INTERNATIONAL PENSION RULES MCQs

Most Repeated In Senior Auditor 2017 Exam

1. **In determining the present value of the prospective benefits (often referred to as the projected benefit obligation), the following are considered by the actuary:**
   A. retirement and mortality rate.
   B. interest rates.
   C. benefit provisions of the plan.
   D. all of these factors.

2. **In a defined-benefit plan, the process of funding refers to**
   A. determining the projected benefit obligation.
   B. determining the accumulated benefit obligation.
   C. making the periodic contributions to a funding agency to ensure that funds are available to meet retirees' claims.
   D. determining the amount that might be reported for pension expense.

3. **In all pension plans, the accounting problems include all the following except**
   A. measuring the amount of pension obligation.
   B. disclosing the status and effects of the plan in the financial statements.
   C. allocating the cost of the plan to the proper periods.
   D. determining the level of individual premiums.

4. **In a defined-contribution plan, a formula is used that**
   A. defines the benefits that the employee will receive at the time of retirement.
   B. ensures that pension expense and the cash funding amount will be different.
   C. requires an employer to contribute a certain sum each period based on the formula.
   D. ensures that employers are at risk to make sure funds are available at retirement.

5. **In a defined-benefit plan, a formula is used that**
   A. requires that the benefit of gain or the risk of loss from the assets contributed to the pension plan be borne by the employee.
   B. defines the benefits that the employee will receive at the time of retirement.
   C. requires that pension expense and the cash funding amount be the same.
   D. defines the contribution the employer is to make; no promise is made concerning the ultimate benefits to be paid out to the employees.

6. **Which of the following is not a characteristic of a defined-contribution pension plan?**
   A. The employer's contribution each period is based on a formula.
   B. The benefits to be received by employees are usually determined by an employee's three highest years of salary defined by the terms of the plan.
   C. The accounting for a defined-contribution plan is straightforward and uncomplicated.
   D. The benefit of gain or the risk of loss from the assets contributed to the pension fund are borne by the employee.

7. **In accounting for a defined-benefit pension plan**
   a. an appropriate funding pattern must be established to ensure that enough monies will be available at retirement to meet the benefits promised.
   b. the employer's responsibility is simply to make a contribution each year based on the formula established in the plan.
   c. the expense recognized each period is equal to the cash contribution.
   d. the liability is determined based upon known variables that reflect future salary levels promised to employees.

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8. Alternative methods exist for the measurement of the pension obligation (liability). Which measure requires the use of future salaries in its computation?
A. Vested benefit obligation
B. Accumulated benefit obligation
C. Projected benefit obligation
D. Restructured benefit obligation

9. The accumulated benefit obligation measures
A. the pension obligation on the basis of the plan formula applied to years of service to date and based on existing salary levels.
B. the pension obligation on the basis of the plan formula applied to years of service to date and based on future salary levels.
C. an estimated total benefit at retirement and then computes the level cost that will be sufficient, together with interest expected to accumulate at the assumed rate, to provide the total benefits at retirement.
D. the shortest possible period for funding to maximize the tax deduction.

10. The projected benefit obligation is the measure of pension obligation that
A. is required to be used for reporting the service cost component of pension expense.
B. requires pension expense to be determined solely on the basis of the plan formula applied to years of service to date and based on existing salary levels.
C. requires the longest possible period for funding to maximize the tax deduction.
D. is not sanctioned under generally accepted accounting principles for reporting the service cost component of pension expense.

11. Differing measures of the pension obligation can be based on
A. all years of service—both vested and nonvested—using current salary levels.
B. only the vested benefits using current salary levels.
C. both vested and nonvested service using future salaries.
D. all of these.

12. Vested benefits
A. usually require a certain minimum number of years of service.
B. are those that the employee is entitled to receive even if fired.
C. are not contingent upon additional service under the plan.
D. are defined by all of these.

33. The relationship between the amount funded and the amount reported for pension expense is as follows:
A. pension expense must equal the amount funded.
B. pension expense will be less than the amount funded.
C. pension expense will be more than the amount funded.
D. pension expense may be greater than, equal to, or less than the amount funded.

14. The computation of pension expense includes all the following except
A. service cost component measured using current salary levels.
B. interest on projected benefit obligation.
C. expected return on plan assets.
D. All of these are included in the computation.

15. **In computing the service cost component of pension expense, the FASB concluded that**
A. the accumulated benefit obligation provides a more realistic measure of the pension obligation on a going concern basis.
B. a company should employ an actuarial funding method to report pension expense that best reflects the cost of benefits to employees.
C. the projected benefit obligation using future compensation levels provides a realistic measure of present pension obligation and expense.
D. All of these.

16. **The interest on the projected benefit obligation component of pension expense**
A. reflects the incremental borrowing rate of the employer.
B. reflects the rates at which pension benefits could be effectively settled.
C. is the same as the expected return on plan assets.
D. may be stated implicitly or explicitly when reported.

17. **One component of pension expense is expected return on plan assets. Plan assets include**
A. contributions made by the employer and contributions made by the employee when a contributory plan of some type is involved.
B. plan assets still under the control of the company.
C. only assets reported on the balance sheet of the employer as prepaid pension cost.
D. none of these.

18. **The actual return on plan assets**
A. is equal to the change in the fair value of the plan assets during the year.
B. includes interest, dividends, and changes in the market value of the fund assets.
C. is equal to the expected rate of return times the fair value of the plan assets at the beginning of the period.
D. all of these.

19. **In accounting for a pension plan, any difference between the pension cost charged to expense and the payments into the fund should be reported as**
A. an offset to the liability for prior service cost.
B. pension asset/liability.
C. as other comprehensive income (G/L)
D. as accumulated other comprehensive income (PSC).

20. **Which of the following items should be included in pension expense calculated by an employer**
who sponsors a defined-benefit pension plan for its employees?
Amortization of
Fair value prior
of plan assets service cost
a. Yes Yes
b. Yes No
c. No Yes
d. No No

21. A corporation has a defined-benefit plan. A pension liability will result at the end of the year if?
A. projected benefit obligation exceeds the fair value of the plan assets.
B. fair value of the plan assets exceeds the projected benefit obligation.
C. amount of employer contributions exceeds the pension expense.
D. amount of pension expense exceeds the amount of employer contributions.

22. When a company adopts a pension plan, prior service costs should be charged to
A. accumulated other comprehensive income (PSC).
B. operations of prior periods.
C. Other comprehensive income (PSC).
D. retained earnings.

23. When a company amends a pension plan, for accounting purposes, prior service costs should be
A. treated as a prior period adjustment because no future periods are benefited.
B. amortized in accordance with procedures used for income tax purposes.
C. recorded in other comprehensive income (PSC).
D. reported as an expense in the period the plan is amended.

24. Prior service cost is amortized on a
A. straight-line basis over the expected future years of service.
B. years-of-service method or on a straight-line basis over the average remaining service life of active employees.
C. straight-line basis over 15 years.
D. straight-line basis over the average remaining service life of active employees or 15 years, whichever is longer.

25. Whenever a defined-benefit plan is amended and credit is given to employees for years of service provided before the date of amendment.
A. both the accumulated benefit obligation and the projected benefit obligation are usually greater than before.
B. both the accumulated benefit obligation and the projected benefit obligation are usually less than before.
C. the expense and the liability should be recognized at the time of the plan change.
D. the expense should be recognized immediately, but the liability may be deferred until a reasonable basis for its determination has been identified.

26. The actuarial gains or losses that result from changes in the projected benefit obligation are called
Asset Liability
Gains & Losses Gains & Losses
A. Yes Yes B. No No C. Yes No **D. No Yes**

27. Gains and losses that relate to the computation of pension expense should be
A. recorded currently as an adjustment to pension expense in the period incurred.
B. recorded currently and in the future by applying the corridor method which provides the amount to be amortized.
C. amortized over a 15-year period.
D. recorded only if a loss is determined.

28. The fair value of pension plan assets is used to determine the corridor and to calculate the expected return on plan assets.
Expected Return
Corridor on Plan Assets
A. Yes Yes B. Yes No C. No Yes D. No No

29. A pension fund gain or loss that is caused by a plant closing should be
A. recognized immediately as a gain or loss on the plant closing.
B. spread over the current year and future years.
C. charged or credited to the current pension expense.
D. recognized as a prior period adjustment.

30. A pension liability is reported when
A. the projected benefit obligation exceeds the fair value of pension plan assets.
B. the accumulated benefit obligation is less than the fair value of pension plan assets.
C. the pension expense reported for the period is greater than the funding amount for the same period.
D. accumulated other comprehensive income exceeds the fair value of pension plan assets.

31. A pension asset is reported when
A. the accumulated benefit obligation exceeds the fair value of pension plan assets.
B. the accumulated benefit obligation exceeds the fair value of pension plan assets, but a prior service cost exists.
C. pension plan assets at fair value exceed the accumulated benefit obligation.
D. pension plan assets at fair value exceed the projected benefit obligation.

32. Which of the following statements is correct?
A. There is an account titled Pension Asset / Liability.
B. There is an account titled Accumulated Benefit Obligation.
C. Accumulated Other Comprehensive Income should be reported in the liability section of the balance sheet.
D. Other comprehensive income (PSC) should be included in net income.

33. According to the FASB, recognition of a liability is required when the projected benefit obligation exceeds the fair value of plan assets. Conversely, when the fair value of plan assets exceeds the projected benefit obligation, the Board

A. requires recognition of an asset.
B. requires recognition of an asset if the excess fair value of plan assets exceeds the corridor amount.
C. recommends recognition of an asset but does not require such recognition.
D. does not permit recognition of an asset.

34. Which of the following disclosures of pension plan information would not normally be required?
A. The major components of pension expense
B. The amount of prior service cost changed or credited in previous years.
C. The funded status of the plan and the amounts recognized in the financial statements
D. The rates used in measuring the benefit amounts

35. The main purpose of the Pension Benefit Guaranty Corporation is to
A. require minimum funding of pensions.
B. require plan administrators to publish a comprehensive description and summary of their plans.
C. administer terminated plans and to impose liens on the employer's assets for certain unfunded pension liabilities.
D. all of these.

36. Which of the following statements is true about postretirement health care benefits?
A. They are generally funded.
B. The benefits are well-defined and level in dollar amount.
C. The beneficiary is the retiree, spouse, and other dependents.
D. The benefit is payable monthly.

37. Which of the following disclosures of postretirement benefits would not be required by professional pronouncements?
A. Postretirement expense for the period
B. A schedule showing changes in postretirement benefits and plan assets during the year
C. The amount of the EPBO
D. The assumptions and rates used in computing the EPBO and APBO

38. A postretirement asset is computed as the excess of the
A. expected postretirement benefit obligation over the fair value of plan assets.
B. accumulated postretirement benefit obligation over the fair value of plan assets.
C. fair value of plan assets over the accumulated postretirement benefit obligation.
D. accumulated postretirement benefit obligation over the fair value of plan assets, but not vice versa.

39. Postretirement benefits may include all of the following except
A. severance pay to laid-off employees.
B. dental care.
C. legal and tax services.
D. tuition assistance.

40. Gains or losses can represent changes in
A. EPBO or the fair value of pension plan assets.
B. EPBO or the book value of pension plan assets.
C. APBO or the fair value of pension plan assets.
D. APBO or the book value of pension plan assets.

41. Which of the following statements about the expected postretirement benefit obligation (EPBO) is not correct?
A. The EPBO is an actuarial present value.
B. The EPBO is recorded in the accounts.
C. The EPBO is used in measuring periodic expense.
D. All of these are correct.

42. Which of the following statements about the recognition of a prior service cost related to a postretirement obligation is correct?
A. The prior service amount is recognized in the income statement in the current period.
B. The prior service cost is recognized in the income statement net of tax.
C. Restatement of previously issued annual financial statements is required.
D. The prior service cost amount affects comprehensive income in the current period.

43. Which of the following is recognized in the accounts and in the financial statements?
A. Accumulated postretirement benefit obligation
B. Postretirement asset / liability
C. Expected postretirement benefit obligation
D. All of these.

44. Interest cost included in pension expense recognized for a period by an employer sponsoring a defined-benefit pension plan represents the
A. shortage between the expected and actual returns on plan assets.
B. increase in the projected benefit obligation due to the passage of time.
C. increase in the fair value of plan assets due to the passage of time.
D. amortization of the discount on accumulated OCI (PSC).

44. Seigel Co. maintains a defined-benefit pension plan for its employees. At each balance sheet date, Yeager should report a pension asset / liability equal to the
A. accumulated benefit obligation.
B. projected benefit obligation.
C. accumulated benefit obligation.
D. funded status relative to the projected benefit obligation.

45. In determining the present value of the prospective benefits (often referred to as the projected benefit obligation), the following are considered by the actuary:
A. retirement and mortality rate.
B. interest rates.
C. benefit provisions of the plan.
D. all of these factors.

46. In all pension plans, the accounting problems include all the following except
A. measuring the amount of pension obligation.
B. disclosing the status and effects of the plan in the financial statements.
C. allocating the cost of the plan to the proper periods.
D. determining the level of individual premiums.

47. In a defined-benefit plan, the process of funding refers to
A. determining the projected benefit obligation.
B. determining the accumulated benefit obligation.
C. making the periodic contributions to a funding agency to ensure that funds are available to meet retirees' claims.
D. determining the amount that might be reported for pension expense.

48. Companies generally design a pension plan to ensure that:
A. The plan is contributory.
B. The plan is noncontributory.
C. The benefits are insured.
D. The contributions are tax deductible.

49. The employer's pension expense is the amount that it is obligated to pay to the pension trust in:
A. A defined benefit plan.
B. A defined contribution plan.
C. Both defined benefit and defined contribution plans.
D. None of the above.

50. In a defined benefit plan, the funding level depends on all of the following factors except:
A. Compensation levels.
B. Interest earnings.
C. Age of the employer company.
D. Turnover.

51. A measure of an employer's pension obligation using future salary levels is the:
A. Accumulated benefit obligation.
B. Defined benefit obligation.
C. Projected benefit obligation.
D. Vested benefit obligation.

52. Which one of the following is not a component of pension expense?
A. Expected return on plan assets.
B. Amortization of past service cost.
C. Amortization of projected benefit obligation.
D. Amortization of actuarial gain or loss.

53. All of the following increase pension expense except:
A. Service cost.
B. Interest on the liability.
C. Amortization of past service cost.
D. Expected return on plan assets.

54. The Prepaid/Accrued Pension Cost account balance is primarily made up of the difference between the:
A. Accumulated benefit obligation balance and the plan assets balance.
B. Accumulated benefit obligation balance and the projected benefit obligation balance.
C. Projected benefit obligation balance and the plan assets balance.
D. Vested benefit obligation balance and the plan assets balance.

55. Unrecognized past service cost should be amortized:
A. Using the double-declining balance method.
B. Over the period until full eligibility.
C. Using the sum-of-the-years' digits method.
D. Over a maximum of five years.