



# **MURANGA UNIVERSITY COLLEGE**

(A constituent College of Jomo Kenyatta University of Agriculture & Technology)

**TOWN CAMPUS**

**ORDINARY UNIVERSITY EXAMINATIONS**

**2015/2016 ACADEMIC YEAR**

**FOURTH YEAR SECOND SEMESTER EXAMINATIONS**

**FOR THE DEGREE  
OF  
BACHELOR OF COMMERCE**

**COURSE CODE: HBF 2402**

**COURSE TITLE: PENSIONS FINANCE**

**DATE: 22<sup>ND</sup> APRIL 2016**

**TIME: 2 HOURS**

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## **INSTRUCTIONS TO CANDIDATES**

Question ONE (1) is compulsory

Answer ANY OTHER TWO (2) questions

MRUC observes ZERO tolerance to examination irregularities

This Paper Consists of 3 Printed Pages. Please Turn Over. ►

**QUESTION ONE (COMPULSORY)**

- a) Describe the following terms as applicable in Pensions Finance
- i. Funded and unfunded schemes (3 marks)
  - ii. Post- employment benefits (2 marks)
  - iii. Unrealized gains/losses (3 marks)
  - iv. Trust based pension schemes (2 marks)
- b) Alphonse Makau Mulengi was employed at the age of 30 years by Michellin Tyres as an accounts clerk on 1<sup>st</sup> January 1975 under permanent and pensionable terms. Michellin Tyres Staff Pension Scheme is a defined contribution scheme in Kenya where the beneficiary contributes 10%. The following information is available:
- i) Inward transfers into the scheme from previous employers amounted to ksh. 98,500. Makau had already received his rightful share in full of the total contribution before the transfer.
  - ii) The starting salary for Makau was ksh. 45,000 comprising ksh. 25,000 basic salary and ksh. 20,000 in other allowances.
  - iii) On 1<sup>st</sup> January, 1985, Makau was promoted to assistant accountant. His basic salary and other allowances were increased by ksh. 10,000 and ksh. 3,800 respectively.
  - iv) Upon completing the CPA exam on 1<sup>st</sup> January 2000, Makau was promoted to the position of an accountant which he held to retirement. As a result, his basic salary was increased by ksh. 15,000 and other allowances by 5,600.

**Required:**

- i) Calculate
  - a) The amount that Makau had received from the previous employer before the inward transfer in 1975 (2 marks)
  - b) The benefits that would have been payable to Makau if he had opted to go on early retirement at the earliest age allowed by the Retirement Benefits Act in Kenya. (5 marks)
  - c) The benefits payable if Makau died on 19<sup>th</sup> March, 2001 (3 marks)
  - d) The benefit payable to Makau upon retirement (10 marks)

**QUESTION TWO**

- a) Define the following terms:
- i) Trust (2 marks)
  - ii) Fiduciary (3 marks)
- b) Briefly discuss the appointment and composition of a board of trustees (8 marks)
- c) Enumerate seven (7) roles of a trustee (7 marks)

**QUESTION THREE**

- a) Kamikaze is a state corporation operating in Kenya since 1998. The corporation established a trust based pension schemes for its members of staff the year 2010 and named it Kamikaze Staff Pension Scheme (KSPS).
- i) Explain the term trust based pension schemes (1 mark)
  - ii) Outline five (4) documents which KSPS must have presented for registration. (4 marks)
- b) KSPS has a fund value of ksh. 1,500,000,000.00 ksh. Distributed as follows:

<b>Type of Investment</b>	<b>Amount</b>
Cash and Demand Deposits at Equity Bank Limited	100,500,000.00
Fixed and Time Deposits	135,000,000.00
Commercial Paper and Corporate Bonds	480,000,000.00
Preference Shares in Safaricom limited (Listed in the NSE)	105,000,000.00
Ordinary Shares in Stanlib Company (Listed in the Nairobi Securities Exchange)	180,000,000.00
Offshore investments	30,000,000.00
Land in Kenya	287,671,232.88
Unit trusts in Kenya	88,541,095.89
Guaranteed Funds	93,287,671.23
<b>Fund Value</b>	<b>1,500,000,000.00</b>

**Required:**

With aid of calculations as per the RBA limits, comment on the compliance status of each type of investment undertaken by KSPS. (15 marks)

**QUESTION FOUR**

- a) Contracting and Sourcing for Pension schemes is governed by the procurement and disposal Act of 2015. Explain the five (5) steps involved in the hiring process. (15 marks)
- b) Outline five (5) steps involved in the actuarial valuation process (5 marks)