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UNIVERSITY OF KABIANGA

UNIVERSITY EXAMINATIONS

2016/2017 ACADEMIC YEAR

SUPPLEMENTARY/SPECIAL EXAMINATION

**FOR THE DEGREE OF BACHELOR
OF BUSINESS MANAGEMENT**

COURSE CODE: BBM 305

COURSE TITLE: PENSION ACCOUNTING

DATE: 15TH SEPTEMBER, 2017 TIME: 3.00 P.M - 6.00 P.M.

INSTRUCTIONS TO CANDIDATES

- SEE INSIDE

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**UNIVERSITY OF KABIANGA
SCHOOL OF BUSINESS & ECONOMICS**

PENSION ACCOUNTING

SUPPLEMENTARY/SPECIAL EXAM

2nd SEMESTER

BBM 305

3 Hours

Answer Question One and any other Three Questions

Question One.

- a) Retirement Benefits Authority is the regulator of the pension industry in Kenya.
- i) What has been the achievement of the regulator in the sector? (8mks)
 - ii) Briefly explain the challenges the regulator is encountering. (7mks)
- b) Explain five events that might change the balance of the Projected Benefit Obligation (PBO). (10mks).

Question Two.

- a) The pension data for Mangrove Company include the following information:

	Ksh. Millions
Service cost , 2015	224
Projected benefit obligation , January 1, 2015	1,700
Plan assets (fair market value), January 1, 2015	1,800
Net prior service cost (2015 amortization sh. 8 million)	160
Net loss- pensions (2015 amortization, sh 1 million)	202
Discount rate , 6%	
Expected return on plan assets, 10%	
Actual return on plan assets, 11%	

Required:

- Determine pension expense for 2015. (9mks)
- b) Name three events that might change the balance of the plan assets. (6mks)

Question Three.

- a) How is the pension expense influenced by changes in the pension liability and Plan assets. (10mks)
- b) Define the service cost component of the periodic pension expense (5mks)

Question Four.

- a) 'The excess of the actual return on plan assets over the expected return decreases the employer's pension cost'. Discuss (10mks)
- b) The pension plan assets of Astoria company was ksh 320 million at the beginning of the year and ksh 332 million at the end of the year. The return on plan assets was 8%. At the end of the year, cash invested in the pension fund was ksh 28 million. What was the amount of retiree benefits paid out by the trustee? (5mks)

Question Five.

- a) Explain the meaning of a pension fund being overfunded. (5mks)
- b) Pension plan assets were ksh 40 million at the beginning of the year. The return on Plan assets was 7%. At the end of the year, retiree benefits paid by the trustees Was ksh 3 million and cash invested in the pension fund was ksh 3.5 million. What was the amount of the pension plan assets at year end. (5mks)
- c) Define interest cost component of the periodic pension expense. (5mks)