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**W1-2-60-1-6**

JOMO KENYATTA UNIVERSITY OF AGRICULTURE AND TECHNOLOGY

# **UNIVERSITY EXAMINATIONS 2014/2015**

FOURTH YEAR FIRST SEMESTER EXAMINATION FOR THE DEGREE OF BACHELOR OF COMMERCE

**HBF 2400 : PENSIONS FINANCE**

**DATE: APRIL 2015 TIME: 2 HOURS**

**INSTRUCTIONS:**

**ANSWER QUESTION ONE AND ANY OTHER TWO QUESTIONS**

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**QUESTION ONE**

1. Explain the following terms:-
2. Post-employment benefits
3. Vested employee benefits
4. Actuarial gains
5. Terminal benefits
6. Defined benefit plans
7. XYZ Ltd provides a lump sum benefit payment on termination of service at the rate of 1% of final salary for each year of service. An employee correct salary is shs. 100 000 expected to grow at the rate of 7% per annum (compound). The appropriate discount rate is 10% per annum. The employee is expected to leave employment at the end of year 5.

Required:

Compute the amount of current service cost interest cost, and retirement

obligation for each of the years. [12 marks]

1. Differentiate between contribution plans and benefit plans. [8 marks]

**QUESTION TWO**

Explain four types of pension plans [20 marks]

**QUESTION THREE**

The following data refer to Kakamega Company’s defined benefit pension plan.

The company’s fiscual year ends on December 31st 2008.

Balances on January 1st 2008

PBO………………………..shs. 400 000

Plan assets at a fair value……shs. 300 000

Accrued pension cost ……shs. 100 000

Information for 2008

Service cost ………………shs. 40 000

Benefit paid …….shs 35 000

Discount rate ….8%

Actual return on plan assets ( i.e equals expected returned 30 000 )

Funding i.e contribution …………………………..shs. 50 000

Required:

1. The December 31 2008, entry record pension expense
2. The 2008 reconciliation funded status [12 marks]

(b) Explain the two sources of prior service cost [8 marks]

**QUESTION FOUR**

1. Explain the rationale for delayed recognition of pension gains and losses. [10 marks]
2. Explain the effect of prior service cost in the projected benefit of amortizing prior service cost in correct and future periods. [10 marks]

**QUESTION FIVE**

On 31st December 2002, Mkafiri Ltd discontinued a segment of its business

dealing with production for cooking oil. The employees of the discounted

segment will earn no further benefits. The actuarial assumptions immediately

before the curtailment showed a defined benefit obligation with a net present

value of kshs. 1 000 000 and plan assets with a fair value of shs. 820 000.. The

cumulative unrecognized actuarial gains amount to kshs. 50 000 Mkafiri Ltd had

adopted the new standard on employee benefit on 1st January 2002 a time when

the increased net liability was recognized as shs. 100 000 which was to be

recognized over five years. The curtailed reduced the net present values of the

obligation by kshs. 100 000

Required

Compute the amount of net liability to be recognized in the balanced sheet as at 31 -12-2001 [20 marks]