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UNIVERSITY EXAMINATIONS 2024/2025

THIRD YEAR FIRST SEMESTER EXAMINATION FOR DEGREE OF BACHELOR OF
COMMERCE AND BACHELOR OF EDUCATION ARTS

BFC 3325/3326: FINANCIAL REPORTING

DATE: DECEMBER 2024

TIME: 2 HOURS

INSTRUCTIONS: Answer Question ONE and any other TWO questions.

QUESTION ONE (30 MARKS)

The trial balance extracted from the books of Nawa, Omai, Pekka and Omar on 30 April 2025 was as follows.

	Sh. '000'	Sh. '000'
Freehold property (Net book value)	6,000	1,395
Plant and Equipment (NBV)	2,030	
Office equipment (NBV)	1,075	
Vehicle (NBV)	3,405	
Stock	1,590	
Debtors		785
Creditors		210
Bank overdraft		6,750
Capital accounts Nawa		4,050
Omai,		2,700



Pekka	2,700	
Omar	250	
Current accounts: Newa	1,350	
Omae,	300	
Pekka	200	
Omar	17,395	17,395

The business has steadily declining in the past few years. The partners have been trying to sell the business as a going concern but have been unable to do so. They decided to sell the assets on a piece meal basis and cash would be distributed to partners as soon as possible in amounts which would ensure that no partner would be called upon to repay any moneys he had received. In the partnership agreement profits and losses were shared between Newa, Omae, Pekka and Omar in the ratio 4:3:2:1 respectively and the application of the rule in Garner Murray was excluded.

Transactions have taken place as follows.

15 May 2025 All the motor vehicles were sold at the Car Bazaar for Sh.975,000 net of selling cost. The money was put into the bank account.

31 May 2025

Cash collected from debtors Sh. 122,000 and stock sold to realize Sh. 1,070,000 after cost. All creditors were paid and

30 June 2025 the cash distribution made.

Cash collected from debtors Sh.248,000 and stock sold to

July 2025 realize Sh.955,000 net. Second cash distribution was made.

Cash collected from debtors Sh. 1,100,000 from sale of stock

31 August (net) Sh. I Third cash distribution was made. 2025

Office equipment sold for Sh. I (net) and plant and 31 October equipment sold for Sh. 1 Fourth cash distribution 2025 was made.

The freehold property was sold for Sh.6,600,000 various distribution expenses of Sh.200,000 were paid the final distribution of cash took place



Required:

- a) A partnership distribution schedule: (20 marks)
- b) Summary bank, realization and partners' capital accounts. (10marks)

QUESTION TWO (20 MARKS)

The following trial balance was extracted from the accounting records of the XYZ Retirement Benefits Scheme for the year ended 30 September 2025.

	She '000'	Sh. '000'
Accumulated fund as at 1 October 2024		461,560
Accrued expensed		240
Administrative expenses	2,840	
Cash and demand deposits	23,460	
Change in market value of investments	22,640	
Commutation and lump sum retirement benefits	4,820	
Contributions due within 30 days	4,940	
Employer normal contributions		36,480
Individual transfers in from other schemes		3,150
Individual transfers out to other schemes	1,860	
Investment income		47,400
Immovable property	132,320	
Kenya Government securities	263,605	
Members' nominal contributions		18,240
Members' additional voluntary contributions		4,560
	7,640	
Pensions	87,835	
Quoted equity investments		320



Unpaid benefits	19,990	
Unquoted equity investments	571,950	571,950

Required:

The statement of Changes in Net Assets (the Fund Account) for the year ended 30 September 2025 and a statement of Net Assets as at 30 September 2025, in accordance with International Accounting Standard 26 (Accounting and reporting by Retired Benefit Plans)
(20 marks)

QUESTION THREE (20 MARKS)

Explain the following terms:

- a) Del credere agent
 - b) Pay as you go
 - c) Vested employee benefits
 - d) cum- div
 - e) Script issue
- (20 marks)

QUESTION FOUR (20MARKS)

- a) Explain the features of an autonomous branch (5 marks)
- b) Discuss the reasons for preparing branch accounts (5 marks)
- c) A businessman has carried on a business in Mombasa opened a branch in kwale on 1st October 2023 where all sales were on credit basis. All goods required by the branch were supplied by the head office invoiced at cost. The head office profit on all goods is 25% The following transactions occurred during the year:

Goods sent to Kwale branch	3,600,000
Sales by branch	3,260,000
Returns to Mombasa invoice rice	840,00
Cash received and remitted to Mombasa	2,320,000
Stock held by branch invoice	1,140,000

Required



Record the above transactions in the books of the head office.

(10 marks)

QUESTION FIVE (20MARKS)

- a) The trial balance extracted from the books of Muungano Insurance Company Limited as at 31 October 2025 is shown below.

	Sh.'000'	Sh.'000'
Ordinary share capital (Sh. 10 par)		7,000,000
General reserve		639,000
Reserve for unexpired risks:		
Fire		325,500
Marine		610,000
Government treasury bills	5,295,500	
Government loan stock	760,000	
East Africa Development Bank bonds	1,467,500	
Equity investments	650,000	
Premium less reinsurance:		
Fire		826,500
Marine		559,000
Additional reserves		
Fire		357,000
Marine		37,500
Furniture and fittings (net)	1,023,000	
Sundry debtors	96,500	
Cash at bank	71,000	
Cash in hand	257,000	
Claims at the beginning of the year		9,000
Fire		1,000
Marine		
Investment income (gross)		96,500



Sundry creditors		871,000
Contingency reserve		100,000
Expenses of management		
Fire	193,000	
Marine	86,000	
Claims paid;		
Fire	280,000	
Marine	268,500	
Commission;		
Fire		
Marine	174,000	
Traveling expenses	123,5000	
Contribution to staff provident fund	29,000	
Premiums outstanding;		
Fire	7,500	
Marine	<u>352,000</u>	
	<u>11,432,000</u>	<u>11,432,000</u>

The following additional information is provided:

1. Provisions are to be made as follows:
 - Additional reserve for unexpired risks should be increased by 8% of the net
 - premium in the case of both fire insurance and marine insurance.
 - Sundry expenses of sh.60,000,000 for marine insurance claims .
 - Depreciation on furniture and fittings at 10% on written down value
 - Taxation of Sh.114,500,000



2. Reinsurance premium paid in respect of fire and marine amounting to Sh. 120,000,000 and Sh.44,000,000 respectively are not yet accounted for.
3. Claims covered by the reinsurance described in (2) above were Sh.45,000,000 and Sh.20,000,000 respectively.
4. Commission on reinsurance ceded is allowed at the rate of 5%.
5. Claims due at the end of the year were Sh. 0,000,000 in respect of fire and Sh.25,000,000 in respect of marine.
6. Claims intimated at the end of year were Sh.8,000,000 and Sh.20,000,000 for fire and marine respectively.
7. Reserves for unexpired risk should be 40% of the premiums less reinsurance in case of fire business and 80% of the premiums less reinsurance in marine business.
8. Commission owing on fire reinsurance accepted is Sh.6,000,000.

Required:

- (a) Fire Insurance Revenue Account for the year ended 31 October 2025.(6 marks)
- (b) Marine Insurance Revenue Account for the year ended 31 October 2025.
(5 marks)
- (c) Profit and loss account for the year ended 31 October 2025. (4 marks)
- (d) Balance sheet as at 31 October 2025. (5 marks)

