Achievement Exam

Select the single best answer for each question or statement, then go online to www.myashworth.com and enter your answers.

1. Vester Corporation instituted an IRS approved plan to contribute 10% of each employee's salary to a plan that would pay benefits to the employee after termination of services. This plan is a __________ plan.

_____ a. defined benefit pension

_____ b. defined contribution pension

_____ c. government sponsored pension

_____ d. postretirement insurance

2. Vern Corporation instituted an IRS approved plan to contribute moneys to a plan that would pay each employee 2% of his or her highest year of salary for each year of service upon termination of services. This plan is a __________ plan.

_____ a. defined benefit pension

_____ b. defined contribution pension

_____ c. government sponsored pension

_____ d. postretirement insurance

QUESTIONS 5 THROUGH 8 ARE BASED ON TABLE 3-1.

Table 3-1

Talley Inc. Pension Plan	Year 7	Year 8
Service cost	15,000	17,000
Interest cost	9,000	10,000
Actual return on plan assets	7,500	10,800
Beginning of year plan assets	100,000	120,000
Settlement rate	8%	8%

5. What is Talley's pension expense to be recorded for Year 7?
(Hint: The expected return on plan assets equals beginning of year plan assets times the settlement rate.)

_____ a. $15,000

_____ b. $16,000

_____ c. $16,500

_____ d. $24,000

6. What is Talley's pension expense to be recorded for Year 8?
(Hint: The expected return on plan assets equals beginning of year plan assets times the settlement rate.)

_____ a. $16,200

_____ b. $17,000

_____ c. $17,400

_____ d. $27,000

10. The current year amortization amount of accumulated unrecognized losses in a pension plan will:

_____ a. decrease the pension expense.

_____ b. have no effect on pension expense.

_____ c. increase the pension expense.

_____ d. never be accounted for and reported.

11. If the projected benefit obligation (PBO) for a pension plan exceeds the fair value of the plan assets at the time of adoption of SFAS No. 87, which one of the following is created?

_____ a. Cumulative asset gain or loss

_____ b. Cumulative obligation gain or loss

_____ c. Transition asset

_____ d. Transition liability

12. If a pension plan amendment results in a $1,500,000 increase in the projected benefit obligation, the pension expense will:

_____ a. be decreased by $1,500,000 over the remaining service period of the future beneficiaries.

_____ b. be increased by $1,500,000 in the year of the amendment.

_____ c. be increased by $1,500,000 over the remaining service period of the future beneficiaries.

_____ d. not be affected.

16. At the beginning of the year, the pension plan is:

_____ a. overfunded by $20,000.

_____ b. overfunded by $35,000.

_____ c. underfunded by $20,000.

_____ d. underfunded by $35,000.

17. The underfunding or overfunding of the plan at year end will be disclosed in the:

_____ a. balance sheet of the plan sponsor.

_____ b. balance sheet of the plan trustee at cost.

_____ c. income statement of the plan sponsor.

_____ d. notes to the financial statements of the plan sponsor.

18. A severely underfunded pension plan is one in which the:

_____ a. accumulated benefit obligation (ABO) exceeds the present value of the plan assets.

_____ b. present value of plan assets exceeds the accumulated benefit obligation.

_____ c. present value of plan assets exceeds the projected benefit obligation (PBO).

_____ d. projected benefit obligation exceeds the present value of plan assets.

19. The minimum pension liability that must be shown on the balance sheet of the plan sponsor is the:

_____ a. accumulated benefit obligation.

_____ b. excess of the accumulated benefit obligation over the plan assets at fair value.

_____ c. excess of the projected benefit obligation over the plan assets at fair value.

_____ d. projected benefit obligation.

20. A major difference between accounting for postretirement benefit plans and pension plans is that:

_____ a. postretirement benefit plans are not required to be funded.

_____ b. postretirement benefit plans do not need to show a liability for accumulated postretirement benefit obligation on the plan sponsor's balance sheet.

_____ c. postretirement benefit plans do not deduct the return of plan assets when funded.

_____ d. there is no accumulated postretirement benefit obligation.