E-tivity 5.3: Reporting the impact of the pension benefits in the employer's financial statements

Question 1: A company maintains a defined benefit pension plan for its employees. The following information is relevant:

- The pension assets brought forward in 20X0 $1,800 with a closing balance of $2,700.
- The company contributes $90 per year into the scheme.
- Benefits paid out in the period were $100.
- The liabilities of the scheme were $1,600 at the start of the period and $2,100 at the end.
- The discount rate is 12%.
- The terms of the scheme have changed meaning that past service costs have arisen of $35 and the current service costs for the period are $70.

Required: Show the treatment for the pension plan in the financial statements of the company.

Question 2: The following information relates to a funded defined benefit plan (all transactions are assumed to occur at the year-end):

Present value of obligations at year start	$400m
Market value of plan assets at year start	$390m
Discount rate at start of year	10%
Current service cost	$14m
Benefits paid	$26m
Contributions paid	$34m
Present value of obligations at year end	$530m
Market value of plan assets at year end	$370m

There was a variation in the benefit terms during the year, which resulted in a past service cost of $100m. **Required:** (a) Financial statement effects for the year.

Following the above, the pension is wound up at the year end. The market value of the plan assets is unchanged by the curtailment. But the liability is affected. The employees departing the scheme agree to receive the plan assets in full plus a further payment of $167m. The cash was paid just before the year end.

Required: (b) Explain the effect of the above curtailment on the current financial statements.

A few years later, the company has a new defined benefit pension scheme with new employees. This scheme is in surplus with an asset value of $100m and a liability value of $82m. Of course, because the asset exceeds the liability, it is expected that in the future it will be possible to reduce contributions into the scheme. However, the present value of the reductions in future contributions is only $16m.

Required: (c) Explain the effect of the above asset ceiling on the current financial statements.