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

MAIN CAMPUS

**UNIVERSITY EXAMINATIONS
2022/2023 ACADEMIC YEAR**

THIRD YEAR SECOND SEMESTER EXAMINATIONS

**FOR THE DEGREE
OF
BACHELOR OF SCIENCE (ACCOUNTING)**

COURSE CODE: BCA 323

COURSE TITLE: FINANCIAL INSTITUTIONS ACCOUNTS

DATE: Friday 21st April 2023

TIME: .12.00-2.00pm

INSTRUCTIONS TO CANDIDATES

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

TIME: 2 Hours

MMUST observes ZERO tolerance to examination cheating

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

QUESTION ONE(30 MARKS)

- (a) 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 include all these and more, to expand their revenue base.

Required

Briefly explain the main revenue, and expense generating activities of 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. However, an assurance business is under pressure to ensure sufficiently large pool of resources while keeping the premia as low as is practically possible. To achieve this level of efficiency, insurance business has developed customary applicable cardinal principles.

Required

Identify and briefly explain five insurance principles (10 marks)

- (c) Savings and Credit Cooperative Societies, Mutual Funds, Building Societies, and Pension Funds are in the same class of business: serving the interest of members only.

Required

Explain this concept further, paying closer attention to differences between these institutions and banks or insurance companies. (10 marks)

QUESTION TWO (20 MARKS)

- (a) Write short notes on the following terms commonly used in banking:

- (i) Money at call and short notice; (2 marks)
 (ii) Cash credit; (2 marks)
 (iii) Overdraft; (2 marks)
 (iv) Bills for collection. (2 marks)

- (b) The following balances were extracted from the books of Biashara Commercial Bank Ltd. on 31 Dec 2020.

	Sh.'000'
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 31 Dec 2020 was Sh.30,000,000.
4. Unrecorded interest income on loans and advances to customers was Sh.150,000,000 at 31 Dec 2020.

Required:

- (i) Profit and loss account for the year ended 31 Dec 2020. (8 marks)
- (ii) Balance sheet as at 31 Dec 2020. (4 marks)

QUESTION THREE (20 MARKS)

(a) Briefly explain the following terms as used by insurance companies:

- (i) Whole life policy; (2 mark)
- (ii) Endowment policy; (2 mark)
- (iii) Surrender value (2 mark)

(b) The following balances were extracted from the books of Jubilee Marine Insurance Company Ltd. on 30 April 2020.

	Sh.
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 2019	11,700,000
Additional reserve on 1 May 2019	1,170,000
Claims outstanding on 1 May 2019	567,000
Claims outstanding on 30 April 2020	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 2019 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:

- (i) Revenue account for the year ended 30 April 2001. (8 mark)
- (ii) The profit and loss account for the year ended 30 April 2001 (6 marks)

QUESTION FOUR(20 MARKS)

- (a) Briefly explain the content of statement of financial position of an occupational defined contribution Retirement Benefits Fund
- (b) Below is a list of balances from the books of accounts of Timbuctu Employees RBF as at 31/12/2019

	KSh. 000	KSh. 000
Property Inventory	2,769,650	
Property inventory – work-in-progress	760,300	
Government securities at fair value through profit and loss	5,821,070	
Government securities at amortised cost	841,531	
Unquoted equities at fair value through profit or loss	548,981	
Quoted equities at fair value through profit and loss	3,795,420	
Corporate bonds at fair value through profit or loss	244,244	
Offshore equity investments at fair value through profit or loss	215,538	
Term deposits with financial institutions	656,966	
Receivables	973,356	
Bank and cash balances	138,513	
Amounts due to related parties		62,581
Benefits payable		58,017
Other payables and accruals		62,732
Tax payable		6,050
MEMBERS FUNDS:SCHEME BALANCE		16,576,189

Required

Prepare Timbuctu Employees RBF statement of financial position as at 31/12/2019 (20 marks)