



(University of Choice)

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

**MAIN, WEBUYE, BUNGOMA/NAIROBI CAMPUS**

**UNIVERSITY EXAMINATIONS  
2021/2022 ACADEMIC YEAR**

**THIRD YEAR SPECIAL/SUPPLEMENTARY EXAMINATIONS**

**FOR DEGREE  
OF  
BACHELOR OF SCIENCE IN ACCOUNTING**

**COURSE CODE: BCA 323**

**COURSE TITLE: FINANCIAL INSTITUTIONS ACCOUNTS**

**DATE: TEUSDAY, 2<sup>ND</sup> AUGUST 2022**

**TIME: 11-1PM**

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**INSTRUCTIONS TO CANDIDATES**

Question ONE (1) is compulsory  
Answer ANY OTHER TWO questions

TIME: 2 Hours

MMUST observes ZERO tolerance to examination cheating

This Paper Consists of 4 Printed Pages. Please Turn Over. ►

**QUESTION ONE**

- (a) Technically a commercial bank should be licensed to perform commercial banking business and not underwriting, merchant banking, nor investment banking, however in recent past banks have taken a diversified portfolio of businesses which involve all these and more to expand their revenue base. Briefly explain banking business as it is today considering the observation above. (10 marks)
- (b) An assurance business essentially involves pooling economic resources together by those exposed to a risk through premia contributions to a hierarchy or a mutual which must also protect itself through reinsurance. Based on this concept, identify and briefly explain the major revenue and expenditure streams of a mutual expected in its revenue account.
- (c) Underwriting business suffers from similar business risks as banking including liquidity, investment and capital adequacy risks. Briefly explain how these business risks translate to financial reporting risks and how they are dealt with to ensure financial statements comply with the true and fair view framework reporting.
- (d) Savings and credit cooperative societies, building societies, and mutual are in the same class of business: serving the interest of members. Explain this concept further paying closer attention to differences.

**QUESTION TWO**

- a) Define the following terms as used under insurance. (4 Marks)
- i. Whole life policy.
  - ii. Endowment life policy.
  - iii. Surrender value.
  - iv. Reinsurance.
- b) The following balances were extracted from the books of ABC Marine Insurance Company Ltd. on 30 April 2016.

	<b>Sh.</b>
Premium less re-insurance	14,791,500
Commission on direct business	660,000
Commission on re-insurance ceded	78,000
Commission on re-insurance accepted	57,000
Depreciation	96,000
Loss on sale of investment	150,000
Claims paid less re-insurance	7,560,000
Claims recovered under re-insurance not adjusted	300,000
Directors remuneration	450,000
Interest and dividends (net) not relating to any fund	412,500
Reserves for unexpired risk on 1 May 2015	11,700,000
Additional reserve on 1 May 2015	1,170,000
Claims outstanding on 1 May 2015	567,000
Claims outstanding on 30 April 2016	687,000
Tax deducted from interest and dividends	120,000
Salaries	960,000

Rent and rates	87,000
Postage and stationery	129,000
Surveyors fees and legal charges for settlement of claims	300,000
Profit and loss appropriation account 1 May 2015	2,925,000

The following additional information is available:

1. Reserves for unexpired risks to be maintained at 100% of the net premium income.
2. Additional reserves of 10% on the said premium is also to be maintained.
3. Provision for taxation to be made for the year Sh. 912,450
4. Investment reserve to be increased by Sh. 225,000.

**Required:**

- (a) Revenue account for the year ended 30 April 2016. (10 marks)  
 (b) The profit and loss account for the year ended 30 April 2016 (6 marks)

**QUESTION THREE**

The following balances were extracted from the books of Fedha Commercial Bank Ltd. on 30 June 2016.

	<b>Sh.'000'</b>
Government securities	1,172,000
Loans and advances to customers	2,973,200
Cash and balances with Central bank	628,500
Other money market placements	17,300
Property, plant and equipment	504,000
Interest on loans and advances	435,400
Interest on Government securities	238,200
Foreign exchange income	72,000
Fees and commissions income	170,200
Deposits with other banks	115,000
Other fixed assets	32,000
Interest on placement and bank balances	36,000
Non-operating income	17,000
Customers deposits	4,240,000
Deposits and balances due to other banks	215,000
Depreciation expense	42,000
Directors emoluments	12,500
Bad and doubtful debts expense	34,000
Interim dividends paid	25,000
Staff costs	295,000
Interest on customers deposits	115,000
Interest on borrowed funds	35,000
Ordinary share capital	250,000
Auditors remuneration	3,500
Contribution to staff provident fund	14,500
Loss on sale of fixed assets	21,800
General administration expenses	142,500
Reserves	529,000

Legal and professional fees. 20,000

**Additional Information:**

1. Current tax has been estimated at Sh.120,000,000
2. Final dividends have been proposed at 10%.
3. Accrued interest expense on customers' deposits at 30 June 2015 was Sh.30,000,000.
4. Unrecorded interest income on loans and advances to customers was Sh.150,000,000 at 30 June 2016.

**Required:**

- (a) Profit and loss account for the year ended 30 June 2016. (14 marks)
- (b) Balance sheet as at 30 June 2016. (6 marks)

NB: The financial statements are to be prepared in accordance with IAS 30.

**QUESTION FOUR**

- (a) Briefly explain the following terms as used when computing consequential loss claim:
  - (i) Turnover of preceeding financial year. (2 marks)
  - (ii) Annual turnover. (2 marks)
  - (iii) Standard turnover. (2 marks)
- (b) Ngata 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 2000 and the business resumed normal operations on 1 September 2000.

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 preceeding 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.
1999	12,000,000	40,000,000	28,000,000
2000	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)

**(Total: 20 marks)**