MAASAI MARA UNIVERSITY

REGULAR UNIVERSITY EXAMINATIONS
2018/2019 ACADEMIC YEAR
THIRD YEAR SECOND SEMESTER

SCHOOL OF BUSINESS AND ECONOMICS
BACHELOR OF COMMERCE

COURSE CODE: BCM 3208
COURSE TITLE: ACCOUNTING FOR RETIREMENT BENEFITS

DATE: 15TH APRIL 2019 **TIME: 8.30AM -10.30AM**

INSTRUCTIONS TO CANDIDATES

- ***Answer question ONE (compulsory) and any other THREE questions.***
- ***Question one carries 25 marks***
- ***All other questions carry 15 marks***

This paper consists of 5 printed pages. Please turn over.

QUESTION ONE

a) The amount of a company's pension expense usually is different from the amount contributed by the company to the pension plan (the amount funded) because this amounts are defined by different sets of rules.

Required.

In light of the above statement;

i) Discuss what the company should record as pension liabilities and assets. **(4 Marks)**

ii)The funded status of the plan **(2 Marks)**

b) Discuss accounting the accounting treatment of remeasurements. **(4 marks)**

c) Discuss the following terms and state their treatment when computing the pension expenses.

i. Prior Service Cost (PSC)
ii. Actuarial Gains and Losses
iii. Actual Return on Plan Assets
iv. Interest on Liability
v. Service Costs **(10 Marks**

d) Accounting for retirement benefit plans requires that a report be prepared as part of the financial statements of the plan or as a separate report. Discuss briefly any five contents of this report as provided by IAS 26 paragraph 36**.** **(5 Marks)**

QUESTION TWO

Hollenbeck Foods Inc. sponsors a postretirement medical and dental benefit plan for its employees. The following balances relate to this plan on January 1, 2018.

Plan assets	sh.200, 000
Defined postretirement benefit obligation	sh.200, 000

As a result of the plan's operation during 2018, the following additional data are provided by the actuary.

Service cost for 2018	sh.70, 000
Discount (interest) rate	10%
Contributions to plan in 2018	sh.65, 000
Actual return on plan assets	sh.15, 000
Benefits paid to employees'	sh.44, 000

Required

(a) Using the preceding data, compute the net periodic postretirement benefit cost for 2018 by preparing a worksheet that shows the journal entry for postretirement expense and the year-end balances in the related postretirement benefit memo accounts. (Assume that contributions and benefits are paid at the end of the year). **(10 Marks)**

(b) Prepare any journal entries related to the postretirement plan for 2018 and indicate the postretirement amounts reported in the financial statements for 2018. **(5 Marks)**

QUESTION THREE

a) Discuss the role of actuaries in pension accounting. **(5 marks)**

b) The following trial balance was extracted from the accounting records of the **SOLOMAN** retirement benefit scheme for the year ended 30th September 2017

	Sh.(000)	Sh.(000)
Accumulated fund as at 1 October, 2016		46,146
Accrued expenses		24
Administrative expenses	284	
Cash and demand deposits	2,346	
Change in market value of investments	2,264	
Commutation and lump sum retirement benefits	482	
Contributions due within 30 days	494	
Employer normal contributions		3648
Individual transfers in from other schemes		315
Individual transfers out to other schemes	186	
Investment income		4,740
Immovable property	13,232	
Kenya government securities	26,360	
Members normal contributions		1,824
Members additional voluntary contributions		456
Pensions	764	
Quoted equity investments	8,783	
Unpaid benefits		32
Unquoted equity investments	1,990	………
	57,185	57,185

Required.

Prepare the statement of changes in net assets for the year ended 30th September, 2017 and statement of net assets as at that date, in accordance with International Accounting Standard 26 (Accounting and reporting by retirement benefit plans) **(10 marks)**

QUESTION FOUR

a) What distinguishes a termination benefit from the other benefits considered in IAS 19 (revised)? **(4 Marks)**

b) Various pension plan information of the KM Company for 2007 and 2008 is as follows:

	2007	2008
Service cost	Sh.100, 000	(j)
Interest cost on projected benefit obligation	54,000	(g)
Discount rate	9%	9%
Amortization of prior service cost	4,000	4,000
Plan assets (fair value), 1/1*	500,000	615,000
Projected benefit obligation, 1/1#	(a)	720,000
Expected long-term rate of return on plan assets	(b)	11%
Amortization of net loss	(d)	700
Accrued pension cost (liability), 12/31	(f)	(k)
Average service life of employees	10 years	10 years
Pension expense	(e)	110,850
Cumulative net loss, 1/1	68,000	(i)
Expected return on plan assets	50,000	(h)
Corridor	(c)	72,000

Note

* 1/1/2009: $762,000

#1/1/2009: $857,800

Required

Fill in the blanks lettered (a) through (k). All the necessary information is listed. It is not necessary to calculate your answers in alphabetical order. **(11 marks)**

QUESTION FIVE

a) IAS 19 Employee Benefits was amended in December 2004 to allow a choice of methods for the recognition of actuarial gains and losses.

Required:

Explain the treatments of actuarial gains and losses currently permitted by IAS 19. **(3 Marks)**

(b) The following information relates to the defined benefit employees compensation scheme of an entity:

Present value of obligation at star t of 2017 (Sh.000)		20,000
Market value of plan assets at star t of 2017(Sh.000)		20,000
Expected annual return on plan assets		10%
Discount rate per year		8%
	2017	2018
	sh.000	sh.000
Current service cost	1,250	1,430
Benefits paid out	987	1,100
Contributions paid by entity	1,000	1,100
Present value of obligation at end of the year	23,000	25,500
Market value of plan assets at end of the year	21,500	22,300

Actuarial gains and losses outside the 10% corridor are to be recognized in full in the income statement. Assume that all transactions occur at the end of the year.

Required:

(a) Calculate the present value of the defined benefit plan obligation as at the start and end of 2017 and 2018 showing clearly any actuarial gain or loss on the plan obligation for each year. **(4 Marks)**

(b) Calculate the market value of the defined benefit plan assets as at the start and end of 2017 and 2018 showing clearly any actuarial gain or loss on the plan assets for each year. **(4 Marks)**

(c) Applying the 10% corridor show the total charge in respect of this plan in the income statement for 2017 and the statement of comprehensive income for 2018. **(4 Marks)**

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