**MAASAI MARA UNIVERSITY**

**HIGHLANDS STATE COLLEGE**

**APRIL 2017 DRAFT EXAMINATIONS**

**SCHOOL OF BUSINESS AND ECONOMICS**

**BACHELOR OF BUSINESS MANAGEMENT**

**YEAR 3 SEMESTER 1**

**UNIT CODE: BBM 305**

**UNIT TITLE: ACCOUNTING FOR PENSIONS AND POST RETIREMENT BENEFITS**

***INSTRUCTION TO CANDIDATES***

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

**QUESTION ONE**

a) Differentiate between defined contribution plan and defined benefit plan

**(3 marks)**

b)XYZ Ltd amended the pension plan grants to its employees prior service benefit having a present value of Kshs 80,000. The annual amountization amounts using year to year service approach is Kshs. 27,200 for 2015.

The following additional information applies to the pension plan for the year 2015.

* On January 1st 2015, XYZ Co Ltd grants prior service benefits having a present value of Kshs 80,000
* Annual service cost is Kshs 9500
* Settlement rate of 10%
* Actual return on plan assets is Kshs. 11,100
* Annual contributions (funding) are Kshs. 20,000
* Benefits paid to retirees during the year are Kshs. 8,000
* Amountization of prior service costs (PSC) using the year of service method is Ksh. 27,200

The opening balances from prior year December 2014 are-

|  |  |
| --- | --- |
| Prepaid/Accrued cost Ksh. 1000 (cr) | Ksh 1,000 |
| Projected benefit obligation (cr) | Ksh. 112,000 |
| Plan assets (Dr) | Ksh. 111,000 |

**Required**:

i)Prepare a worksheet presentation of the above entry and information as recorded by XYZ Ltd Co. **(15 marks)**

ii) Explain the information that is not disclosed in the body of the financial statement but should be disclosed in the notes **(7 marks)**

**QUESTION TWO**

ABC Co Ltd Define benefit covers 170 employees. In its negotiations with its employees, ABC amends its pension plan on Jan 1st 2015 and grants Ksh 80,000 of prior service costs to its employees. The employees are grouped according to expected year of retirement.

|  |  |  |
| --- | --- | --- |
| **Group** | **Employees** | **Expected retirement on Dec 31st** |
| A | 40 | 2011 |
| B | 20 | 2012 |
| C | 40 | 2013 |
| D | 50 | 2014 |
| E | 20 | 2015 |
|  | **170** |  |

**Required:**

1. Compare the service year per year and total service year **(5 marks)**
2. Compute on the basis of a prior service cost and a total of the service years for all years **(5 marks)**
3. Describe the reporting requirements for pension plan in a financial statement

**(5 marks)**

**QUESTION THREE**

a) Distinguish between accounting for the employer's pension plan and accounts for pension **(4 marks)**

b) Explain the employer's obligations under post-retirement benefits

**(4 marks)**

c) Explain the disclosures required for other post retirement benefit plans in notes to the financial statement **(7 marks)**

**QUESTION FOUR**

The following facts were obtained from Zuma Zuma Co. Ltd which apply to the post retirement benefit plan for the year 2014

Actual return on plan assets Kshs 600

Expected return on plan assets is Kshs 500

Discount rate 8%

Increased A/Bo (Annual Post Benefit Obligation) Jan 2000 in Kshs 400,000

Service cost is Kshs 22,000

Discount rate is 8%

Contributions (funding) to plan during the year are Kshs 38,000

Benefit payment to employees from plan are Kshs 28,000/2

Average remaining service to full elgibility 21 years

Average remaining service to expected retirement 25 years

Transition amount to be amountized

**Required:**

a) Using the above data, prepare a work sheet with the following opening balances **(10 marks)**

N/B.A/Bo Kshs 400,000 (cr)

Unrecognized transaction amount (Dr) Kshs400, 000

b)Contrast accounting for pensions to accounting for other post-retirement benefits **(5 marks)**

**QUESTION FIVE**

a) Write short notes on the following components;-

1. Pension expenses **(2 marks)**
2. Service cost **(2 marks)**
3. Interest on the liability **(2 marks)**
4. Actual return on plan asset **(2 marks)**
5. Amountization of unrecognized prior service cost **(2 marks)**

b)Given the following items and amounts, compute the actual return on plan assets, fair value of plan assets at the beginning of the period Kshs 9,200,000, benefits paid during the period Ksh 1,400,000, contributions made during the period Kshs 1,000,000, and the fair value of the plan assets at the end of the period Kshs. 10,150,00 **(5 marks)**