

# KASNEB REVISION KIT

## FINANCIAL ACCOUNTING REVISION KIT

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# **FINANCIAL ACCOUNTING**

**CPA  
CIFA**

**FOUNDATION LEVEL  
REVISION KIT**

**TOPICALLY ARRANGED**

**Updated With  
AUGUST 2025**

**Past Paper with Answers**

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## TOPIC 6

### FINANCIAL STATEMENTS OF A PARTNERSHIP

#### QUESTION 1

##### August 2025 Question One A

Explain TWO acceptable methods of valuing goodwill for accounting purpose. (4 marks)

#### QUESTION 2

##### August 2025 Question Three

Annita and Bancy are in partnership sharing profits and losses in the ratio 3:2 after charging annual salaries of Sh.1,200,000 and Sh.1,500,000 to Annita and Bancy respectively. Both partners are allowed one time interest at a rate of 4% on opening capital accounts.

On 1 December 2024, they admitted Carol and agreed to share profit and losses in the ratio 5:4:3. The partnership trial balance as at 30 June 2025 was as follows:

	Sh.“000”	Sh.“000”
Sales		61,800
Inventory (1 July 2024)	6,150	
Purchases	38,700	
Insurance expense	4,170	
Rent and rates	2,150	
Wages and salaries	8,400	
Bad debts	636	
Trade receivables and trade payables	5,529	7,040
Bank overdraft		855
Capital accounts: Annita		3,750
Bancy		3,000
Carol		1,500
Current account: Annita		1,500
Bancy		1,050
Drawings: Annita		1,800
Bancy	2,250	
Motor vehicle at cost	4,800	
Equipment at cost	15,450	
Accumulated depreciation:		
Motor vehicle (1 July 2024)		2,850
Equipment (1 July 2024)		6,690
	<u>90,035</u>	<u>90,035</u>

1. Carol has been the office manager and for the year commencing 1 July 2024 was on a salary of Sh.1,440,000 per annum.
2. Interest on capital at the end of the year was a one time rate of 5%.
3. Carol introduced a motor vehicle valued at Sh.600,000 and Sh.1,500,000 cash as part of his capital contribution. The only entry made in respect of Carol's admission was Sh.1,500,000 paid into the bank account.
4. On 1 December 2024, goodwill was valued at Sh.3,600,000 and is to be written off.
5. Inventory as at 30 June 2025 was valued at Sh.7,425,000.
6. One third of the year's sales were made before admission of Carol and two thirds after her admission.
7. Accrued expenses included Sh.30,000 for insurance and Sh.250,000 for rates and rent.
8. Cost of sales and gross profits are appointed according to sales while all other expenses are apportioned according to time.
9. Depreciation is provided per annum at the following rates: Motor vehicles - 25% on a straight line basis Equipment - 20% on reducing balance

**Required:**

- (i) Statement of profit or loss for the period ended 30 June 2025. (10 marks)
- (ii) Statement of financial position as at 30 June 2025. (10 marks)

**QUESTION 3**

**April 2025 Question Three**

Oliver and Karen were partners in a business of selling school uniforms sharing profit or loss in the ratio of 3:2 respectively after allowing interest on capital at the rate of 10% per annum.

The following trial balance was extracted on 31 March 2025:

	Sh.	Sh.
Capital account:		
Oliver		7,840,000
Karen		6,552,000
Current account:		
Oliver		840,000
Karen		952,000
Amount paid in by Michael		2,352,000
Sales		69,440,000
Purchases	53,760,000	
Wages and salaries	2,397,200	
General expenses	2,520,000	
Plant and machinery	14,064,000	
Motor vehicles	3,684,800	
Furniture and fittings	2,500,000	

Trade receivables	5,040,000	
Trade payables		2,853,200
Allowance for depreciation:		
- Plant and machinery		1,344,000
- Motor vehicles		1,052,800
- Furniture and fittings		260,000
Inventory (1 April 2024)	4,480,000	
Allowance for credit loss		392,000
Cash in hand	448,000	
Cash in bank	4,984,000	
	<u>93,878,000</u>	<u>93,878,000</u>

The following additional information is available:

- On 1 April 2024, Michael was admitted into the partnership under the following terms:
  - He introduced Sh.2,352,000 in the partnership of which it was agreed that Sh.2,000,000 should comprise his fixed capital and the balance should be credited to his current account. Goodwill was agreed to be Sh.1,000,000. No goodwill account was to be maintained in the books.
  - Michael was entitled to a salary of Sh.1,008,000 per annum.
  - Share of profit or loss after admission of Michael is now in the ratio of 2:2:1 to Oliver, Karen and Michael respectively.
- The actual balance at bank on 31 March 2025 was Sh.1,512,000, the difference being drawings as follows:
  - Oliver    Sh.1,624,000
  - Karen    Sh.1,400,000
  - Michael Sh.448,000

Drawings attracted interest of 10% per annum.
- As at 31 March 2025, inventory was valued at Sh.6,300,000.
- Depreciation is provided on cost as follows:
 

	Rate per annum
• Plant and machinery	15%
• Motor vehicles	25%
• Furniture and fitting	12½%
- Allowance for credit loss is maintained at 5% of trade receivables.

**Required:**

- Partners statement of profit or loss for the year ended 31 March 2025. (10 marks)
- Partners current accounts. (4 marks)
- Statement of financial position as at 31 March 2025. (6 marks)

# PART B

## SUGGESTED

## ANSWERS AND SOLUTIONS

## TOPIC 6

### FINANCIAL STATEMENTS OF A PARTNERSHIP

#### QUESTION 1

##### August 2025 Question One A

#### TWO acceptable methods of valuing goodwill for accounting purpose

1. **Average Profits Method:** This method involves calculating the average profits of the business over a certain period (typically the past few years) and applying a multiplier. The multiplier is determined based on factors such as the nature of the business, industry standards, and perceived risk.
2. **Super Profits Method:** The super profits method involves determining the normal or expected rate of return in a particular industry. The excess of actual profits over normal profits is considered as super profits. These super profits are then capitalized to arrive at the value of goodwill.

#### QUESTION 2

##### August 2025 Question Three

#### Annita and Bancy

#### i) Statement of profit or loss for the period ended 30 June 2025

Details	5 months (Sh. '000)	7 months (Sh. '000)	Total (Sh. '000)
Sales	20,600	41,200	61,800
<b>Less: Cost of Sales</b>			
Opening Inventory			6,150
Purchases			38,700
Closing Inventory			<u>(7,425)</u>
Cost of Sales	<u>(12,475)</u>	<u>(24,950)</u>	<u>(37,425)</u>
Gross Profit	8,125	16,250	24,375
<b>Less: Expenses</b>			
Insurance (4,170 + 30)	1,750	2,450	4,200
Rent and rates (2,170 + 250)	1,000	1,400	2,400
Salaries W1	3,850	4,550	8,400
Bad debts	265	371	636
<b>Depreciation:</b>			
Equipment 20% (15,450 – 6,690)	(730)	(1,022)	<u>(1,752)</u>
Motor vehicle	<u>(500)</u>	<u>(787.5)</u>	<u>(1,287.5)</u>
Net Profit for the period	30	5,669.5	<u>5,699.5</u>
<b>Appropriation Account</b>			
<b>Less: Partner Salaries</b>			
Annita	(500)	(700)	(1,200)



Bancy	(625)	(875)	(1,500)
Carol	— (1,125)	(840) (2,415)	(840) (3,540)
<b>Less: Interest on Capital</b>			
Annita (4%×3,750) (5%×4,410)	(150)	(220.5)	(370.5)
Bancy (4%×3,000) (5%×3,240)	(120)	(162)	(282)
Carol (-) (5%×1,200)	—	(60)	(60)
	(270)	(442.5)	(712.5)
<b>Profit/(Loss) to be shared</b>	<b>(1,365)</b>	<b>2,812</b>	<b>1,447</b>
<b>Shared As:</b>			
Annita (3:2) and (5:4:3)	(819)	1,171.7	352.7
Bancy (3:2) and (5:4:3)	(546)	(937.3)	391.3
Carol (5:4:3)	—	703	703
	<b>1,365</b>	<b>2,812</b>	<b>1,447</b>

**(ii) Annita, Bancy & Carol Partnership**

<b>Statement of Financial Position as at 30 June 2025</b>			
	<b>Cost (Sh. '000)</b>	<b>Acc. Dep. (Sh. '000)</b>	<b>NBV (Sh. '000)</b>
<b>Assets</b>			
<b>Non-Current Assets</b>			
Motor Vehicles	5,400	(4,137.5)	1,262.5
Equipment	15,450	(8,442)	7,008
<b>Current Assets</b>			
Inventory			7,425
Trade Receivables			5,529
<b>Total Assets</b>			<b>21,224.5</b>
<b>Equity And Liabilities</b>			
<b>Partners' Equity</b>			
Capital Accounts (W4):			
Annita		4,410	
Bancy		3,240	
Carol		1,200	8,850
Current Accounts (W5):			
Annita		1,623.2	
Bancy		973.3	
Carol		1,603	4,199.5
<b>Current Liabilities</b>			
Trade Payables			7,040
Bank Overdraft			855
Accrued Expenses (30+250)			280
<b>Total Equity And Liabilities</b>			<b>21,224.5</b>

**Working Notes (All figures in Sh. '000)**

**W1**

Salaries  $[(8,400 - 600) \times \frac{5}{12}] + 600 = 3,850$

**W2**

**Goodwill Adjustment**

Creation (Old Ratio 3:2): Credited to old partners' capital accounts.

Annita:  $\frac{3}{5} \times 3,600 = 2,160$

Bancy:  $\frac{2}{5} \times 3,600 = 1,440$

Write-off (New Ratio 5:4:3): Debited from all partners' capital accounts.

Annita:  $\frac{5}{12} \times 3,600 = 1,500$

Bancy:  $\frac{4}{12} \times 3,600 = 1,200$

Carol:  $\frac{3}{12} \times 3,600 = 900$

**W3**

**Partners' Capital Account**

Partners Current Account				Partners Current Account			
	A	B	C		A	B	C
	Sh 000	Sh 000	Sh 000		Sh 000	Sh 000	Sh 000
Goodwill w/o	1,500	1,200	900	Balance b/d	3,750	3,000	-
Balance c/d	4,410	3,240	1,200	Bank	-	-	1,500
				Goodwill	2,160	1,440	-
	<u>5,910</u>	<u>4,440</u>	<u>2,100</u>		<u>5,910</u>	<u>4,440</u>	<u>2,100</u>

**W4**

**Partners' Current Account**

Partners Current Account				Partners Current Account			
	A	B	C		A	B	C
	Sh 000	Sh 000	Sh 000		Sh 000	Sh 000	Sh 000
Drawings	1,800	2,250	-	Balance b/d	1,500	1,050	-
Balance c/d	1,623.3	973.3	1,603	Interest on capital	370.5	282	60
				Salaries	1,200	1,500	840
				Share of profit	352.7	391.3	70.
	<u>3,423.2</u>	<u>3,223.3</u>	<u>1,603</u>		<u>3,423.2</u>	<u>3,223.3</u>	<u>1,603</u>

**QUESTION 3****April 2025 Question Three****a) Partners statement of profit or loss for the year ended 31 March 2025****Oliver, Karen and Michael****Income statement for the year ended March 2024**

	<b>Sh.</b>	<b>Sh.</b>
Sales		6,944,000
<i>Less: cost of sales:</i>		
Opening inventories	448,000	
Purchases	5,376,000	
<i>Less: closing inventories</i>	<u>(630,000)</u>	<u>(5,194,000)</u>
		1,750,000
<i>Add: Decrease in allowances for credit loss</i>		<u>14,000</u>
		1,764,000
<b>Expenses:</b>		
Depreciation		
Plant and machinery	210,960	
Motor vehicles	92,120	
Furniture and fittings	31,250	
Salaries and wages	239,720	
General expenses	<u>252,000</u>	<u>(826,050)</u>
		937,950
Interest on drawings:		
Oliver	16,240	
Karen	14,000	
Michael	<u>4,480</u>	<u>34,720</u>
		972,670
Less salary: Michael		<u>(100,800)</u>
		871,870
Less interest on capital:		
Oliver	78,400	
Karen	65,520	
Michael	<u>20,000</u>	<u>(163,920)</u>
		707,950
Share of profit:		
Oliver	283,180	
Karen	283,180	
Michael	<u>141,590</u>	<u>707,950</u>
		0