

During the year the directors of Rod decided to form a defined benefit pension scheme for the employees of the holding company and contributed cash to it of £100 million. The following details relate to the scheme at 30 November 2002:

|                                          | £m  |
|------------------------------------------|-----|
| Present value of obligation              | 130 |
| Fair value of plan assets                | 125 |
| Current service cost                     | 110 |
| Interest cost – scheme liabilities       | 20  |
| Expected return on pension scheme assets | 10  |

The only entry in the financial statements made to date is in respect of the cash contribution which has been included in Rod's debtors. The directors have been uncertain as to how to deal with the above pension scheme in the consolidated financial statements.

Required:

Show how the defined benefit pension scheme should be dealt with in the consolidated financial statements.

£m

|                                                            |            |
|------------------------------------------------------------|------------|
| NET PENSION SCHEME LIABILITY AT<br>1-12-01                 | 0          |
| CONTRIBUTIONS BY EMPLOYER                                  | 100        |
| EXPECTED RETURN ON SCHEME ASSETS                           | 10         |
| CURRENT SERVICE COST                                       | (110)      |
| INTEREST ON SCHEME LIABILITIES                             | (20)       |
| ACTUARIAL GAIN IN THE YEAR                                 | 15         |
| NET PENSION SCHEME LIABILITY AT<br>30-11-02<br>(125 - 130) | <u>(5)</u> |