FINAL EXAM

Course # 171038
Accounting For Pensions & Postretirement Benefits

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Accounting For Pensions And Postretirement Benefits
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6 CPE Credit Hours
Accounting & Auditing

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Instructions are provided at the end of this document.

Chapter 0 - Course Material

1. The accumulated benefit obligation (ABO) measures

   ______ The year-end pension obligation based on past and current salaries, not future compensation levels.
   ______ The pension obligation on the basis of the plan formula applied to years of service to date and based on future salary levels.
   ______ An estimated total benefit at retirement and then computes the level cost that will be sufficient, together with interest expected to accumulate at the assumed rate, to provide the total benefits at retirement.
   ______ The shortest possible period for funding to maximize the tax deduction.

2. The projected benefit obligation (PBO) is the measure of pension obligation that

   ______ Is required to be used for reporting the service cost component of pension expense.
   ______ Requires pension expense to be determined solely on the basis of the plan formula applied to years of service to date and based on existing salary levels.
   ______ Requires the longest possible period for funding to maximize the tax deduction.
   ______ Is not sanctioned under generally accepted accounting principles for reporting the service cost component of pension expense.

3. Differing measures of the pension obligation can be based on

   ______ All years of service, both vested and nonvested, using current salary levels.
   ______ Only the vested benefits using current salary levels.
   ______ Both vested and nonvested service using future salaries.
   ______ All of these.

4. In a defined-contribution plan, a formula is used that

   ______ Defines the benefits that the employee will receive at the time of retirement.
   ______ Ensures that pension expense and the cash funding amount will be different.
   ______ Requires an employer to contribute a certain sum each period based on the formula.
   ______ Ensures that employers are at risk to make sure funds are available at retirement.

5. Which of the following is NOT a characteristic of a defined-contribution pension plan?

   ______ The employer's contribution each period is based on a formula.
   ______ The benefits to be received by employees are usually determined by an employee's three highest years of salary defined by the terms of the plan.
   ______ The accounting for a defined-contribution plan is straightforward and uncomplicated.
   ______ The benefit of gain or the risk of loss from the assets contributed to the pension fund are borne by the employee.

6. In a defined-benefit plan, a formula is used that

   ______ Requires that the benefit of gain or the risk of loss from the assets contributed to the pension plan be borne by the employee.
   ______ Defines the pension benefits employees will receive upon retirement for their

employment.

- ______ Requires that pension expense and the cash funding amount be the same.
- ______ Defines the contribution the employer is to make; no promise is made concerning the ultimate benefits to be paid out to the employees.

7. Given the following pension information related to Woods, Inc. for the year 2X13, what is the amount of pension expense that Woods should report for 2X13? Service cost = $72,000; Interest on projected benefit obligation = $54,000; Interest on vested benefits = $24,000; Amortization of prior service cost due to increase in benefits = $12,000; Expected return on plan assets = $18,000. The amount of pension expense to be reported for 2X13 is

- ______ $108,000.
- ______ $144,000.
- ______ $162,000.
- ______ $120,000.

8. For a defined benefit pension plan, the discount rate used to calculate the projected benefit obligation is determined by the: I) Expected Return on Plan Assets, or II) the Actual Return on Plan Assets?

- ______ Both I and II
- ______ Neither I nor II
- ______ I, but not II
- ______ II, but not I

9. Interest cost included in the net pension cost recognized for a period by an employer sponsoring a defined benefit pension plan represents the

- ______ Shortage between the expected and actual return on plan assets.
- ______ Increase in the projected benefit obligation resulting from the passage of time.
- ______ Increase in the fair value of plan assets resulting from the passage of time.
- ______ Amortization of the discount on unrecognized prior service costs.

10. Alternative methods exist for the measurement of the pension obligation (liability). Which measure requires the use of future salaries in its computation?

- ______ Vested benefit obligation
- ______ Accumulated benefit obligation
- ______ Projected benefit obligation
- ______ Restructured benefit obligation

11. The computation of pension expense includes all the following EXCEPT

- ______ Service cost component measured using current salary levels.
- ______ Interest on projected benefit obligation.
- ______ Expected return on plan assets.
- ______ All of these are included in the computation.

12. The interest on the projected benefit obligation (PBO) component of pension expense

- ______ Decreases pension expense and the PBO..
- ______ Reflects the rates at which pension benefits could be effectively settled.
- ______ Is the same as the expected return on plan assets.

______ May be stated implicitly or explicitly when reported.

13. In accounting for a pension plan, any difference between the pension cost charged to expense and the payments into the fund should be reported as

   ______ An offset to the liability for prior service cost.

   ______ Pension asset/liability.

   ______ As other comprehensive income.

   ______ As accumulated other comprehensive income.

14. Which of the following items should be included in pension expense calculated by an employer who sponsors a defined-benefit pension plan for its employees? I) Fair value of plan assets, or II) Amortization of prior service cost

   ______ Both I and II.

   ______ I, but not II.

   ______ II, but not I.

   ______ Neither I nor II.

15. A corporation has a defined-benefit plan. A pension liability will result at the end of the year if the

   ______ Projected benefit obligation exceeds the fair value of the plan assets.

   ______ Fair value of the plan assets exceeds the projected benefit obligation.

   ______ Amount of employer contributions exceeds the pension expense.

   ______ Amount of pension expense exceeds the amount of employer contributions.

16. The actual return on plan assets

   ______ Is equal to the change in the fair value of the plan assets during the year.

   ______ Includes interest, dividends, and realized and holding gains or losses on plan assets.

   ______ Is equal to the expected rate of return times the fair value of the plan assets at the beginning of the period.

   ______ All of these.

17. Rossi Company has a defined-benefit plan. At the end of 2X13, it has determined the following information related to its pension plan: Projected benefit obligation (PBO) = $$700,000; Accumulated benefit obligation (ABO) = $660,000; Fair value of pension plan assets = $610,000. What is the amount of pension liability that is reported in Rossi's balance sheet at the end of 2X13?

   ______ $100,000.

   ______ $90,000.

   ______ $60,000.

   ______ $50,000.

18. Rathke, Inc. has a defined-benefit pension plan covering its 50 employees. Rathke agrees to amend its pension benefits. As a result, the projected benefit obligation increased by $1,500,000. Rathke determined that all its employees are expected to receive benefits under the plan over the next 5 years. In addition, 20% are expected to retire or quit each year. Assuming that Rathke uses the years-of-service method of amortization for prior service cost, the amount reported as amortization of prior service cost in year one after the amendment is

   ______ $300,000.

   ______ $500,000.

______ $150,000.

______ $400,000.

19. When a company amends a pension plan, for accounting purposes, prior service costs should be

______ Treated as a prior period adjustment because no future periods are benefited.

______ Amortized in accordance with procedures used for income tax purposes.

______ Recorded in other comprehensive income (OCI).

______ Reported as an expense in the period the plan is amended.

20. Gains and losses that relate to the computation of pension expense should be

______ Recorded currently as an adjustment to pension expense in the period incurred.

______ Recorded currently and in the future by applying the corridor method which provides the amount to be amortized.

______ Amortized over a 15-year period.

______ Recorded only if a loss is determined.

21. The fair value of pension plan assets is used: I) to determine the corridor, and II) to calculate the expected return on plan assets.

______ Both I and II

______ I, but not II

______ II, but not I

______ Neither I nor II

22. Huggins Company has the following information at December 31, 2X13 related to its pension plan. What is the amount of pension asset/liability Huggins Company would recognize at December 31, 2X13? Projected benefit obligation (PBO) = $4,000,000; Accumulated benefit obligation (APO) = $3,200,000; Plan assets (fair value) = $4,200,000; Accumulated OCI = $300,000

______ Pension liability of $300,000.

______ Pension asset of $1,000,000.

______ Pension liability of $800,000.

______ Pension asset of $200,000.

23. Kraft, Inc. sponsors a defined-benefit pension plan. The expected return on plan assets and the settlement rate are both 10%. Given the following data that relates to the operation of the plan for the year 2X13, what is the amount of pension expense reported for 2X13? Service cost = $200,000; Contributions to the plan = $220,000; Actual return on plan assets = $180,000; Projected benefit obligation (PBO) (beginning of year) = $2,400,000; Market-related and fair value of plan assets (beginning of year) = $1,600,000.

______ $200,000.

______ $260,000.

______ $280,000.

______ $440,000.

24. Which of the following disclosures of pension plan information would not normally be required?

______ The major components of pension expense

______ The amount of prior service cost changed or credited in previous years.

______ The funded status of the plan and the amounts recognized in the financial statements

- ______ The rates used in measuring the benefit amounts

25. A pension fund gain or loss that is caused by a plant closing should be

- ______ Recognized immediately as a gain or loss on the plant closing.
- ______ Spread over the current year and future years.
- ______ Charged or credited to the current pension expense.
- ______ Recognized as a prior period adjustment.

26. Which of the following statements about the expected postretirement benefit obligation (EPBO) is not correct?

- ______ The EPBO is an actuarial present value.
- ______ The EPBO is recorded in the accounts.
- ______ The EPBO is used in measuring periodic expense.
- ______ All of these are correct.

27. An employer's obligation for postretirement health benefits that are expected to be fully provided to or for an employee must be fully accrued by the date the

- ______ Benefits are paid.
- ______ Benefits are utilized.
- ______ Employee retires.
- ______ Employee is fully eligible for benefits.

28. Bounty Co. provides postretirement healthcare benefits to employees who have completed at least 10 years' service and are aged 55 years or older when retiring. Employees retiring from Bounty have a median age of 62, and no one has worked beyond age 65. Fletcher is hired at 48 years old. The attribution period for accruing Bounty's expected postretirement healthcare benefit obligation to Fletcher is during the period when Fletcher is aged

- ______ 48 to 65.
- ______ 48 to 58.
- ______ 55 to 65.
- ______ 55 to 62.

29. Given the following facts that relate to the Patton Co. postretirement benefits plan for 2X13, what is the amount of postretirement expense for 2X13? Service cost = $170,000; Discount rate = 9%; APBO, January 1, 2X13 = $1,500,000; EPBO, January 1, 2X13 = $2,000,000; Benefit payments to employees = $115,000.

- ______ $170,000.
- ______ $305,000.
- ______ $350,000.
- ______ $420,000.

30. The International Accounting Standards Board (IASB) has proposed changes to IFRS pension accounting including all of the following EXCEPT

- ______ Elimination of smoothing via the corridor approach.
- ______ Different presentation of pension costs in the income statement.
- ______ Requiring recognition of actuarial gains and losses over the expected service lives of employees.
- ______ A new category of pensions for accounting purpose – “contribution-based

promises."

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