Intermediate Accounting 2
Chapter 19 - Post Employment Plans

Answer Sheet

2 types of Pension Plans:

1) Defined Contribution Plan: The plan in which the employer makes agreed-upon (or defined) cash contributions to the plan each period, which are then invested by the trustee on behalf of the employee.

2) Defined Benefit Plan: The plan in which the eventual benefits to the employee are stated in the pension plan. It is the employer's responsibility to fund the pension; contributions are variable, benefits are fixed.

Accounting for DB Plans: (4 elements)

Plan Obligation:
- Beginning Balance
+ Current Service Cost
+ Interest on beginning balance
+ Past Service Cost
+ Actuarial gain or loss
- Benefits paid
= Ending Balance

Plant Assets:
- Beginning Balance
+ Actual Earnings
+ Funding or Contributions
- Benefits Paid
= Ending Balance

Prepared by: [Signature]
Pension Expense:
- Correct Service Cost
+/- Past Service Cost
+ Interest on obligation (Beginning)
- Expected income on Plant Assets (Beginning)

OCI:
- Actuarial gain or losses
+/- Gain or loss on Plant Assets

Pension Plant Assets: These are the assets held in a separate long-term employee benefit fund. These assets are not available to pay other liabilities.

Defined benefit obligation: It is the amount of money a company must pay to its defined benefit pension plan.

Actuarial gain or loss: Gain or loss arising from the difference between estimates and actual experience in a company's pension plan. Should be reported in the SFP under OCI.

Prepared by: Charanjit Singh
Plan Obligation:

Beginning Balance (31st Dec 2011) 130,000
Add: Current Service Cost 8,000
Add: Interest on Beginning Balance (130,000 x 9%) 11,700
Add: Past Service Cost 4,100
Less: Actual Revaluation (3,200)
Less: Benefits Paid (15,000)
Ending Balance in DBO (Cr) 135,600

Plant Assets:

Beginning Balance, Dec 31st 2011 86,000
Add: Actual earnings 4,500
Add: Contributions 9,000
Less: Benefits Paid (15,000)
Ending Balance in Plant Assets (Dr) 84,500

b. Net Defined Benefit Obligation on 31st Dec 2011


Net Defined Benefit Obligation at Dec 31st 2011 (Cr) - 44,000

Service Cost:
Pension Expense 12,100
Defined Pension Liability 12,100
(41,000 x 8,000)

Net Interest:
Pension Expense 39,600
Defined Pension Liability 39,600
(44,000 x 9%)
Contribution
Net defined pension liability 9000
Cash 9000

Revaluation
OCI
Net defined pension liability 3240

Net defined pension liability [86000×9% = 7740 - 4500]

Net defined pension liability 3200
OCI 3200

Proof: 135600 - 84500 = 51100

Net defined Pension liability [Dec 31st 2012]

DBO

\[
\begin{align*}
44000 & \rightarrow 2011 \\
12100 & \\
3960 & \\
3240 & \\
3200 & \\
9000 & \\
51100 & \\
\end{align*}
\]

\[\text{Proof: } 135600 - 84500 = 51100\]