

## ACCOUNTANCY 422

### SUPPLEMENTAL PENSION PROBLEM SOLUTION

(debits positive; credits negative)

#### Calculation of ending balance of pension asset/liability

Beginning balance of fair value of plan assets	\$ 567,500	
Beginning balance of projected benefit obligation (before plan amendment)	\$ 560,000	
Beginning balance of pension asset/liability		\$ 7,500
Pension expense		
Service cost	\$ 58,000	
Interest cost (\$660,000 * 9%)	\$ 59,400	
Actual return on plan assets	\$ (52,280)	
Unexpected gain (\$52,280 - \$32,772)	\$ 19,508	See below for calculation
Prior service cost amortization	\$ 17,000	
Credit from pension expense		\$(101,628)
Contributions		\$ 55,000
Comprehensive income entries		
Addition of plan amendment	\$ 100,000	
Prior service cost amortization	\$ (17,000)	
Unexpected gain (\$52,280 - \$32,772)	\$ (19,508)	
Credits to pension asset/liability		\$ (63,492)
Ending balance of pension asset/liability		\$(102,620)

Because the ending balance is a credit, the amount is reported as pension liability

#### Market related value of plan assets

'1/1/2003	\$ 512,900	
'1/1/2004	\$ 524,000	
'1/1/2005	\$ 557,300	
'1/1/2006	\$ 569,300	
'1/1/2007	\$ 567,500	
Average of five years	\$ 546,200	
Expected rate of return on plan assets		6%
Expected return on plan assets	\$ 32,772	
Actual return on plan assets	\$ 52,280	
Unexpected gain	\$ 19,508	