

CA Inter CMA

Chapter 3 : Labour Cost / Employee Cost :

Query : How do we treat Employee's contribution to EPF & ESI ?

Why it is not deducted from the earnings of an employee?

Solution :

- Employee's money going to employee's own account - is it an expense or income of an employee?
- Like, if you deposit cash in your own bank account - Will it be treated as expense or income for you?
- The answer to above is : it is neither an income nor an expense for employee.

- Generally, Employer and Employee both contribute an equal amount to EPF & ESI.
- However, the benefit goes to employee only and not to the employer.
- Employer's contribution to ESI & PF is an income for employee and expense for the employer hence it is treated as employee cost (i.e. labour cost) by the employer.

- If you are interested in calculating 'Take Home Salary' of the employee, then you have to deduct, Employee's contribution to ESI, EPF, TDS, Profession Tax and any other deductions from the salary.
- There is a difference between 'Take Home Salary' and 'Earnings' of an employee.

- ICAI had wrongly deducted Employee's contribution to PF & ESI at one place in the module, to calculate earnings of worker and hence there is a confusion. Please write an email to BOS, ICAI and ask for the clarification about it.