

**Re.: General Insurance Officers' Special Voluntary  
Retirement Scheme (VRS), 2004**

This is in continuation to the Authority's Circular No. F&A/CIR/010/Mar-04 dated 23<sup>rd</sup> March, 2004 dealing with the accounting treatment of the expenditure relating to the Special Voluntary Retirement Scheme (VRS), 2004 announced for the officers and the Class III/IV employees notified by the Insurance Division, Dept. of Economic Affairs, Ministry of Finance, Government of India.

It is further clarified that:

1. Ex-gratia payment is required to be recognized as an expense in respect of VRS in the accounting year in which the decision to accept the VRS of an employee is taken by the insurer.
2. While providing for the termination benefits including for leave encashment, excess of the payment made over the actuarial liability provided for, be treated as Deferred Revenue Expenditure and amortized over the specified period.
3. While the period of deferment is restricted to a maximum of 5 years including the year of acceptance of VRS, in case the average residual period of the service of the retiring employee is less than five years, the deferment should not exceed the said average residual period.
4. The contents of the Circular should be implemented having regard to the requirements of the Accounting Standard 22 - Accounting for Taxes on Income, issued by the Institute of Chartered Accountants of India (ICAI).

All public sector insurers who have offered the VRS to their employees during the financial year 2003-04 are required to ensure compliance of the above while finalizing the accountants for the financial year 2003-04.

**(C.S.RAO)**  
**Chairman**