



# 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: 15<sup>TH</sup> APRIL 2019  
-10.30AM**

**TIME: 8.30AM**

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**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 these 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.

- Prior Service Cost (PSC)
- Actuarial Gains and Losses
- Actual Return on Plan Assets
- Interest on Liability
- 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 30<sup>th</sup> September 2017

Sh.(000)	Sh.(000)
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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		<u>1,990</u>
.....		
	<u>57,185</u>	<u>57,185</u>

**Required.**

Prepare the statement of changes in net assets for the year ended 30<sup>th</sup> 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
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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* 615,000	500,000	
Projected benefit obligation, 1/1# 720,000	(a)	
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 years	10 years	10
Pension expense 110,850	(e)	
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 start of 2017 (Sh.000)		
20,000		
Market value of plan assets at start 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)**

**//END**