimum guaranteed pension).

IAS 26 still requires classification and appropriate reporting, but hybrids are not a separate formal category in the standard.

4. Financial statements of retirement benefit plans

IAS 26 sets out **minimum content** for the financial statements of retirement benefit plans, distinguishing between defined contribution and defined benefit plans.

4.1 Common elements for all plans

Regardless of type, the financial statements of a retirement benefit plan should include:

1. **Statement of net assets available for benefits**
 - Shows assets held by the plan, less liabilities (other than the obligation for promised benefits in a defined benefit plan).
2. **Statement of changes in net assets available for benefits**
 - Explains movements during the period, including:
 - Contributions (employer and employees).
 - Investment income and changes in fair value.
 - Benefits paid.
 - Administrative and other expenses.
3. **Summary of significant accounting policies**
 - Basis of preparation, measurement of investments, recognition of contributions and benefits, etc.
4. **Description of the plan**
 - Nature of benefits (defined contribution or defined benefit).
 - Eligibility, funding arrangements.
 - Any significant changes in the plan during the period.

These statements provide participants with a clear view of the plan's financial position and performance.

5. Defined contribution plans — specific reporting requirements

For a **defined contribution plan**, IAS 26 requires at least:

1. **Statement of net assets available for benefits**
2. **Description of the funding policy**

Because the plan does not promise a specific benefit amount, there is **no need to present an actuarial present value of promised benefits**. The key information is the assets available and how the plan is funded.

5.1 Example — defined contribution plan statements

Assume a defined contribution plan with the following information for the year:

- Opening net assets available for benefits: R50,000,000
- Employer contributions: R5,000,000
- Employee contributions: R3,000,000
- Investment income (interest, dividends, fair value gains): R4,000,000
- Benefits paid: R6,000,000
- Administrative expenses: R1,000,000

Statement of changes in net assets available for benefits (simplified):

- Opening net assets: R50,000,000
- **Add:**
 - Employer contributions: R5,000,000
 - Employee contributions: R3,000,000
 - Investment income: R4,000,000
- **Less:**
 - Benefits paid: R6,000,000
 - Administrative expenses: R1,000,000

Closing net assets

$$\begin{aligned} &= 50,000,000 + 5,000,000 + 3,000,000 + 4,000,000 - 6,000,000 \\ &\quad - 1,000,000 = R55,000,000 \end{aligned}$$

The **statement of net assets available for benefits** would then show the composition of the R55,000,000 (cash, investments, receivables, etc.).

The **funding policy description** might explain:

- Contribution rates (e.g. employer 8%, employee 5% of salary).
- How investment decisions are made.
- Whether any minimum funding levels are targeted.

6. Defined benefit plans — specific reporting requirements

Defined benefit plans require more extensive information because they promise specific benefits and may have **surpluses or deficits** relative to those promises.

6.1 Required content

IAS 26 allows two main presentation approaches:

Approach A — Combined statement:

- A statement showing:

1. Net assets available for benefits.
2. Actuarial present value of promised retirement benefits, distinguishing:
 - **Vested benefits** (those that are not conditional on continued employment).
 - **Non-vested benefits** (conditional on future service).
3. The resulting **excess or deficit**.

Approach B — Separate disclosure:

- A statement of net assets available for benefits, plus:
 - A note disclosing the actuarial present value of promised retirement benefits (vested and non-vested), or
 - A reference to an accompanying actuarial report containing that information.

In both cases, the financial statements must **explain the relationship** between:

- Net assets available for benefits, and
- Actuarial present value of promised retirement benefits, and must describe the **funding policy** for promised benefits.

6.2 Actuarial present value of promised retirement benefits

The **actuarial present value of promised retirement benefits** is the present value of benefits promised under the plan terms, based on service to date, using appropriate actuarial assumptions.

Key points:

- It is based on **benefits promised** for service already rendered.
- It may use:
 - **Current salary levels**, or
 - **Projected salary levels** (with disclosure of which basis is used).
- Actuarial assumptions include:
 - Discount rate.
 - Mortality rates.
 - Staff turnover.
 - Future salary increases (if projected salaries are used).
- Any **significant changes in actuarial assumptions** that affect the present value must be disclosed.

If an actuarial valuation is not prepared at the reporting date, the **most recent valuation** is used as a base, and the date of that valuation must be disclosed.

6.3 Example — defined benefit plan surplus/deficit

Assume a defined benefit plan with:

- Net assets available for benefits: R120,000,000
- Actuarial present value of promised retirement benefits:
 - Vested benefits: R90,000,000
 - Non-vested benefits: R40,000,000
 - Total promised benefits: R130,000,000

Excess (deficit):

$$\begin{aligned}\text{Excess/deficit} &= \text{Net assets} - \text{Actuarial present value of promised benefits} \\ &= 120,000,000 - 130,000,000 = \text{R}(10,000,000)\end{aligned}$$

The plan is in a **deficit** of R10,000,000. The financial statements must explain:

- The reasons for the deficit (e.g. poor investment performance, changes in assumptions).
- The **funding policy** to address it (e.g. increased contributions, benefit changes).

7. Valuation of plan assets

7.1 Measurement basis

IAS 26 requires that **retirement benefit plan investments be carried at fair value**.

- For **marketable securities**, fair value is generally **market value** at the reporting date.
- If fair value cannot be reliably estimated for certain investments:
 - The financial statements must disclose **why fair value is not used** and describe the alternative basis of measurement.

7.2 Example — fair value of investments

Suppose a plan holds:

- Listed equities with market value of R70,000,000.
- Bonds with market value of R30,000,000.
- Unlisted property investments where fair value is reliably determined at R20,000,000.

Total investments at fair value:

$$70,000,000 + 30,000,000 + 20,000,000 = \text{R}120,000,000$$

If the plan also holds an investment in a private company where fair value cannot be reliably measured, it might be carried at cost (say R5,000,000), with disclosure explaining:

- Why fair value is not available.
- The measurement basis used (e.g. cost less impairment).

8. Disclosure requirements

IAS 26 emphasises **transparent disclosure** so that participants can understand the plan's financial position and performance.

8.1 All plans (defined contribution and defined benefit)

Financial statements should disclose:

- **Description of the plan:**
 - Type of plan (defined contribution or defined benefit).
 - Eligibility and main benefit features.
 - Any significant changes during the period (e.g. amendments, curtailments, closures).
- **Summary of significant accounting policies:**
 - Basis of preparation.
 - Measurement of investments (fair value, cost where fair value not available).
 - Recognition of contributions and benefits.
 - Treatment of administrative expenses.
- **Statement of changes in net assets available for benefits:**
 - Contributions (employer and employees).
 - Investment income and changes in fair value.
 - Benefits paid.
 - Administrative and other expenses.
 - Transfers in/out (e.g. from other plans).

8.2 Additional disclosures for defined benefit plans

For defined benefit plans, disclosures must also cover:

- **Actuarial present value of promised retirement benefits**, distinguishing:
 - Vested benefits.
 - Non-vested benefits.
- **Basis used** for calculating the actuarial present value:
 - Current vs projected salary levels.
- **Significant actuarial assumptions** and changes in those assumptions.
- **Relationship between net assets and promised benefits:**
 - Whether the plan is in surplus or deficit.
 - Funding policy to address any deficit or manage surplus.

9. Comparison with IAS 19 (employer perspective)

It helps to contrast IAS 26 with IAS 19 to avoid confusion:

9.1 IAS 26 — plan perspective

- Treats the **retirement benefit plan as a reporting entity**.
- Focuses on:
 - Net assets available for benefits.
 - Actuarial present value of promised benefits (for defined benefit plans).
 - Funding policy and plan performance.
- Users: primarily **plan participants** and regulators.

9.2 IAS 19 — employer perspective

- Treats retirement benefits as **employee benefits** in the employer's financial statements.
- Focuses on:
 - Employer's **defined benefit obligation**.
 - Plan assets (from employer's perspective).
 - Expense recognised in profit or loss and other comprehensive income.
- Users: investors, creditors, and other stakeholders of the employer.

The same plan may therefore appear in:

- The plan's own financial statements (IAS 26), and
- The employer's financial statements (IAS 19), with different measurement and presentation objectives.

10. Common application issues and exam-style notes

10.1 Common mistakes

- **Confusing IAS 26 with IAS 19.** Remember: IAS 26 = plan's financial statements; IAS 19 = employer's accounting.
- **Ignoring actuarial present value for defined benefit plans.** For defined benefit plans, it is not enough to show assets; the promised benefits must be valued and disclosed.
- **Not distinguishing vested and non-vested benefits.** IAS 26 requires separate disclosure of vested vs non-vested promised benefits.
- **Using cost instead of fair value for investments without explanation.** If fair value is not used, the reason must be disclosed.

10.2 Exam-style summary points

When answering a question on IAS 26, you can structure your response around:

1. **Scope and objective**
 - Applies to financial statements of retirement benefit plans.
 - Plan is a separate reporting entity; complements IAS 19.
2. **Types of plans**
 - Defined contribution vs defined benefit (and hybrids in practice).
3. **Financial statement content**

- All plans: statement of net assets available for benefits, statement of changes in net assets, accounting policies, description of plan.
 - Defined contribution: plus funding policy.
 - Defined benefit: plus actuarial present value of promised benefits (vested and non-vested), and explanation of surplus/deficit and funding policy.
4. **Measurement**
- Investments at fair value (market value for marketable securities).
 - Actuarial valuation of promised benefits for defined benefit plans.
5. **Disclosure**
- Plan description, changes, assumptions, basis of valuation, relationship between assets and promised benefits.

11. Integrated example — comparing DC and DB reporting

Imagine an employer sponsors two plans:

- **Plan A — Defined contribution**
 - Contributions: employer 10% of salary, employee 5%.
 - Financial statements show:
 - Statement of net assets available for benefits (e.g. R80,000,000).
 - Statement of changes in net assets (contributions, investment income, benefits, expenses).
 - Funding policy description (contribution rates, investment strategy).
 - Investments at fair value.
- **Plan B — Defined benefit**
 - Benefit formula: 2% of final salary × years of service.
 - Financial statements show:
 - Net assets available for benefits (e.g. R150,000,000).
 - Actuarial present value of promised benefits:
 - Vested: R120,000,000
 - Non-vested: R60,000,000
 - Total: R180,000,000
 - Deficit: R30,000,000 (180,000,000 – 150,000,000).
 - Explanation of deficit and funding policy (e.g. increased contributions, plan amendments).
 - Disclosure of actuarial assumptions and whether current or projected salaries were used.

This contrast captures the **core difference** in IAS 26 reporting:

- Defined contribution → focus on assets and funding policy.
- Defined benefit → focus on both assets and promised benefits, and the surplus/deficit between them.

12. Multiple-Choice Questions (MCQs) with Answers

1. What is the primary purpose of IAS 26?

- A. To prescribe employer accounting for retirement benefits
- B. To prescribe accounting and reporting by retirement benefit plans
- C. To determine tax treatment of retirement plans
- D. To regulate investment strategies of pension funds

➤ **Correct answer:** B

➤ **Explanation:** IAS 26 deals with the **plan's own financial statements**, not the employer's.

2. IAS 26 applies to:

- A. Employers who sponsor retirement plans
- B. Employees who receive retirement benefits
- C. Retirement benefit plans that prepare financial statements
- D. Insurance companies issuing annuity contracts

➤ **Correct answer:** C

➤ **Explanation:** IAS 26 governs **plan-level reporting**, not employer or insurer reporting.

3. A defined contribution plan is one in which:

- A. Benefits are guaranteed by the employer
- B. Contributions are fixed, and benefits depend on investment performance
- C. Benefits are based on a formula linked to salary
- D. The plan must always be fully funded

➤ **Correct answer:** B

➤ **Explanation:** DC plans have fixed contributions; benefits vary with investment returns.

4. In a defined benefit plan, the actuarial present value of promised benefits must:

- A. Always be omitted
- B. Be disclosed or presented
- C. Be replaced with fair value
- D. Only include vested benefits

➤ **Correct answer:** B

➤ **Explanation:** DB plans must disclose the actuarial present value of promised benefits.

5. IAS 26 requires investments of retirement benefit plans to be measured at:

- A. Historical cost
- B. Amortised cost
- C. Fair value
- D. Net realisable value

➤ **Correct answer:** C

➤ **Explanation:** Plan investments must be carried at **fair value**.

6. Vested benefits are those that:

- A. Are not conditional on continued employment
- B. Are conditional on employer profitability
- C. Depend on future service
- D. Are payable only at retirement age

➤ **Correct answer:** A

➤ **Explanation:** Vested benefits are guaranteed regardless of future service.

7. The statement of net assets available for benefits includes:

- A. The employer's pension liability
- B. Plan assets minus plan liabilities (excluding promised benefits)
- C. Only cash balances
- D. Only actuarial liabilities

➤ **Correct answer:** B

➤ **Explanation:** It shows **assets less non-benefit liabilities**.

8. Which statement is TRUE for defined contribution plans?

- A. Actuarial valuation of benefits is required
- B. Only vested benefits are disclosed
- C. A funding policy must be described
- D. Surplus/deficit must be calculated

➤ **Correct answer:** C

➤ **Explanation:** DC plans disclose the **funding policy**, not actuarial liabilities.

9. For defined benefit plans, IAS 26 requires disclosure of:

- A. Only vested benefits
- B. Only non-vested benefits
- C. Both vested and non-vested benefits
- D. Neither vested nor non-vested benefits

- **Correct answer:** C
- **Explanation:** Both categories must be disclosed separately.

10. The actuarial present value of promised benefits may be calculated using:

- A. Only current salary levels
- B. Only projected salary levels
- C. Only historical salary levels
- D. Either current or projected salary levels

- **Correct answer:** D
- **Explanation:** IAS 26 allows either basis but requires disclosure of which is used.

11. A retirement benefit plan is considered a reporting entity because:

- A. It is always a separate legal entity
- B. It provides financial information to participants as a group
- C. It pays taxes independently
- D. It operates for profit

- **Correct answer:** B
- **Explanation:** IAS 26 treats the plan as a reporting entity **even if not legally separate**.

12. The statement of changes in net assets available for benefits includes:

- A. Employer pension expense
- B. Employee salary details
- C. Contributions, benefits paid, investment income
- D. Actuarial assumptions

- **Correct answer:** C
- **Explanation:** It shows **movements in plan assets**.

13. If fair value cannot be reliably measured for an investment:

- A. It must be excluded
- B. It must be measured at cost with disclosure
- C. It must be written off
- D. It must be measured using replacement cost

- **Correct answer:** B
- **Explanation:** IAS 26 allows cost **only with proper disclosure**.

14. Defined benefit plans may present:

- A. Only a statement of net assets
- B. A combined statement showing assets, promised benefits, and surplus/deficit
- C. Only actuarial liabilities

D. Only investment performance

- **Correct answer:** B
- **Explanation:** IAS 26 permits a **combined presentation**.

15. The funding policy of a retirement benefit plan describes:

- A. How benefits are taxed
- B. How contributions and funding levels are determined
- C. How employees invest their personal savings
- D. How the employer recognises pension expense

- **Correct answer:** B
- **Explanation:** Funding policy explains **contribution and funding arrangements**.

16. IAS 26 requires disclosure of actuarial assumptions when:

- A. The plan is defined contribution
- B. The plan is defined benefit
- C. The employer requests it
- D. The plan is fully funded

- **Correct answer:** B
- **Explanation:** Actuarial assumptions apply only to **DB plans**.

17. A surplus in a defined benefit plan occurs when:

- A. Net assets exceed actuarial present value of promised benefits
- B. Contributions exceed benefits paid
- C. Investment income is positive
- D. The employer increases contributions

- **Correct answer:** A
- **Explanation:** Surplus = **assets > promised benefits**.

18. IAS 26 requires disclosure of:

- A. Individual member balances
- B. Employer's IAS 19 liability
- C. Significant changes in the plan during the period
- D. Tax penalties paid by the plan

- **Correct answer:** C
- **Explanation:** Plan changes must be disclosed; individual balances are not required.

19. The actuarial present value of promised benefits represents:

- A. Future contributions
- B. Benefits earned to date
- C. Total employer obligations under IAS 19
- D. Only benefits payable immediately

➤ **Correct answer:** B

➤ **Explanation:** It reflects **benefits earned from past service**.

20. IAS 26 requires retirement benefit plans to disclose:

- A. Investment strategy in detail
- B. The relationship between net assets and promised benefits
- C. The employer's funding intentions
- D. The plan's tax obligations

➤ **Correct answer:** B

➤ **Explanation:** Plans must explain **surplus/deficit** and funding implications.

13. Comprehensive Question Bank (With Solutions)

Question 1 — Purpose and Scope of IAS 26

Explain the purpose of IAS 26 and identify the types of entities to which it applies.

Solution:

IAS 26 prescribes the accounting and reporting requirements for **retirement benefit plans** when they prepare financial statements. It treats the plan as a **separate reporting entity**, even if it is not a separate legal entity. The standard applies to **retirement benefit plans**, including defined contribution and defined benefit plans, regardless of legal form (trust, fund, or other arrangement). It does not apply to employer accounting (covered by IAS 19) or to individual member statements.

Question 2 — Defined Contribution vs Defined Benefit Plans

Differentiate clearly between defined contribution plans and defined benefit plans, including who bears the risk in each case.

Solution:

Defined contribution plans specify the **contributions** to be paid into the plan. Benefits depend on contributions and investment performance. **Risk is borne by members**, because poor investment returns reduce benefits. Defined benefit plans specify the **benefits** to be

paid, usually based on salary and years of service. The plan (or employer) must ensure sufficient assets to meet promised benefits. **Risk is borne by the plan/employer**, because they must fund any deficit.

Question 3 — Required Financial Statements

List and describe the financial statements required for all retirement benefit plans under IAS 26.

Solution:

All plans must present:

1. **Statement of Net Assets Available for Benefits** – shows plan assets minus liabilities (excluding promised benefits).
2. **Statement of Changes in Net Assets Available for Benefits** – shows contributions, investment income, benefits paid, expenses, and transfers.
3. **Summary of Significant Accounting Policies** – basis of preparation, valuation of investments, recognition of contributions and benefits.
4. **Description of the Plan** – nature of benefits, eligibility, funding arrangements, and major changes.

Question 4 — Additional Requirements for Defined Benefit Plans

Explain the additional disclosures required for defined benefit plans.

Solution:

Defined benefit plans must disclose the **actuarial present value of promised retirement benefits**, distinguishing between vested and non-vested benefits.

They must also disclose:

- The actuarial assumptions used
 - Whether current or projected salary levels were used
 - The relationship between net assets and promised benefits (surplus or deficit)
 - The funding policy to address any deficit or manage surplus
- These disclosures may be included in the financial statements or in an accompanying actuarial report.

Question 5 — Actuarial Present Value of Promised Benefits

Define the actuarial present value of promised retirement benefits and explain how it is calculated.

Solution:

It is the present value of benefits earned from service to date, based on plan terms. It is calculated using actuarial assumptions such as discount rates, mortality, staff turnover, and

salary progression. The valuation may use **current salary levels** or **projected salary levels**, and the basis used must be disclosed. It includes both vested and non-vested benefits.

Question 6 — Example: Surplus or Deficit Calculation

A defined benefit plan has net assets of R150 million. The actuarial present value of promised benefits is R180 million (vested R120 million, non-vested R60 million). Calculate the surplus or deficit and explain its meaning.

Solution:

Surplus/deficit = Net assets – Promised benefits = 150 million – 180 million = **Deficit of R30 million**

This means the plan does not currently hold sufficient assets to meet promised benefits. The funding policy must address this deficit through increased contributions or other measures.

Question 7 — Measurement of Plan Investments

Explain how investments held by retirement benefit plans must be measured under IAS 26.

Solution:

Investments must be measured at **fair value**. Marketable securities use market value at the reporting date. If fair value cannot be reliably measured, the plan may use **cost** but must then disclose:

- Why fair value is not available
- The alternative measurement basis used

Fair value measurement ensures transparency for plan participants.

Question 8 — Statement of Changes in Net Assets

Describe the typical components of a statement of changes in net assets available for benefits.

Solution:

Components include:

- Employer contributions
- Employee contributions
- Investment income (interest, dividends, fair value gains)
- Benefits paid
- Administrative and management expenses
- Transfers in or out
- Any other changes affecting net assets

This statement explains how net assets changed during the reporting period.

Question 9 — Funding Policy Disclosure

What is a funding policy, and why must it be disclosed?

Solution:

A funding policy describes how the plan is financed, including contribution rates, funding targets, and strategies for addressing surpluses or deficits. Disclosure is required because participants need to understand how the plan ensures long-term sustainability and how deficits will be managed.

Question 10 — Vested vs Non-Vested Benefits

Explain the difference between vested and non-vested benefits and why IAS 26 requires them to be disclosed separately.

Solution:

Vested benefits are those that are not conditional on future service; members have an unconditional right to them. Non-vested benefits depend on future service or conditions. Separate disclosure helps users assess the immediacy and certainty of obligations.

Question 11 — Example: Defined Contribution Plan Reporting

A defined contribution plan receives employer contributions of R6 million and employee contributions of R4 million. Investment income is R3 million. Benefits paid are R5 million and expenses are R1 million. Calculate closing net assets if opening net assets were R40 million.

Solution:

Closing net assets = Opening + Contributions + Investment income – Benefits – Expenses = $40 + 6 + 4 + 3 - 5 - 1 = \text{R47 million}$ No actuarial valuation is required because benefits are not predetermined.

Question 12 — Relationship Between IAS 26 and IAS 19

Explain how IAS 26 differs from IAS 19 in terms of reporting focus.

Solution:

IAS 26 focuses on the **retirement benefit plan's own financial statements**, reporting assets, promised benefits, and funding. IAS 19 focuses on the **employer's accounting** for employee benefits, including recognition of pension expense and employer obligations. The same plan may appear in both sets of financial statements but with different objectives.

Question 13 — Disclosure of Actuarial Assumptions

Why does IAS 26 require disclosure of actuarial assumptions for defined benefit plans?

Solution:

Actuarial assumptions significantly affect the valuation of promised benefits. Disclosure ensures transparency and allows users to understand the basis of the valuation and assess its reliability. Changes in assumptions must also be disclosed because they may materially affect the plan's funding position.

Question 14 — Example: Fair Value Measurement Issue

A plan holds an unlisted private equity investment for which fair value cannot be reliably measured. Explain how IAS 26 requires this to be reported.

Solution:

The investment may be carried at **cost**, but the plan must disclose:

- Why fair value cannot be reliably measured
- The measurement basis used
- Any known risks or uncertainties

This ensures users understand limitations in valuation.

Question 15 — Plan Description Requirements

List the key elements that must be included in the description of a retirement benefit plan.

Solution:

The description must include:

- Type of plan (defined contribution or defined benefit)
- Eligibility criteria
- Nature of benefits
- Funding arrangements
- Major changes during the period
- Any amendments, curtailments, or closures

This contextual information helps users interpret the financial statements.

Question 16 — Transfers Between Plans

Explain how transfers between retirement benefit plans should be reported.

Solution:

Transfers in or out must be included in the **statement of changes in net assets available for benefits**. The nature and reason for the transfer should be disclosed. Transfers affect net assets and may indicate restructuring or consolidation of plans.

Question 17 — Use of Actuarial Reports

Under what circumstances may a plan rely on an actuarial report instead of presenting actuarial values directly in the financial statements?

Solution:

IAS 26 allows defined benefit plans to disclose actuarial present values either:

- Directly in the financial statements, or
- By referring to an accompanying actuarial report

If the actuarial valuation is not performed at the reporting date, the most recent valuation may be used, with disclosure of its date.

Question 18 — Example: Impact of Salary Basis

Explain how using projected salary levels instead of current salary levels affects the actuarial present value of promised benefits.

Solution:

Projected salary levels incorporate expected future salary increases. This results in a **higher actuarial present value** because benefits are often based on final or average salary. Using current salary levels produces a lower valuation. IAS 26 requires disclosure of which basis is used.

Question 19 — Importance of Fair Value for Transparency

Discuss why IAS 26 emphasises fair value measurement for plan investments.

Solution:

Fair value provides a current, market-based measure of plan assets, enhancing transparency for participants. It allows users to assess investment performance and funding adequacy. Historical cost may obscure economic reality, especially for long-term plans.

Question 20 — Funding Deficit Management

Describe typical strategies a defined benefit plan may use to address a funding deficit.

Solution:

Strategies include:

- Increasing employer or employee contributions
- Adjusting investment strategy
- Amending plan terms (e.g., reducing future accrual rates)
- Closing the plan to new members
- Negotiating funding arrangements with sponsors

IAS 26 requires disclosure of the funding policy and how deficits will be managed.

14. Defined Contribution (DC) Retirement Fund —Template

ABC Provident Fund

Annual Financial Statements for the year ended 31 December 20X4: Defined Contribution Fund

Statement of Net Assets Available for Benefits

Assets	Rand
• Cash and cash equivalents	12 450 000
• Financial assets at fair value	
○ Equity investments	85 300 000
○ Bond portfolio	42 900 000
○ Property fund units	18 200 000
• Contributions receivable	3 150 000
• Transfers receivable	1 100 000
• Other receivables	450 000
Total Assets	163 550 000
Liabilities	
• Benefits payable	4 200 000
• Accounts payable	1 150 000
• Accrued expenses	600 000
• Unclaimed benefits liability	2 300 000
Total Liabilities	8 250 000
Net Assets Available for Benefits	155 300 000

Statement of Changes in Net Assets Available for Benefits

Rand

Opening Net Assets Available for Benefits 142 800 000

Add:

- Employer contributions 12 900 000
- Member contributions 8 600 000
- Transfers in 2 400 000
- Investment income
 - Interest 2 150 000
 - Dividends 1 900 000
 - Fair value gains 6 300 000

Less:

- Benefits paid (10 200 000)
- Transfers out (1 500 000)
- Administration expenses (2 000 000)
- Investment management fees (1 150 000)

Closing Net Assets Available for Benefits 155 300 000

Notes to the Financial Statements

1. Nature of the Fund

The ABC Provident Fund is a **defined contribution retirement fund** registered under the Pension Funds Act. Benefits depend on contributions and investment returns.

2. Summary of Significant Accounting Policies

- Investments measured at **fair value**
- Contributions recognised when due
- Benefits recognised when approved for payment
- Expenses recognised on an accrual basis

3. Investment Portfolio Breakdown

(Insert table of asset classes)

4. Risk Management

(Investment risk, credit risk, liquidity risk)

5. Unclaimed Benefits

(Insert reconciliation)

6. Related-Party Transactions

(Trustee fees, sponsor reimbursements)

15. Defined Benefit (DB) Retirement Fund —Template

XYZ Pension Fund

Annual Financial Statements for the year ended 31 December 20X4: Defined Benefit Fund

Statement of Net Assets Available for Benefits

Assets	Rand
• Cash and cash equivalents	9 800 000
• Financial assets at fair value	
◦ Equity investments	65 400 000
◦ Bond portfolio	55 900 000
◦ Property investments	22 300 000
• Contributions receivable	2 200 000
• Transfers receivable	900 000
• Other receivables	350 000
Total Assets	156 850 000
Liabilities (excluding actuarial liabilities)	
• Benefits payable	3 900 000
• Accounts payable	1 300 000
• Accrued expenses	750 000
• Unclaimed benefits liability	1 800 000
Total Liabilities	7 750 000
Net Assets Available for Benefits	149 100 000

Statement of Changes in Net Assets Available for Benefits

Rand

Opening Net Assets Available for Benefits 138 600 000

Add:

- Employer contributions 10 500 000
- Member contributions (if applicable) 1 200 000
- Transfers in 1 000 000
- Investment income
 - Interest 2 900 000
 - Dividends 1 700 000
 - Fair value gains 5 800 000

Less:

- Benefits paid (9 600 000)
- Transfers out (1 200 000)
- Administration expenses (2 300 000)
- Investment management fees (1 500 000)

Closing Net Assets Available for Benefits 149 100 000

Actuarial Statement of Promised Retirement Benefits

Actuarial Present Value of Promised Benefits

Rand

- Vested benefits 120 000 000
- Non-vested benefits 45 000 000

Total Promised Benefits 165 000 000

Funding Position

- Net assets available for benefits 149 100 000
- Actuarial present value of promised benefits 165 000 000

Surplus / (Deficit) — plan underfunded (15 900 000)

Actuarial Assumptions

- Discount rate: 11.0%
- Salary increase rate: 6.5%
- Pension increase assumption: 4.5%
- Mortality basis: SA85-90
- Withdrawal rates: Standard industry table
- Retirement age: 60

Actuarial Report:

Latest valuation: 30 September 20X4

Actuary: J. Smith, FASSA

Notes to the Financial Statements

1. Nature of the Fund

The XYZ Pension Fund is a **defined benefit fund** providing pensions based on final salary and years of service.

2. Summary of Significant Accounting Policies

- Investments measured at **fair value**
- Actuarial liabilities measured using the **Projected Unit Credit Method**
- Contributions recognised when due
- Benefits recognised when approved

3. Investment Portfolio Breakdown

(Insert table)

4. Risk Management

(Actuarial risk, investment risk, longevity risk)

5. Surplus/Deficit Funding Strategy

(Contribution increases, investment strategy adjustments)

6. Related-Party Transactions

(Trustee fees, sponsor reimbursements)