



**MASINDE MULIRO UNIVERSITY OF  
SCIENCE AND TECHNOLOGY  
(MMUST)**

MAIN CAMPUS

**UNIVERSITY EXAMINATIONS  
2021/2022 ACADEMIC YEAR**

**THIRD YEAR SEMESTER TWO EXAMINATIONS**

**FOR THE DEGREE  
OF  
BACHELOR OF COMMERCE**

**COURSE CODE: BCA323**

**COURSE TITLE: FINANCIAL INSTITUTIONS ACCOUNTS**

**DATE: Tuesday 19<sup>TH</sup> APRIL 2022**

**TIME: 12-2PM**

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**INSTRUCTIONS TO CANDIDATES**

Question ONE (1) is compulsory  
Answer FOUR (3) questions

TIME: 2 Hours

MMUST observes ZERO tolerance to examination cheating

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**Question One (Compulsory, 30 marks)**

- (a) The main function of commercial banks in an economy is financial intermediation: Borrowing to lend. This activity results in three major transactions. Identify these transactions and explain how they are reported on a bank's income statement.(6 marks)
- (b) While business transactions are based on caveat emptor, underwriting contract is based on Uberimae fidei. Explain and distinguish these principles. (6 marks)
- (c) Briefly explain the following concepts as used in assurance business giving relevant examples:  
 (i) Indemnity,  
 (ii) Insurable interest  
 (iii) Subrogation  
 (iv) Betterment and contribution (8 marks)
- (d) Building societies, Savings and credit cooperative societies, and mutual are essentially not-for profit entities which are incorporated to benefit from limited liability, perpetual succession, and separate legal existence but do not rely on incorporation but rather mutual nature for capital. Briefly explain how this observation affects the financial statements of these non-business organizations in terms of capital, revenue and expenses. (10 marks)

**QUESTION TWO**

- a) State and explain the major sources of revenue and expenses of insurance business.

**(5 Marks)**

- b) The following trial balance was extracted from the books of Horizon Assurance co, ltd as on 31<sup>st</sup> Dec 2020

Debits	Sh.	Credits	Sh.
Dividend paid	15,000	Paid up capital 10,000 of sh 10 each	100,000
Bonus paid	31,500	Life fund balance on 1/1/2013	2,972,300
Claims paid	197,000	Premium less re-assurance premium(commission sh. 5000)	161,5000
Commission	9,300	Outstanding claim 1/1/2013	7,000
Management expenses	32,300	Interest dividends rents	112,700
Mortgage in Kenya	492,200	Consideration for annuities granted	10,000
Agents balance	9,300		
Free hold premises	40,000		
Investments	2,305,000		
Loans and policies	173,600		
Cash in deposits	27,000		
Cash on current account	7,300		
Surrenders	7,000		

Medical fees	7,000	
Annuity	10,000	
	3,363,500	3,363,500

**Additional information;**

1. Claims outstanding sh. 10,000,
2. Further bonus in reduction of premiums sh. 5,000 ,
3. Premiums outstanding sh. 5,000 ,
4. Claims covered under reinsurance sh. 80,000 ,
5. Management expense due sh. 30,000

**Required:**(i) Revenue account as at 31<sup>st</sup> December 2020.(ii) Statement of financial position as at 31<sup>st</sup> December 2020.**(15 Marks)****QUESTION THREE**

Haze Bank Ltd., a registered commercial bank, prepares its accounts to 30 June each year. The trial balance of the bank as at 30 June 2021 was as follows:

	Sh.'000'	Sh.'000'
Treasury bills	2,344,000	
Loans to customers	5,946,400	
Other money market placements	34,600	
Property, plant and equipment	1,008,000	
Cash and balances with the Central Bank	1,257,000	
Interest on loans		870,800
Interest on treasury bills and bonds		476,400
Foreign exchange income		144,000
Fees and commissions income		340,400
Deposits with other banks	230,000	
Other fixed assets	64,000	
Interest on placements and bank balances		72,000
Non-operating income		34,000
Customers' deposits		8,480,000
Deposits and balances due to other banks		430,000
Depreciation charges	84,000	
Directors emoluments	25,000	
Bad and doubtful debts	68,000	
Interim dividends paid	50,000	
Salaries and wages	590,000	
Interest on borrowed funds	70,000	
Interest on customers deposits	230,000	
Ordinary share capital		500,000
Auditors fees	7,000	
Contribution to staff pension scheme	29,000	
Administrative expenses	285,000	
Loss on sale of fixed assets	43,600	
Reserves		1,058,000
Legal fees	<u>40,000</u>	<u>          </u>

12,405,60012,405,600**Additional information:**

1. Current tax has been estimated at Sh.200,000,000
2. A final dividend of 15% has been proposed.
3. Unrecorded accrued interest expense on customers' deposits at 30 June 2021 was sh.60,000,000.
4. Interest income on loans and advances to customers of Sh.170,000,000 at 30 June 2021 was omitted from the books.

**Required:**

- (a) Profit and loss account for the year ended 30 June 2021. (14 marks)
- (b) Balance sheet as at 30 June 2021. (6 marks)

(These statements should be presented in accordance with IAS 30 – Disclosures in the Financial Statements of Banks and Similar Financial Institutions).

**QUESTION FOUR**

- (a) Briefly explain the following terms as used when computing consequential loss claim:
  - (i) Turnover of preceding financial year. (2 marks)
  - (ii) Annual turnover. (2 marks)
  - (iii) Standard turnover. (2 marks)
- (b) M Ltd. insured under a loss of profits policy Sh.16,000,000. The company's premises were partly destroyed by fire which took place on 1 May 2021 and the business resumed normal operations on 1 September 2021.

Given below is the information extracted from the books of the company relating to the policy:

1. Period of indemnity is six months.
2. Net profit for preceding financial year – Sh.4,800,000.
3. Insured standing charges – Sh.9,600,000.
4. Uninsured standing charges – Sh.1,600,000
5. Increased cost of working – Sh.3,000,000.
6. Savings in insured standing charges – Sh.600,000.
7. Reduction in turnover avoided through increase in cost of working – Sh.8,000,000
8. Financial year ends on 31 December.
9. The following are turnovers for four months ended 30 April, 31 August and 31 December respectively.

Year	Sh.	Sh.	Sh.
2020	12,000,000	40,000,000	28,000,000
2021	20,000,000	16,000,000	34,000,000

10. Owing to reasons acceptable to insurers, the special circumstances clause recommended the following:
  - Increase of annual and standard turnover by 10%
  - Increase of rate of gross profit of 2%

**Required:**

A statement showing the calculation of the amount of the consequential loss claim. (14 marks)