

Guidance on New Labour Codes



The Institute of Chartered Accountants of India
(Set up by an Act of Parliament)
New Delhi

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Foreword

A robust and contemporary labour law framework is essential for balancing worker protection with sustainable business compliance. Labour laws in India play a crucial role in safeguarding the rights and welfare of workers while providing a structured framework for employers to manage their workforce and comply with statutory obligations. Recognising the need to simplify the existing labour law regime, the Government of India, vide Press Release dated 21st November 2025, announced the implementation of four 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 Code, 2020 which consolidate and replace twenty-nine existing labour legislations.

The introduction of these Labour Codes has brought substantial changes that also need to be appropriately considered, by auditors, for the purpose of the audit of financial statements. In view of these changes, the Auditing and Assurance Standards Board (AASB) of ICAI has brought out this publication “**Guidance on New Labour Codes**” to assist auditors in understanding and addressing the implications of the new Labour Codes while planning and performing audit engagements.

This publication aims to provide practical guidance to auditors on key auditing considerations arising from the implementation of the new Labour Codes. It highlights important areas requiring audit focus, including payroll-related expenses, employee benefit obligations, statutory dues, compliance with applicable labour laws and regulations, and related recognition, measurement and disclosure requirements in the financial statements.

I compliment CA. Sripriya Kumar, Chairperson, AASB, CA. Ravi Kumar Patwa, Vice-Chairman, AASB, and all the members of AASB for their efforts in bringing out this publication for the benefit of the members.

I am confident that the members would find this publication useful in their professional assignments.

CA. Charanjot Singh Nanda
President, ICAI

Preface

The four 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 Code, 2020 introduced by the Government of India through the Ministry of Labour and Employment marks a significant transformation of India's labour law framework. By subsuming and consolidating twenty-nine existing central labour legislations, these Codes aim to simplify compliance, rationalise regulatory requirements, and address the evolving nature of employment relationships in India. The changes introduced by the Labour Codes have far-reaching implications for entities across sectors, particularly in relation to payroll structures, employee benefit obligations, statutory contributions, and compliance mechanisms.

From an audit perspective, the implementation of the Labour Codes gives rise to several important auditing considerations, including the identification and assessment of risks of material misstatement, evaluation of compliance with applicable laws and regulations, determination of appropriate accounting treatment for employee-related costs and liabilities, and the adequacy of disclosures in the financial statements.

The Auditing and Assurance Standards Board (AASB) of ICAI decided to develop a Guidance on New Labour Codes for providing appropriate guidance to the members in the context of the new Labour Codes, with reference to the requirements of the applicable Standards on Auditing.

It gives us immense pleasure to place in hands of the members, this 'Guidance on New Labour Codes' brought out by the Auditing and Assurance Standards Board. The guidance addresses matter commonly encountered in audit engagements, such as payroll-related expenses, employee benefit provisions, statutory dues, compliance with laws and regulations, and related disclosures, with reference to the applicable Standards on Auditing.

It outlines key aspects for auditor consideration, including understanding the entity and its workforce structure, evaluating management's actions in response to the Labour Codes, designing audit strategies, engagement team discussions assessing risks of material misstatement, and performing appropriate control and substantive procedures. management representations, communication with those charged with governance, audit documentation and audit reporting considerations including modifications to the auditor's opinion, Emphasis of Matter paragraphs, and reporting under CARO and internal financial controls, where applicable.

We wish to express our sincere thanks to CA. Charanjot Singh Nanda, President, ICAI and CA. Prasanna Kumar D, Vice President, ICAI, for their guidance and support to the activities of the Board.

We wish to place on record our gratitude to all members of the study group viz. CA. Ranganathan P K, CA. Devendra Kumar Somani, CA. Manish Agarwal, CA. Sumant Chadha, CA. Rajesh Arora, CA. Nilanjan Paul, CA. Raghuram K, CA. Dhananjay Gokhale, CA. Himanshu Kumar Agarwal, CA. Mahesh Krishnan, CA. Pranav Jain, CA. Sonika Burman, CA. Vivek Agarwal, CA. Deepa Agarwal, CA. Rajesh Guraria, CA. Nachiappan SP and CA. Nachiket Ratnakar Deo for finalizing this Publication.

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Chinnasamy Ganesan, CA. Narasimhan J, CA. Bhavani Balasubramanian, CA. Lalit Kumar, CA. Vijay Kumar, CA. Shrenik Mehta, CA. Pinaki Chowdhury, CA. Sanjay Agarwal, CA. Jayanta Mukhopadhyay, CA. Ratna Rachita Mohanty, CA. Jitendeeep Singh, CA. Himanshu Sarpal, Shri K T Saravanabhava, CA. Sumit Mahajan, CA. Jyoti Prakash Gadia, Shri Pranay Nahar, Shri Deep Mani Shah, CA. Prateek Maheshwari and CA. Sanjay Vasudeva for their valuable contribution in various activities of the Board.

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We are confident that the publication would be well received by the members and other interested readers.

CA. Ravi Kumar Patwa
Vice Chairman, AASB

CA. Sripriya Kumar
Chairperson, AASB

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Part A - Background

1. The Government of India on 21 November 2025 announced the implementation of four 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 Code, 2020 which seek to rationalise 29 existing labour laws. These Labour Codes are intended to simplify and consolidate existing labour laws to enhance worker welfare and ease of doing business
2. The Accounting Standards Board of ICAI has issued a set of FAQs on key accounting implications arising from the new Labour Codes¹. The substantial changes which have been brought about in these Labour Codes also need to be appropriately considered by an auditor, for the purpose of the audit of financial statements and accordingly these FAQ's have been drafted to provide guidance to auditors in this context. Users are advised to read the entire text of the Codes, as well as the other rules and pronouncements issued by the relevant authorities, before applying the contents of this document to their specific audit engagements.

Effective date of implementation of the Four Labour Codes

3. The four 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 Code, 2020 are required to be implemented w.e.f. 21 November 2025.

Notification of Rules under the Labour Codes

4. Whilst the new Labour Codes are effective from 21 November 2025, the supporting Rules are yet to be notified. As at the date of issuance of this document, the Central Government has issued Draft Rules for these Codes for seeking comments from stakeholders. As per the provisions of Section 6 of General

¹ <https://resource.cdn.icai.org/90049asb-faq-nlc.pdf>

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Clauses Act, 1897, old Rules will remain in force till final notification of new Rules under the Code, to the extent these are in line with Codes².

5. The Codes require both the Central and the 28 State Governments to promulgate rules under each of the Codes for their effective implementation. As on 21 November 2025, only 2 states - Gujarat and Arunachal Pradesh have promulgated final rules under each of the 4 Codes.

Time frame provided for Transition

6. The press release³ by the Government of India contained reference to a transition period. However, the notifications do not provide for any such transitional period and compliance is required with effect from 21 November 2025.

Compliance with the present legal framework until the rules are notified

7. The present legal framework will comprise the Labour Codes read in conjunction with existing central and state rules, regulations, notifications, and circulars issued under the repealed legislation, to the extent these do not conflict with the Codes provisions.

Repeal of earlier Labour Laws

8. The 29 labour legislations consolidated into the four Labour Codes have been formally repealed. Exceptions include certain Provident Fund related legislations remain in force, to the extent they are not inconsistent with the provisions of SS Code for a period of one year from the date of commencement of SS Code [Refer Section 164(2)(b) of the SS Code]. Users are advised to read the entire texts of the Code and the relevant sections to identify non repealed provisions.

² <https://labour.gov.in/en/faqs-labour-codes#:~:text=What%20is%20the%2050%25%20rule,as%20wages%20for%20statutory%20purposes.>

³ [Press Release: Press Information Bureau](#)

9. Each Labour Code includes a specific repeal and savings clause listing the subsumed acts, ensuring a clean transition while preserving ongoing rights, liabilities, and proceedings under the old laws. For instance, Section 164(1) of the SS Code explicitly repeals nine Acts.

Labour laws which have been consolidated in the 4 new Labour Codes

10. Twenty-Nine (29) labour laws which are consolidated in the 4 new codes are as under

Code	Legislations which have been consolidated
Code on Wages 2019 (“Wage Code”)	1. Payment of Wages Act, 1936 2. Minimum Wages Act, 1948 3. Payment of Bonus Act, 1965 4. Equal Remuneration Act, 1976
Industrial Relations Code 2020 (“IR Code”)	5. Trade Unions Act, 1926 6. Industrial Employment (Standing Orders) Act, 1946 7. Industrial Disputes Act, 1947
Code on Social Security 2020 (“SS Code”)	8. Employees' Compensation Act, 1923 9. Employees' State Insurance Act, 1948 10. Employees' Provident Funds and Miscellaneous Provisions Act, 1952 11. Employment Exchanges (Compulsory Notification of Vacancies) Act, 1959 12. Maternity Benefit Act, 1961 13. Payment of Gratuity Act, 1972 14. Cine-Workers Welfare Fund Act, 1981

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Code	Legislations which have been consolidated
	<p>15. Building and Other Construction Workers' Welfare Cess Act, 1996</p> <p>16. Unorganised Workers' Social Security Act, 2008</p>
<p>Occupational Safety, Health and Working Conditions Code, 2020 ("OSH Code")</p>	<p>17. Factories Act, 1948</p> <p>18. Plantations Labour Act, 1951</p> <p>19. Mines Act, 1952</p> <p>20. Working Journalists (Conditions of Service) and Miscellaneous Provisions Act, 1955</p> <p>21. Working Journalists (Fixation of Rates of Wages) Act, 1958</p> <p>22. Motor Transport Workers Act, 1961</p> <p>23. Beedi and Cigar Workers (Conditions of Employment) Act, 1966</p> <p>24. Contract Labour (Regulation and Abolition) Act, 1970</p> <p>25. Sales Promotion Employees (Conditions of Service) Act, 1976</p> <p>26. Inter-State Migrant Workmen (Regulation of Employment and Conditions of Service) Act, 1979</p> <p>27. Cine-Workers and Cinema Theatre Workers (Regulation of Employment) Act, 1981</p> <p>28. Dock Workers (Safety, Health and Welfare) Act, 1986</p> <p>29. Building and Other Construction Workers (Regulation of Employment and Conditions of Service) Act, 1996</p>

Some key aspects of these 4 Labour Codes

11. The new Labour Codes introduce certain new aspects as well as makes changes to the erstwhile legislations which would have been complied with by an entity. Some selected key aspects to draw the attention of the users, are presented below:

Key definitions

12. The definition of wages has been expanded with a detailed list of exclusions such as house rent allowance, overtime, contributions paid towards provident fund. Exclusions more than 50% of the total remuneration will be added to wages for the purpose. Value of remuneration in kind up to 15% of the total remuneration would also form part of wages. This would require assessment of pay structures of the entity as the thresholds specified above would also impact the computation of social security benefits, leave encashment, retrenchment compensation, gratuity, notice pay.
13. The term 'employee' now includes supervisory, managerial and administrative personnel thus extending statutory protection to senior management employees which was unavailable to them under the previous regime, such as restrictions on deductions from wages. 'Worker', a subset of 'employee', now specifically includes sales promotion employees and working journalists, and has also increased the salary threshold for exemption of supervisors to INR 18,000 per month under Occupational Safety, Health and Working Conditions Code, 2020 (from INR 10,000). This would cause a larger section of the workforce to be covered.
14. The definition of *employer* has been widened to cover any person or authority that employs one or more employees, whether directly or through an intermediary. It clearly identifies the responsible person in different types of establishments—such as the occupier and manager in the case of factories, the person or authority having ultimate control in other establishments, specified authorities or department heads for government establishments, and chief executives for local

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authorities. The definition also expressly includes contractors and the legal representatives of deceased employers, thereby expanding accountability and ensuring clarity on compliance responsibilities.

Overview of the Wage Code

15. Provisions on minimum wages must be observed for all workers. The Central Government would notify a National Floor Wage to ensure no worker receives a wage below the minimum standard. Once such Floor Wage is set, minimum wages fixed by the appropriate Government cannot be lower than the Floor Wage. Accordingly, the Floor Wage or the already notified state minimum wages, whichever is higher, will set the bar for the minimum quantum of wages payable to workers.
16. The Wage Code prohibits discrimination in matters of pay, on the ground of gender, creating a more inclusive law.
17. The earlier Payment of Wages Act, 1936, applied to employees earning up to INR 24,000 per month in most states. In the new code, there is no wage threshold for applicability of the equivalent provisions. This would enhance the applicability to all employees.
18. Bonus is payable to every employee who has worked for at least thirty days in an accounting year. The threshold for applicability of statutory bonus, which was previously applicable only to employees earning up to INR 21,000 per month under the erstwhile legislation, is yet to be notified by the appropriate Governments. Until such notification is completed, employers would be required to continue with statutory bonus coverage for employees earning wages up to INR 21,000 per month.
19. Provisions and protections under the Wage Code will now apply to all employees, including senior management employees.

Overview of the SS Code

20. The SS Code sets out clear and defined thresholds for applicability of various Sections. For instance, the First Schedule to the Code specifies the applicability criteria in respect of benefits and schemes such as Employees' Provident

Fund, Employees' State Insurance, Gratuity, Maternity Benefit, Employees' Compensation, Social Security and Cess in relation to Building and Other Construction Workers, Social Security for Unorganised Workers, and Employment Information and Monitoring.

21. The substantive provisions on payment of gratuity as contained under the previous law are carried forward under the SS Code (with the exception that gratuity would now to be computed on the newly defined 'wages'). Unless exempted, employers should obtain compulsory gratuity insurance from a date to be notified by the Government.
22. The SS Code (read with the IR Code) expressly recognizes fixed term employment in all industries. A fixed term employee will be entitled to *inter alia* parity in wages, statutory/ other benefits similar to permanent workers. Unlike in the case of the earlier legislation, a fixed term employee is eligible for Gratuity benefits on rendering service for 1 year (instead of 5 years for permanent employees).
23. The SS Code also extends social security protections to gig (outside of traditional employer-employee relationship) and platform (online platform) workers. The SS Code empowers the Central Government to set up a Gig and Platform Workers' Social Security Fund. The rate of contributions by aggregators to such Fund (which will be notified), will be between 1% to 2% of their annual turnover, capped at 5% of amounts paid by the aggregator to gig and platform workers.

Overview of the IR Code

24. The IR Code also provides for setting up a 'Worker Re-Skilling Fund' by appropriate government, to provide monetary support to retrenched workmen, for training and re-skilling purposes. Employers are required to credit an additional amount equivalent to 15 days' last-drawn wages (or such other number of days as may be prescribed) of the retrenched worker, to the Fund within a specified time period.
25. Appropriate Government under the Code is empowered to prescribe the quantum of retrenchment compensation which shall be equivalent to fifteen days' average pay, or average pay

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of such days as may be notified by the appropriate Government, for every completed year of continuous service or any part thereof in excess of six months.

Overview of the OSH Code

26. The OSH Code provides for regulation of aspects such as working hours, overtime, annual leave, and shift work, and inter alia prescribes annual leave entitlement of 18 days, carry forward of up to 30 days of unused annual leave, with the option to encash annual leave in excess of 30 days at the end of a calendar year.

Penal provisions in the new Labour Codes

27. The thrust of the Codes is on ease of compliance. Imprisonment is reserved for serious offences. Penalties under the Codes have been significantly increased as compared to the previous laws. The Codes also provide for compounding of certain offences either before or after an enquiry is held or when prosecution is initiated, by paying a certain percentage of the maximum prescribed penalty. Users are advised to refer to the relevant codes for the penal provisions as applicable.

Other Relevant Documents and Clarifications

28. The Ministry of Labour and Employment, Government of India has issued FAQs on all the 4 codes. Such documents can be referred from the relevant website. FAQs on key accounting implications arising from the New Labour Codes issued by Accounting Standards Board of ICAI are placed in Appendix 1 to this document.

Part B - Key Audit Considerations

Impact of new Labour Codes in the Audit of Financial Statements

29. In the context of auditing financial statements, it is incumbent upon the auditor to evaluate and address the implications of applicable labour codes. The auditor should ensure that the relevant provisions of Labour Codes are duly considered during the audit process, with particular attention to their effect on the recognition, measurement, disclosure and presentation of employee-related liabilities and expenses. This responsibility encompasses obtaining sufficient and appropriate audit evidence to confirm compliance with Labour Codes, assessing management's recognition of liabilities in accordance with the latest regulatory requirements and guidance, and verifying the adequacy of related disclosures in the financial statements.
30. The auditor's approach should also be guided by the principles outlined in Standard on Auditing (SA) 250, "Consideration of Laws and Regulations in an Audit of Financial Statements. SA 250 deals with the auditor's responsibility to consider laws and regulations when performing an audit of financial statements.
31. Paragraph 6 of SA 250 states as follows:

This SA distinguishes the auditor's responsibilities in relation to compliance with two different categories of laws and regulations as follows:

- (a) The provisions of those laws and regulations generally recognised to have a direct effect on the determination of material amounts and disclosures in the financial **statements such as tax and labour laws**; and
- (b) Other laws and regulations that do not have a direct effect on the determination of the amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operating aspects of the business, to an entity's ability to continue its business, or to avoid material penalties (for example, compliance with the terms of an

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operating license, compliance with regulatory solvency requirements, or compliance with environmental regulations); non-compliance with such laws and regulations may therefore have a material effect on the financial statements.

For the category referred to in paragraph 6(a), the auditor's responsibility is to obtain sufficient appropriate audit evidence about compliance with the provisions of those laws and regulations. In respect of such Laws and Regulations, the auditor should assess whether by audit procedures performed, sufficient appropriate audit evidence has been obtained in respect of employee benefit expenses and related liabilities.

32. The Accounting Standards Board of ICAI has issued a set of FAQs on key accounting implications arising from the new Labour Codes. It is the responsibility of management, with the oversight of those charged with governance, to ensure that the entity's operations are conducted in accordance with the provisions of laws and regulations, including compliance with the provisions of laws and regulations that determine the reported amounts and disclosures in an entity's financial statements. The auditor should examine whether management has:

- recognised the liabilities in accordance with the requirements of the new labour code read with FAQs issued by the Accounting Standards Board of the ICAI.
- Made adequate disclosures in the financial statements.

Specific audit procedures

33. The key procedures which are required to be performed by an auditor in the context of the introduction of the new Labour Codes, in reference to a specific audit engagement are placed as under. Users are advised to read the entire text of the new Labour Codes and apply them in the context of their specific engagements and modify / enhance the below mentioned aspects to the extent relevant and necessary.

34. In performing the audit, auditors should also refer to the Standards on Auditing (SAs), with particular emphasis on:

- SA 250, Consideration of Laws and Regulations in an Audit of Financial Statements
- SA 260(Revised), Communication with Those Charged with Governance
- SA 265, Communicating Deficiencies in Internal Control to Those Charged with Governance and Management
- SA 300, Planning an Audit of Financial Statements
- SA 315, Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and Its Environment
- SA 330, The Auditor's Responses to Assessed Risks
- SA 402, Audit Considerations Relating to an Entity Using a Service Organisation
- SA 500, Audit Evidence
- SA 540, Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures
- SA 580, Written Representations
- SA 700(Revised), Forming an Opinion and Reporting on Financial Statements
- SA 701, Communicating Key Audit Matters in the Independent Auditor's Report
- SA 705(Revised), Modifications to the Opinion in the Independent Auditor's Report
- SA 706(Revised), Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report
- SA 720(Revised), The Auditor's Responsibilities Relating to Other Information

Understanding of the entity

35. The auditor needs to consider as to how has management identified all categories of employees and workers impacted by the new Labour Codes, including permanent employees, fixed-term employees, gig and platform workers. For this purpose, the auditor would need to gain an understanding of the Human Resources deployment practices of the entity for the purpose of their business requirements including an understanding of the following:
- a. Locations of operations of the entity.
 - b. Permanent Employees – Number of persons, payroll contract structures, pay structures.
 - c. Fixed Term Employees – direct contracts by an entity with persons, number of such staff, contract structures vis a vis the new Labour Codes provisions (for example, the entity may enter into fixed term contracts with persons for specific purposes).
 - d. Contract Staff – through contractors engaged by the entity, number of such staff, contract structures vis a vis the labour code provisions (for example, the entity may enter into contracts with labour contractors or manpower outsourcing agencies to augment internal employee strength on an annual or seasonal or specific time basis).
 - e. Managed service providers (for example, an entity may outsource their entire data centre operations, as an activity, to a third-party service provider who may in turn engage their permanent employees or through another service provider).
 - f. Utilisation of Gig workers and platform workers.
 - g. Any other forms of engagement of human resources as may be relevant.
36. Auditor needs to obtain an understanding of the terms of employment and remuneration structures for various categories

of employees including salary, allowances, statutory benefits, non-monetary benefits.

Understanding Management actions in relation to the new Labour Codes

37. The implementation of relevant actions in the context of the new labour codes is the primary responsibility of the management. In this context, the auditor should obtain relevant information including the aspects placed as under:
- a. How has management determined the applicability of each of the Codes to the entity and what is the current status of implementation of each of the Codes?
 - b. Whether any employment arrangements that conflict with the Codes have been deemed invalid if the management believes that Codes will take precedence over any contrary provision of existing law, contract, policies, awards, or settlements?
 - c. Prior to notification of Rules, has the management appropriately considered the existing Rules, Circulars etc will insofar as they are not inconsistent with the Codes?
 - d. Has management identified any areas of potential non-compliance, or interpretational issues arising on transition to the new Labour Codes, and how has management assessed the need for provision or disclosure in the financial statements?
 - e. What interpretations has management adopted in relation to the revised definition of “wages,” including inclusion or exclusion of allowances and what professional advice, if any, was obtained to support these judgements?
 - f. What impact has the revised wage definition had on actuarial valuations for gratuity and other actuarially determined liabilities, and how has management ensured that the data and assumptions used in such valuations are complete and accurate? (for example, whether the data

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considered includes fixed term employees and the wages as per the new definition?)

- g. Has the management obtained any legal opinion(s) in relation to interpretation, of the Labour Codes, including any supplementary clarifications or updates?
- h. What changes have been made to payroll systems, configurations, or manual processes to comply with the Labour Codes and how has management ensured that these changes were appropriately designed, tested, and approved prior to implementation?
- i. Has the management made relevant and necessary changes to their Risk management framework including addition to and / or modification of existing risks and controls and with specific reference to Internal financial controls with reference to financial statements under Section 143(3)(i) of the Companies Act 2013, where applicable?
- j. Has the management appropriately identified accounting treatment to be adopted (including on transition), including recognition, measurement, classification, and presentation, in accordance with the applicable financial reporting framework and to reflect management's best judgement based on available information?
- k. In case of a listed entity whether the Entity has made any disclosures to the stock exchange as per the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015?

Audit Strategy

- 38. The auditor should establish overall audit strategy to evaluate the scope, timing, and complexity of changes arising from the new Labour Codes, including the applicability of different codes across states and employee categories. Audit plan to particularly consider:

- a. Whether management has taken necessary steps to ensure complete and correct implementation of the provisions of the Labour Codes as applicable to the entity?
 - b. Whether the Labour Codes give rise to increased risks of material misstatement, particularly in respect of payroll and related expenses, statutory dues, employee benefit obligations? Based on this risk assessment, plan involving skilled team members, including specialists where necessary.
 - c. Management's stage of implementation of the changes, if any, necessitated by the Labour Codes and whether key systems, processes, or controls were implemented late in the reporting period.
 - d. Status of operating Rules pending to be notified by the Central/ State Government. Audit Plan should consider the consequential effect of Rules to the extent notified.
 - e. Whether the Labour Codes have resulted in significant changes to payroll and statutory compliance systems and controls and whether such systems and controls are newly implemented or modified?
 - f. Timely communication with those charged with governance regarding the anticipated impact, including significant risks, judgments, and potential control deficiencies.
39. The auditor should perform analytical procedures such as analysis of the proportion of allowances, etc to total compensation and compare with prior periods, ratios of statutory contributions to gross wages as per revised wage definition.
40. The auditor should also plan for enhanced audit documentation to support planning decisions, risk assessments, and audit responses, in the context of the introduction of the new Labour Codes.

Engagement Team Discussions

41. The auditor should conduct discussions among the engagement team, Engagement Quality Control Reviewer, if any and other relevant professionals. Example of the matters to be discussed can include:
- a. Enable engagement team members, as relevant, to obtain a thorough understanding of the Labour Codes vis a vis the auditee entity.
 - b. Were there any prior year findings or control deficiencies related to payroll or statutory compliance that increase current-year audit risk?
 - c. What aspects of the Labour Codes are most complex or judgemental for this engagement, and where does auditor expect the risks of misinterpretation by management?
 - d. Which financial statement areas are most likely to give rise to significant risk of material misstatement due to implementation of the Codes?
 - e. What key assumptions and estimates were used in determining transition adjustments, particularly for actuarial valuations, and how sensitive are the outcomes to changes in those assumptions?
 - f. How could the Codes create incentives or opportunities for management or employees to intentionally misstate employee expenses or statutory dues?
 - g. In what ways could management override payroll or statutory compliance controls during the transition period, and how should the auditor respond to this risk?
 - h. Do the auditor need to involve labour law or tax specialists to address interpretational or measurement complexity arising from the Codes?

- i. Where should the auditor apply heightened professional scepticism, particularly in areas involving judgement, estimates, or management explanations?

Identification of Risk of Material Misstatement

42. The auditor should undertake risk assessment procedures to assess risks of material misstatement at the financial statement and assertion level and based on such risk assessment procedures conclude whether risks of material misstatement have been identified due to the new Labour Codes. Example of possible risks of material misstatement include:
- a. Non implementation or incomplete implementation of changes necessary under the new labour codes.
 - b. Incorrect interpretation and application of the definition of “wages”.
 - c. Improper judgement in identification of affected employee population.
 - d. Incremental expenses / liabilities arising on transition to the Codes is not accounted as per applicable Financial Reporting Framework.
 - e. Incorrect inputs for actuarially determined liabilities, whether intentional or otherwise.
 - f. Intentional salary structuring to reduce financial impact.
 - g. Disclosure requirements under applicable Financial Reporting Framework not properly addressed.
43. The auditor should relate the identified risks to what can go wrong at the assertion level taking account of relevant controls that the auditor intends to test.
44. The auditor should assess control risk if the auditor’s plan to test the operating effectiveness of control activities relevant to the audit particularly considering IT General Controls, IT dependent or automated controls.

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45. The auditor should consider the likelihood of misstatement, including the possibility of multiple misstatements, and whether the potential misstatement is of a magnitude that could result in a material misstatement of the financial statements of the entity.
46. The auditor should review Board/ Audit Committee minutes to identify discussions relating to Labour Codes implementation, wage restructuring and cost management. Corroborate implementation of such discussions with the recognised payroll cost and accounting treatment.
47. The auditor should obtain and review revised Human Resources policies (e.g. wage policy, benefits policy, fixed-term employment policy, leave and gratuity policy) to evaluate the impact of policy changes on payroll costs, statutory contributions and employee benefit obligations.

Control Procedures

48. The auditor should evaluate the control design and perform tests of operating effectiveness in reference to financial statements components and disclosures impacted by the new labour codes. Aspects to be covered specifically in the context of the new labour code include:
 - a. Review and approval of payroll configuration changes.
 - b. Process adopted by the entity to reconcile HR master records and payroll registers to ensure all eligible employees and workers have been included in payroll and statutory calculations.
 - c. Select a sample of employees across different categories (e.g. permanent, fixed-term, gig and platform workers) and review the process adopted by the entity to calculate wages in accordance with the revised wage definition.
 - d. For the selected employee sample, review the process adopted by the entity to reconcile statutory contributions (PF, ESI, contribution to new Funds set by the Government, etc) using revised wage base and applicable rates, and reconcile results with payroll records and statutory challans.

- e. In relation to actuarial valuations, review the process adopted by the entity for consideration of eligible employees, consideration of wage components aligned with the revised “wage” definition and for the identification of assumptions.
- f. Review of approval of transition-related journal entries by senior management prior to posting.

[Where a service organisation is used:

- a. Select a sample of employees processed by the service organisation and review the process followed by the service organisation to calculate wages, allowances, and deductions in accordance with new Labour Codes definitions, using source data approved by management.*
- b. Review management process on key payroll inputs used by the service organisation (employee master data, wage components, attendance data) to management-approved source systems and HR records.*
- c. Inspect Type 1/ Type 2 reports, where applicable, of the service organisation and evaluate whether identified issues were communicated to and resolved by management on a timely basis. In the absence of Type 1/ Type 2 reports, alternative procedures as per SA 402 to be considered by the auditor.*
- d. Review process related to reconciliation of payroll expense and statutory liability reports received from the service organisation to the general ledger and investigation of differences.]*

Substantive Procedures

- 49. The auditor should perform detailed analytical procedures on employee costs, comparing current-year trends, ratios, and averages with prior periods and budgets, and investigate significant or unexplained variances.

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50. The auditor should review sample of employees' revisions in employment contracts (where necessitated under the labour codes), to check whether the same are in compliance with new Labour Codes.
51. The auditor should review reconciliation of HR master records and payroll registers to ensure that all eligible workers/employees have been included in payroll and statutory calculations.
52. The auditor should review the payroll master to identify fixed-term, contract and temporary employees/workers and verify whether any employees/workers have completed continuous service thresholds under the Labour Codes. Corroborate classification as fixed-term or permanent with the appointment letters.
53. The auditor should select a sample of employees across different categories (permanent, fixed-term, gig and platform workers) and independently recalculate wages in accordance with the revised wage definition, verifying inclusion and exclusion of components.
54. For the selected employee samples, the auditor should review reconciliation of statutory contributions (PF, ESI, contribution to new Funds set by the Government, etc) using revised wage base and applicable rates, with payroll records and statutory challans.
55. The auditor should analyse changes in wage structures before and after implementation of the Labour Codes for selected employees to identify significant re-classification of salary components. Assess whether the revised wage structure is used in determining PF, ESI, gratuity and other benefits under the Labour Codes.
56. The auditor should test payroll expenses around the year-end by verifying wages accrued and paid before and after the reporting date, ensuring correct period recognition under revised wage structure.

57. For actuarially determined liabilities perform substantive procedures by focussing on data completeness, assumptions reasonableness, at the valuation date including the following:
- a. Obtain the updated employee benefit policy and identify cap, if any, on payment of such benefits.
 - b. Review reconciliation of employee data considered for actuarial valuation with the HR master records to ensure that all eligible employees have been considered.
 - c. On a sample basis, agree employee date of joining, service period, and retirement age, etc used in actuarial calculations to HR records.
 - d. On a sample basis verify that wage components considered for actuarial valuation align with the revised “wage” definitions under the new Labour Codes and payroll structure.
 - e. Assess the reasonableness of assumptions used including discount rate, salary escalation rate, attrition rate by considering historical experience of the entity, external data and industry benchmarks.
 - f. Evaluate consistency of actuarial assumptions with prior periods and investigate significant changes for potential management bias.
 - g. Evaluate whether the employee benefit liabilities have been classified and presented appropriately within the financial statements.

Consideration of Legal Opinion

58. If legal opinions have been obtained by the management:
- a. Evaluate the professional competence, qualifications, and independence of the external legal counsel, including their experience with labour law.

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- b. Compare key conclusions in the legal opinion with publicly available notifications, circulars, and authoritative interpretations issued by central and state authorities to identify any inconsistencies.
- c. Inquire of management whether any alternative legal views were considered, including dissenting opinions from internal or external advisors, and evaluate how such views were assessed and addressed.
- d. Assess whether the complexity or uncertainty of the legal interpretations necessitates involvement of the auditor's own legal expert.

Management Representations

59. Management Representations specifically relating to Labour Codes may include:

- a. Confirming responsibility for identifying, interpreting, and complying with applicable provisions of the Labour Codes including necessary changes to systems and processes required in this context.
- b. Undertaking that management has assessed the impact of the new labour codes on the relevant processes, statutory contributions, employee benefit obligations, and related disclosures.
- c. Where such assessment is not completed prior to the conclusion of the audit, the status, scope, and reasons for incompleteness have been appropriately evaluated and disclosed in the financial statements.
- d. Confirming that all known and reasonably estimable impacts have been identified and considered in preparing the financial statements.
- e. Accounting treatment adopted (including on transition), including recognition, measurement, presentation and disclosure is in accordance with the applicable financial

reporting framework and reflects management's best judgement based on available information.

- f. All data provided to the actuary in connection with valuation of employee benefit obligations affected by the labour codes (including wage components, service periods, and employee population) is complete and accurate. Actuarial assumptions reflect management's best estimates and are free from management bias.
- g. Confirming that for the purpose of legal opinions, if any, obtained from competent and independent legal professionals, all relevant facts were provided to them, and no contradictory legal advice has been withheld from the auditor.

Communication with Those Charged With Governance (TCWG)

60. The auditor should communicate with TCWG the auditor's views about significant qualitative aspects of the entity's accounting practices in relation to the Labour Codes, including accounting policies, accounting estimates and financial statements disclosures. Examples communications can include:
- a. Management's assessment of the impact of the new Labour Codes (including if the assessment is ongoing for certain areas).
 - b. Implementation of the Labour Codes represents an area of heightened risk of material misstatement due to complexity, interpretation differences, and potential impacts. Explain how this risk has influenced the audit strategy and the extent of substantive procedures performed.
 - c. Significant effect on actuarially determined liabilities such as gratuity particularly due to revised wage definition, if applicable to the entity.

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- d. Evaluation of competence, scope, and conclusions of external counsel from whom legal opinion has been obtained.
- e. Significant judgement in determining the transition effect of new Labour Codes.
- f. Control gaps observed or potential weaknesses in payroll configuration, data validation, and management review processes in light of the labour codes.

Audit Reporting

61. As required by SA 250, the auditor should evaluate the implications of non-compliance with the provisions of Labour Codes, if any. There can be two situations:
- a. The auditor has obtained sufficient appropriate audit evidence to determine that due to such non-compliance, the financial statements are materially misstated, and
 - b. The auditor is unable to obtain sufficient appropriate audit evidence to determine whether due to such non-compliance, the financial statements may be materially misstated.
62. In either case, the audit report will be modified, but the nature of modification can be different. After this, the auditor uses his professional judgment to determine if the effects or possible effects of the matter on the financial statements is/ are pervasive or not pervasive. Again, depending on the extent of pervasiveness, the nature of modification can be different.
63. The auditor has to evaluate the situation carefully before making his judgment as to the nature of modification. It is very important that the auditor, in terms of the principles laid down in SA 230, "Audit Documentation", also documents in his work papers, how and why auditor reached this professional judgment.

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Nature of matter giving rise to the modification	Auditor's judgment about the pervasiveness of the effects or possible effects on the financial statements	
	Material but not pervasive	Material and pervasive
Financial statements are materially misstated	Qualified opinion	Adverse opinion
Inability to obtain sufficient appropriate audit evidence	Qualified opinion	Disclaimer of opinion

Reporting Non-Compliance in the Auditor's Report on the Financial Statements

64. If the auditor concludes that the non-compliance has a material effect on the financial statements, and has not been adequately reflected in the financial statements, the auditor shall, in accordance with SA 705(Revised), express a qualified or adverse opinion on the financial statements.
65. If the auditor is precluded by management or those charged with governance from obtaining sufficient appropriate audit evidence to evaluate whether non-compliance that may be material to the financial statements has, or is likely to have, occurred, the auditor shall express a qualified opinion or disclaim an opinion on the financial statements on the basis of a limitation on the scope of the audit in accordance with SA 705(Revised).
66. For other misstatements identified by the auditor, the auditor should consider the relevant requirements under SA 705 (Revised).

Emphasis of Matter Paragraph

67. Emphasis of Matter paragraph is a paragraph included in the auditor's report that refers to a matter appropriately presented or disclosed in the financial statements that, in the auditor's

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judgment, is of such importance that it is fundamental to users' understanding of the financial statements. [Para 7(a) of SA 706(Revised)].

68. There may be circumstances where the management has appropriately assessed the impact of the Labour Codes and recognised the provision/liabilities with adequate disclosures in the preparation and presentation of financial statements. Where there are substantive disclosures related to implementation of the labour code in the financial statements made by the management of the entity and the auditor is satisfied that these disclosures are appropriate and adequate, then based on the professional judgment of the auditor, an Emphasis of Matter (EOM) paragraph may be included in the auditor's report. An EOM paragraph is a way to draw attention / highlight such disclosures to users of the financial statements when the auditor considers it is fundamental to their understanding of the financial statements. An EOM paragraph cannot be used as a substitute for reporting the matter as a modification or a key audit matter.

CARO reporting and IFC reporting

69. Evaluate impact on reporting under the relevant clauses of Companies (Auditor's Report) Order, 2020 with respect to payment of statutory liabilities and impact on reporting on Internal financial controls with reference to financial statements where the Company has not completed its impact assessment as of the reporting date

Annexure – 1

FAQs on key accounting implications arising from the New Labour Codes

Issued by Accounting Standards Board of ICAI

The Government of India has recently consolidated 29 existing labour legislations into a unified framework comprising four Labour Codes, viz., Code on Wages, 2019, Code on Social Security, 2020, Industrial Relations Code, 2020 and Occupational Safety, Health and Working Conditions Code 2020 (collectively referred to as the 'New Labour Codes'.) Whilst the New Labour Codes are effective from 21st November 2025, the supporting Rules are yet to be notified. The purpose of these FAQs is to clarify key accounting questions arising from the application of New Labour Codes.

Question 1:

Gratuity liability for an entity is likely to increase pursuant to below requirements of the New Labour Codes:

- (a) The new Labour Codes have mandated that minimum 50% of total remuneration should include three components, viz., Basic Pay, Dearness Allowance and Retaining allowance, which are collectively referred to as 'Wages'. If wages are lower than 50% of total remuneration, then it is presumed that wages constitute 50% of total remuneration. The new Labour Codes have subsumed the Payment of Gratuity Act, 1972 and they require gratuity payment to all employees to be calculated based on last drawn wages which should be minimum 50% of total remuneration.
- (b) Earlier gratuity was payable to an employee if and only if an employee has completed five years of continuous service. Under the new Labour Codes, fixed term employees (which include contracted employees) will be entitled to gratuity on completing one year of service. There is no change in requirement of five years of continuous service requirement for permanent employees.

How should an entity account for increase in gratuity liability arising from the New Labour Codes both under Indian Accounting Standards notified under the Companies (Indian Accounting Standards) Rules 2015 (as amended) (hereinafter referred to as 'Ind AS') and Accounting Standards notified under the Companies (Accounting Standards) Rules 2021 (as amended) (hereinafter referred to as 'Indian GAAP')?

Response:

The gratuity benefit is an employee benefit and accordingly any increase in an entity's obligation due to application of the New Labour Codes is to be accounted for in accordance with the principles of AS 15, *Employee Benefits* or Ind AS 19, *Employee Benefits*, as the case may be.

Under AS 15/ Ind AS 19, the changes to gratuity benefit resulting from the New Labour Codes are plan amendments and they are required to be treated as past service costs.

With regard to past service cost, relevant paragraphs of AS 15 and Ind AS 19 state as under:

AS 15, *Employee Benefits*

“7.20 Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (where benefits are introduced or improved) or negative (where existing benefits are reduced).

94. In measuring its defined benefit liability under paragraph 55, an enterprise should recognise past service cost as an expense on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits are already vested immediately following the introduction of, or

changes to, a defined benefit plan, an enterprise should recognise past service cost immediately.

95. Past service cost arises when an enterprise introduces a defined benefit plan or changes the benefits payable under an existing defined benefit plan. Such changes are in return for employee service over the period until the benefits concerned are vested. Therefore, past service cost is recognised over that period, regardless of the fact that the cost refers to employee service in previous periods. Past service cost is measured as the change in the liability resulting from the amendment (see paragraph 65)."

Ind AS 19, *Employee Benefits*

8. ...

Service cost comprises:

...

(b) *past service cost*, which is 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); and

...

103. 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, and**
- (b) when the entity recognises related restructuring costs (see Ind AS 37) or termination benefits (see paragraph 165)."**

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The increase in gratuity liability arising due to application of the New Labour Codes is a past service cost as this results in changes to the benefits payable under the plan and treated in accordance the applicable requirements as below:

- (a) Under Ind AS, Ind AS 19 requires past service cost to be immediately recognised as an expense in the Statement of Profit and Loss.
- (b) Under Indian GAAP, AS 15 requires vested past service cost (i.e., past service for employees who have already completed applicable service period) to be recognised immediately. For employees who are yet to complete applicable service period, past service cost is amortised over the vesting period and recognised as an expense in the Statement of Profit and Loss.

In view of the above, any increase in gratuity liability arising due to application of the New Labour Codes is required to be recognised as an expense in the Statement of Profit and Loss as per the requirements of the relevant applicable Accounting Standard.

Question 2:

Assume that under ABC Limited's salary structure for its employees before the enactment of the New Labour Codes, wage (basic salary +dearness allowance) was only 35% of total remuneration. ABC Ltd. decides to revise its salary structure to comply with the requirements of the New Labour Codes. Along with change in salary restructure, ABC Ltd. decides to grant 15% increase in total remuneration to all its employees vis-à-vis previous estimate of 12% increase. ABC Ltd. has attributed entire increase in remuneration (15%) to basic salary instead of attributing increase to all components. Thus, for example, total remuneration prior to the change was INR 100,000 which included wages of INR 35,000. Post the applicability of the new Labour Codes, total remuneration is INR 115,000 which includes wages of INR 57,500. Can ABC Ltd. treat salary change as change in actuarial assumption resulting in actuarial gain/ loss instead of plan amendment resulting in past service cost?

Response:

In the given case, the change in wages of INR 22,500 has two components: (i) increase in salary of 15% vis-à-vis previous estimate of 12%, and (ii) change in salary structure resulting from attribution of increase in salary entirely to basic salary, instead of attributing increase to all components. The first component is change in actuarial assumption and the second component is a plan amendment. ABC Ltd. Should identify impact of these two components separately and treat them accordingly.

In a scenario, where entities choose to restructure salary to align with new labour codes and there is no real increase in the salary then the entire increase in gratuity and leave obligation shall be attributed to past service cost.

Question 3:

Whilst the New Labour Codes are effective from 21st November, 2025, the supporting Rules are yet to be notified. Based on legal evaluation, the Wage Definition under the New Labour Codes is applicable immediately and an employee, whose last working day is on or after 21st November, 2025, needs to be paid Gratuity as per the requirements of the New Labour Codes. Considering this legal interpretation, whether listed entities having 31st March year end need to recognise additional gratuity obligation arising from the New Labour Codes in financial results for the period ending 31st December, 2025 or they can defer the impact till financial year ending 31st March, 2026?

Response

Both Ind AS 34, *Interim Financial Reporting* and AS 25, *Interim Financial Reporting* require that an entity shall apply the same accounting policies in its interim financial statements as are applied in its most recent annual financial statements, except for accounting policy changes made after the date of the most recent annual financial statements that are to be reflected in the next annual financial statements. However, the frequency of an entity's reporting (annual, half-yearly, or quarterly) shall not affect the measurement of its annual results. To achieve that objective, measurements for

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interim reporting purposes shall be made on a year-to-date basis. Further, as per paragraph 39 of Ind AS 34 and paragraph 38 of AS 25, costs that are incurred unevenly during an entity's financial year shall be anticipated or deferred for interim reporting purposes if, and only if, it is also appropriate to anticipate or defer that type of cost at the end of the financial year.

Considering the above requirements, the increase in gratuity liability arising from new labour codes need to be recognised in interim financial statements/ results for the period ended 31st December, 2025 in accordance with the applicable requirements of Ind AS 19/ AS 15.

Question 4:

Whether increase in gratuity liability arising from the New Labour Codes should be treated as an adjusting or a non-adjusting event in the financial statements/ results for periods ending prior to 21st November, 2025 (e.g., financial statements/ results for the period ended 30th September, 2025 or 30th June, 2025 and 31st March, 2025) and approved for issuance on or after 21st November, 2025?

Response:

The enactment of New Labour Codes is change in law occurring on 21st November, 2025. The obligation arising from change in the law was not existing on an earlier date. Accordingly, enactment of the New Labour Codes and its consequential impact is a non-adjusting event in the financial statements/ results for periods ending prior to 21st November, 2025 (e.g., financial statements/ results for the period ended 30th September, 2025 November, 2025. or 30th June, 2025 and 31st March, 2025) and approved for issuance on or after 21st November, 2025.

Though treated as non-adjusting event, entities should make appropriate disclosures as required under the applicable accounting standard. Paragraph 21 of Ind AS 10, *Events After the Reporting Period* requires disclosure regarding the nature of the event and an estimate of the financial effect, unless such an estimate cannot be made. Similar disclosure is required under

paragraph 17 of AS 4, *Contingencies and Events Occurring After the Balance Sheet Date*.

Question 5:

Like gratuity, the New Labour Codes are also likely to impact leave obligation for the entities. How should an entity account for changes in leave obligation arising from the New Labour Codes both under Ind AS and Indian GAAP?

Response:

Leave obligation is treated as short-term or other long-term employee benefit obligation, as the case may be both under Ind AS 19 and AS 15. Both Ind AS 19 as well as AS 15 require past service cost in respect of other long-term employee benefits to be recognised immediately. Unlike post-employment benefits, AS 15 does not allow amortisation of past service cost on account of changes in other long-term employee benefit obligation even for unvested benefit. Hence, any change in leave obligation arising from the New Labour Codes is recognised as an expense in the Statement of Profit and Loss immediately.

Question 6:

Can an entity present additional expense resulting from increase in gratuity/ leave obligation due to the new Labour Codes as an exceptional item in the Statement of Profit and Loss?

Response:

Ind AS Schedule III to the Companies Act 2013 (as amended) requires separate presentation of exceptional items in the Statement of Profit and Loss. However, the term 'Exceptional items' is neither defined in Ind AS Schedule III nor in Ind AS. However, Ind AS 1, *Presentation of Financial Statements* has reference to material items in paragraphs 85, 86, 97 and 98.

Paragraph 85 of Ind AS 1 requires that additional line items, headings, and subtotals in the statement of profit and loss shall be presented, when such presentation is relevant to an understanding of the entity's financial performance. Further, paragraph 86 provides

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that disclosing the components of financial performance assists users in understanding the financial performance achieved and in making projections of future financial performance. An entity considers factors including materiality and the nature and function of the items of income and expense.

Paragraph 97 of Ind AS 1 requires that when items of income or expense are material, an entity shall disclose their nature and amount separately. Paragraph 98 states that circumstances that would give rise to the separate disclosure of items of income and expense include:

- (a) write-downs of inventories to net realisable value or of property, plant, and equipment to recoverable amount, as well as reversals of such write-downs;
- (b) restructurings of the activities of an entity and reversals of any provisions for the costs of restructuring;
- (c) disposals of items of property, plant, and equipment;
- (d) disposals of investments’;
- (e) discontinued operations;
- (f) litigation settlements; and
- (g) other reversals of provisions.

As per Ind AS 1, information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. Materiality depends on the nature or magnitude of information, or both. An entity assesses whether information, either individually or in combination with other information, is material in the context of its financial statements taken as a whole.

From the above, it appears that all material items are not exceptional items. In other words, exceptional items are those items

which meet the test of 'materiality' (size and nature) and the test of 'incidence'.

Broadly, similar requirements exist under Indian GAAP.

One may argue that change in gratuity and leave obligation is arising from enactment of new legislation which is an event of non-recurring nature. Considering this and depending on materiality of impact, an entity may evaluate whether it is acceptable to present additional expense resulting from increase in gratuity/ leave obligation due to the new Labour Codes as an exceptional item in the Statement of Profit and Loss. Irrespective of whether the expense is presented as exceptional item, the entity should make relevant disclosures to explain impact arising from enactment of the New Labour Codes.

Question 7:

What will be current and deferred tax implications of increase in gratuity and/ or leave encashment obligation arising from the New Labour Codes?

Response:

There are no special provisions under the Income Tax Act, 1961/ Income Tax Act, 2025 (as amended) dealing with tax deduction for increase in gratuity/ leave benefit obligation arising from enactment of the New Labour Codes. Thus, income tax deduction in respect of such increase in obligation is governed by the same provisions of the Income Tax Act, 1961/ Income Tax Act, 2025 (as amended) as are applicable to gratuity/ leave encashment obligation arising in normal course of business. In particular:

- (a) Contributions due and paid to an approved gratuity fund/ trust are allowed as a deductible business expense in the year in which the contribution is made, i.e., on an actual payment basis.
- (b) In respect of unfunded gratuity plan and/ or contribution to unapproved gratuity fund/ trust, deduction as business expense will be allowed only in the year of gratuity becoming payable to the employee.

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- (c) In respect of provision for accrued leave salary benefit, deduction as business expense is allowed on actual payment basis.

Considering the above requirements and requirements of Ind AS 12, Income Taxes, the amount of increase in obligation to the extent deductible as business expense in the current year impacts current tax measurement for the year. However, the amount of increase in obligation to the extent will be deductible in future years results in a deductible temporary difference under Ind AS 12. Subject to consideration of prudence as required under Ind AS 12, these deductible temporary differences result in recognition of deferred tax asset.

Similarly, under AS 22, *Accounting for Taxes of Income*, the amount of increase in obligation to the extent deductible as business expense in the current year impacts current tax measurement for the year. However, the amount of increase in obligation recognised as expense and to the extent will be deductible in future years results in a timing difference under AS 22. Subject to consideration of prudence as required under AS 22, these timing differences result in recognition of deferred tax asset.