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Exercise 17-33
LO4

Computation of Pension Expense and Summary Journal Entries

The accountants for Eden Financial Services provide you with the following detailed information at December 31, 2013. Based on these data, prepare the summary journal entries related to the recognition of pension expense and the pension contribution for 2013.

Service cost	$ 52,000
Actual return on pension plan assets	81,000
Interest cost	59,000
Excess of expected return over actual return on pension plan assets	15,000
Amortization of deferred pension loss from prior years	24,000
Amortization of prior service cost	36,000
Contribution to pension fund	100,000

Exercise 17-34
LO4

Pension Expense Computation

Fredco's defined benefit pension plan had a PBO of $10,000,000 at the beginning of the year. This was based on a 10% discount rate (obligation discount rate). The fair value of pension plan assets at the beginning of the year was $10,400,000. These assets were expected to earn a long-term rate of return on the fair value of 8%. During the year, service cost was $750,000. At the beginning of the year, prior service cost was $25,000; this entire remaining amount will be amortized this period. There was no deferred net pension gain (loss) at the beginning of the year. The actual return on pension plan assets for the year was $900,000. The ABO was $9,500,000 at the beginning of the year. Compute Fredco's net periodic pension expense for the year.

Exercise 17-35
LO4

SPREADSHEET

Preparing a Pension Work Sheet

The following information relates to the defined benefit pension plan of Mascare Company.

January 1, 2013:	
PBO	$9,000
FVPF	$11,000
Expected return on plan assets	8%
Obligation discount rate	10%
For the year ended December 31, 2013:	
Service cost	$1,200
Benefit payments to retirees	500
Contributions to pension fund	100
Actual return on plan assets	1,500

Prepare a pension work sheet for Mascare Company for 2013.

Exercise 17-36
LO5

Pension-Related Balance Sheet Items

From the following information for each of three independent cases, prepare the pension note disclosure that outlines the items that go into the computation of the pension-related asset or liability reported in the balance sheet as well as the pension-related accumulated other comprehensive income reported in the balance sheet.

	(In thousands)		
	Case 1	**Case 2**	**Case 3**
Projected benefit obligation	$12,500	$6,290	$890
Accumulated benefit obligation	9,700	4,100	750
Fair value of the pension fund	15,300	4,200	650
Market-related value of the pension fund	12,800	5,000	560
Deferred net (gain) or loss from prior years	(200)	(850)	100
Prior service cost	800	2,300	125

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Case 17-55

Deciphering Financial Statements (General Motors)

Direct your attention to the company with perhaps the largest private pension plan in the world—General Motors. GM's note relating to its pension plan is included in Exhibit 17-11 on page 17-42. Use that information to answer the following questions.

1. Compute GM's total PBO as of December 31, 2009. How much has GM set aside in its pension fund to offset the PBO?
2. Now consider GM's postretirement benefits other than pensions. What is GM's TOTAL estimated obligation related to pensions and other postretirement benefits?
3. Why do you think there is a separation into U.S. and non-U.S. plans?
4. For the interval July 10, 2009 to December 31, 2009, compare GM's service cost to the amount of benefits paid to retirees. What can you draw from this comparison?
5. Evaluate the funded status of GM's "other benefits" plans. Treat the U.S. and non-U.S. plans as one large plan.

Case 17-56

Writing Assignment (Pensions in foreign countries)

In the United States, accounting for pensions has received a great deal of attention. In other countries, pension accounting is given much less attention. In one page, examine the reasons that would explain why pension accounting is given much less emphasis in most foreign countries as compared to the emphasis it receives in the United States.

Case 17-57

Cumulative Spreadsheet Analysis

This assignment is a detailed examination of Skywalker's pension-related items. As of December 31, 2013, the $253 in "Other long-term liabilities" reported by Skywalker (see Chapter 13) included an amount for a net pension liability. In addition, Skywalker's $456 in "Other operating expenses" for 2013 included an amount for net pension expense.

The following information relates to Skywalker's pension plan as of December 31, 2013.

Fair value of pension fund assets	$200
Discount rate used in valuing the PBO	7%
Long-term expected rate of return on pension fund assets	9%
Total annual pension payment earned by Skywalker's employees so far	$50
Number of years that employees are expected to receive pension payments after retirement	30 years
Number of years until first pension payment is to be received	11 years

Construct a spreadsheet to calculate the following:

1. Given the information above, compute the net pension liability that Skywalker will report as of December 31, 2013. (*Note:* Be careful in computing the PBO; remember that the standard annuity formula yields the present value of the annuity one year *before* the first payment is received.)
2. Compute a forecast of Skywalker's net pension liability as of December 31, 2014, and net pension expense for 2014 using the following information:
   - By working an extra year in 2014, the total annual pension payment earned by Skywalker's employees is expected to increase from $50 to $55.
   - Skywalker's employees will be one year closer to receiving the first pension payment.
   - No pension benefits are expected to be paid to employees in 2014.
   - Skywalker expects to contribute $50 to the pension plan during 2014.
   - Skywalker's best estimate is that the pension fund assets will earn in 2014 an amount equal to the long-term expected rate of return.
3. Repeat (1) and (2) using the following information:
   (a) The discount rate is 8%, and the long-term expected rate of return on the pension fund assets is 12%.
   (b) The discount rate is 5%, and the long-term expected rate of return on the pension fund assets is 11%.

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