



New labour codes:
Accounting and financial reporting
implications under Ind AS

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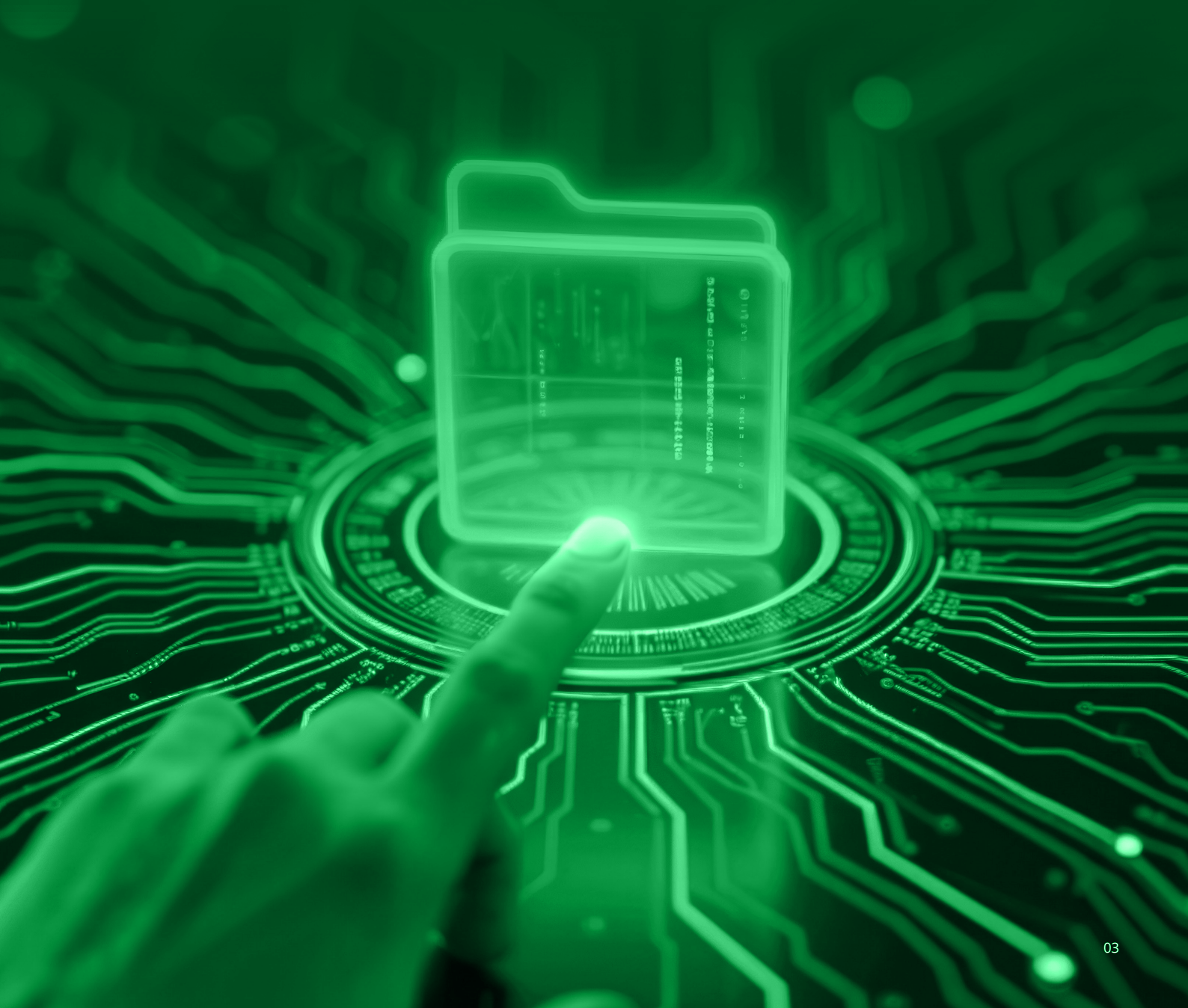
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Introduction

The Government of India notified four new labour codes, namely, the Code on Wages, 2019, the Industrial Relations Code, 2020, the Code on Social Security, 2020, and the Occupational Safety, Health and Working Conditions, 2020, (the “New Codes”) with a view to rationalise the existing labour regulations and augment the efficiency of the labour legislations with a contemporary view.

These amendments are likely to affect accounting, reporting and disclosure requirements for companies reporting under Ind AS. Ind AS 19 “*Employee Benefits*” governs the accounting and disclosure requirements of employee benefit obligations. In this context, the Institute of Chartered Accountants of India (ICAI), through its Frequently Asked Questions (FAQs) issued on 26 December 2025, has provided clarifications on the key accounting implications arising from the implementation of the New Codes. Furthermore, the Ministry of Labour and Employment of the Government of India, vide its FAQs dated 30 December 2025, has provided further clarity regarding the application of certain provisions of the New Codes.



Types of employee benefits

The following section outlines different categories of employee benefits as defined in Ind AS 19 and the key impacts:



Short-term employee benefits

Ind AS 19 defines short-term employee benefits as employee benefits (other than termination benefits) that are expected to be settled completely before 12 months after the end of the annual reporting period in which the employees render the related service.

The New Codes have introduced certain key amendments pertaining to the National Floor Wage, equal benefits for Fixed-Term Employees (FTEs) and double-rate overtime pay. These are expected to have a direct financial impact on the profitability and key profitability ratios of entities due to an increase in the short-term employee benefits payable to their employees.

Refer to the section on **“Amendments with respect to short-term employee benefits as defined under Ind AS 19”**.



Post-employment benefits

Ind AS 19 defines post-employment benefits as employee benefits (other than termination benefits and short-term employee benefits) that are payable after the completion of employment.

The standardisation of the definition of wage for the purpose of contributing to social security benefits, the extension of such social cover to gig and platform workers, and the on-demand leave encashment facility are expected to result in a significant increase in contributions to post-employment benefit schemes, such as gratuity and leave encashment. These contributions are expected to affect the profitability and certain key liquidity ratios of companies.

Refer to the section on **“Amendments with respect to post-employment benefits as defined under Ind AS 19”**.



Termination benefits

Ind AS 19 defines termination benefits as employee benefits provided in exchange for the termination of an employee's employment, either due to an entity's decision to terminate their employment before the retirement date or their decision to accept an offer of benefits in exchange for the termination of employment.

The New Codes now mandate contributions to workers' re-skilling fund in the event of employee retrenchment, which is expected to increase the exit costs payable on termination.

Refer to the section on “Amendments with respect to termination benefits as defined under Ind AS 19”.

A. Amendments with respect to short-term employee benefits as defined under Ind AS 19



Concept of National Floor Wage:

Under the New Codes, the concept of National Floor Wage has been introduced, based on which the respective state governments shall fix the minimum wages applicable. *This amendment is expected to increase the overall employee benefit expense of employers who employ workers below the minimum wage, as notified by state governments. As of now, most of the State governments are yet to notify the minimum wages applicable.*



Overtime compensation: With respect to the working hours and overtime compensation, establishments are now required to pay twice the normal rate of wages for overtime worked. *This calculation shall be based on the revised definition of wage, which may potentially increase payouts. Furthermore, necessary attendance and time-tracking control systems are required to be in place to meet the revised requirements. Changes in internal controls and procedures are also required.*



Employment of inter-state migrant workers:

With respect to the employment of inter-state migrant workers, establishments which engage 10 or more inter-state migrant workers shall be required to pay a lump-sum journey allowance to them to compensate for the cost of their journeys between their place of employment and their native place. *This amendment is expected to impact establishments that employ a relatively higher proportion of inter-state migrant workers in their overall workforce, such as those in the manufacturing, construction and cottage industries.*



FTEs: FTEs shall receive benefits akin to permanent employees working in similar roles, subject to qualifying under the eligibility criteria. This amendment is expected to have a direct bearing on the compensation structure of such employees. *This amendment brings FTEs on par with permanent employees in terms of compensation and social security benefits. Employers in the Information Technology (IT), Information Technology Enabled Services (ITES) and financial services sectors who employ a relatively higher proportion of FTEs in their overall workforce are expected to face a major impact because of this amendment.*



Statutory bonus: Companies shall pay out a minimum of 8.33 percent of the annual wages to eligible employees towards statutory bonus. The eligibility threshold for this is yet to be notified. *This amendment may require adjustments to monthly accruals and a catchup.*



Free medical checkup for employees above 40 years:

Establishments are now mandated to provide free medical checkups for all their employees who are above the age of 40 years. This amendment may require companies to accrue these expenses going forward.

Disclosure requirements



Ind AS 19

Currently, there are no additional disclosure impacts envisaged on account of the implementation of the New Codes with respect to short-term employee benefits.



Others

While there are no additional disclosures envisaged under Ind AS 19, it is recommended for Companies to revisit their disclosures under the Material Accounting Policies section with respect to accounting for the short term employee benefits and include a disclosure with respect to the notification of the new codes and the Company's assessment of the impact of the same.

B. Amendments with respect to post-employment benefits as defined under Ind AS 19



Increased contributions to social security schemes due to a uniform definition of wage:

Under the New Codes, the definition of wage has been standardised to bring uniformity in the calculation of contributions to be made for social security schemes, such as Employees' State Insurance and leave encashment. The new definition of wage includes basic pay, dearness allowance and retaining allowance, if any. Where the total of other components of remuneration, including but not limited to, bonus, employer's contribution to Provident and other funds, conveyance allowance, house rent allowance, overtime allowance and commission (excluding gratuity and retrenchment compensation/retirement benefit) exceed 50 percent of the total remuneration, such excess shall also be treated as wages, which shall be considered for computation of the aforesaid contributions.

Provisions related to the Provident Fund under the New Codes are not yet notified. Hence, the existing provisions of the Employees' Provident Funds and Miscellaneous Provisions Act, 1952, are expected to remain in effect till the date of notification. *Companies are now required to ascertain the contributions to be made to the aforementioned social security schemes based on the revised definition of wage, resulting in increased costs. Furthermore, companies may also consider aligning the overall Cost to Company (CTC) structure of the employees with the revised definition in the long run.*



Social security benefits to gig and platform workers:

Under the New Codes, social security benefits are now extended to gig and platform workers. With respect to gig and platform workers, notified aggregators may be required to contribute an amount, which is the lower of either one to two percent of their annual turnover or five percent of the amount paid to such workers. *This amendment is expected to impact companies in sectors such as ride-sharing, e-commerce and quick commerce services, logistics services, content and media services, professional and healthcare services, which operate under non-standard employment models. Depending on further notification from the government, whether such a social security fund will be a defined contribution plan or a defined benefit plan, will need to be assessed.*



Annual leave encashment:

Workers* are now entitled to encash their annual leave balances (more than 30 days) on demand as opposed to encashing the same at the time of separation. *This may be factored into the actuarial assumptions while estimating the provision required for compensated absence, resulting in additional and more frequent provisioning by companies. Considering the immediate nature of payment, a higher proportion of the provision may be presented as a current obligation, which could impact certain key liquidity ratios.*



Enhanced coverage under gratuity:

- i. Under the New Codes, provision for gratuity shall be computed based on the revised definition of wage. Additionally, FTEs are now eligible for gratuity after one year of continuous service, requiring companies to make additional contributions in future. *Considering the increase in the coverage pool, along with the revision of the definition of wage, there shall be a direct increase in the provision required towards the Defined Benefit Obligation (DBO) of gratuity.*
- ii. Para 8 of Ind AS 19 defines past service cost as the change in the present value of the defined benefit obligation for employee service in prior periods, *resulting from a plan amendment (the introduction or withdrawal of, or changes to, a defined benefit plan) or a curtailment (a significant reduction by the entity in the number of employees covered by a plan).*
- iii. Para 103 of Ind AS 19 provides that an entity shall recognise past service cost as an expense at the earlier of the following dates:
 - a. When the plan amendment or curtailment occurs
 - b. When the entity recognises related restructuring costs under Ind AS 37 or termination benefits
- iv. As per Para 104 of Ind AS 19, a plan amendment occurs when an entity introduces or withdraws a defined benefit plan or changes the benefits payable under an existing defined benefit plan.
- v. *In line with the clarification issued by the ICAI, the increase in the gratuity liability arising from the implementation of New Codes as a result of a change in the definition of wage and increase in the coverage pool constitutes a plan amendment. The consequential increase in the gratuity liability is related to the service rendered by employees in the prior periods and meets the definition of past service cost under Ind AS 19. Accordingly, the increase in DBO liability, to the extent of such past service cost, shall be recognised in the statement of profit or loss. Companies may also evaluate the appropriateness of presenting such additional expenses as an exceptional item in the statement of profit or loss, considering the materiality of their impact.*



vi. ICAI has also clarified that where the increase in the gratuity liability is attributable to an increase in wages higher than the estimated salary escalation rates, the same shall be treated as part of a change in actuarial assumptions and taken to Other Comprehensive Income (OCI). However, where the increase in gratuity liability is attributable only to a restructuring of salary composition without a real increase in wages, the same shall be treated as a past service cost and recognised in the statement of profit or loss.



Disclosure requirements



Ind AS 19

Companies shall disclose the past service cost component separately as required under Ind AS 19. Furthermore, they shall evaluate the additional disclosure requirements under Ind AS 19 with respect to providing a description of the plan amendment, comprising the following:

- *Nature of the plan amendment and its effect on the obligation*
- *Amount of past service cost arising from such plan amendment, recognised in P&L*
- *Updated actuarial assumptions, if any*

Companies may disclose additional information, as required, to enable a better understanding of the financial statements by users.



Others

Companies are recommended to revisit their disclosures under the Material Accounting Policies section with respect to accounting for post-employment benefits

C. Amendments with respect to termination benefits under Ind AS 19



Workers' re-skilling fund:

Industrial establishments shall contribute an amount equal to the last-drawn 15 days' wages of retrenched workers to the workers' re-skilling fund within 45 days from the date of such retrenchment, along with retrenchment compensation payable, if any. *This results in additional termination costs for employers at the time of employee retrenchment. Furthermore, where the termination is a result of restructuring activity carried out by an entity, such contributions to the workers' re-skilling fund may form part of the restructuring provision as required under Ind AS 37 "Provisions, Contingent Liabilities and Contingent Assets," subject to meeting other requirements.*

Disclosure requirements



Ind AS 19

Currently, there are no additional disclosure impacts envisaged on account of the implementation of the New Codes with respect to termination benefits.



Ind AS 37

With respect to contributions to worker's re-skilling fund recognised as a restructuring provision, companies shall disclose a brief description of the provision's nature and the expected timing of the outflow, along with the reconciliation of the opening and closing provision amounts.



The way forward

In view of the notification of the New Codes, the outlook for companies moving forward may be as follows:

Stakeholders involved

HR and payroll teams with respect to compliance with regulatory requirements



Review the categorisation of employees per the new definitions and align the existing CTC structure for employees, wherever necessary.



Review the workmen composition, evaluate if their roles and compensation need to be restructured and assess the contribution to be made towards social security schemes

Internal audit team with respect to the design, implementation and effectiveness of internal controls



Review the existing systems of internal control towards attendance and tracking of working hours and evaluate if there are requirements to make suitable enhancements



Evaluate the implementation of controls with respect to identification, onboarding and offboarding of the different classes of workers, such as inter-state migrant workers and FTEs, and payment of their wages and allowances.



Evaluate the adequacy of review controls with respect to preparation and review incremental estimates to be made, viz., accruals, overtime wages and other incremental benefits, such as free medical checkup for eligible employees, and design and implement additional controls, if necessary.



Consider the timelines in view of financial reporting and closing process, along with interim reporting/period-end reporting, as the case may be.

Stakeholders involved

Corporate finance teams with respect to financial accounting and reporting



Include details of FTEs with the start and end dates of their contracts, in addition to the details of permanent employees, as inputs for actuary valuation with respect to the measurement of provision for defined benefit obligation and compensated absences.



Review actuarial assumptions regarding salary escalation, employee attrition and mortality rates for their appropriateness.



Consider the probability of workers availing leave encashment on demand while estimating the provision required for compensated absences.

The New Codes have brought a paradigm shift in the labour law landscape, warranting an increased scrutiny of compliance with heavier penalties in the event of non-adherence. With most state governments yet to finalise and notify their final rules on certain critical areas, such as the minimum wage applicability and the statutory bonus ceiling, the delay may result in a lack of clarity and lead to uncertainty regarding their implementation. This transition period requires a proactive collaboration among stakeholders to align on key action points to ensure a seamless transition to the New Codes.



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