Regulatory Update

IRDA Update: Accounting Treatment of Enhanced Provision of Gratuity

19 April 2011

Please see below for your reference, the IRDA Circular on '*Accounting Treatment of Enhanced Provision of Gratuity*' which was released by the IRDA last evening:

> *The pay revision of the officers and employees has been carried out by the Public Sectors Insurance companies in the year 2010-11 and Government by Gazette, Notification dated May 24, 2010 has revised upward maximum limit for Gratuity under "Payment of Gratuity Act 1972" from `3,50,000/- to `10,00,000. The above factors will lead to the increase in liability on account of gratuity which in turn will impact the insurers profitability significantly as they need to provide the same in the financial year 2010-11. This will cause a strain on their solvency as well as on their performance results.*
>
> *In view of the above, Authority hereby permits the insurers to amortize the additional liability on account of gratuity over a period of five years starting from financial year 2010-11 subject to compliance of the following conditions*
>
> *(i) The additional liability on account of enhancement in gratuity limits may be fully recognized and charged to Revenue Account and/or Profit and Loss Account for the financial year 2010-11.The expenditure indicated above, may, if not fully charged to the Revenue Account and/or Profit and Loss Account during the financial year 2010-11, be amortized over a period of five years (subject to (ii) below) beginning with the financial year ending March 31, 2011 subject to a minimum of 1/5th of the total amount involved every year.*
> *(ii) The unamortized expenditure carried forward should not include any amounts relating to separated/retired employees.*
> *(iii) A complete disclosure in the notes of accounts to this effect giving the total amount of liability on this account, amount already recognized to revenue / profit & Loss Account and the remaining amount should be made in the Notes to Accounts to the financial statements.*

For further information on this topic please contact Tuli & Co

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