

KASNEB REVISION KIT

FINANCIAL REPORTING AND ANALYSIS REVISION KIT

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**FINANCIAL REPORTING AND ANALYSIS
REVISION KIT
TOPICALLY ARRANGED**

**Updated With
AUGUST 2025
Past Paper with Answers**

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TOPIC 3**PREPARATION OF FINANCIAL STATEMENTS FOR
DIFFERENT ENTITIES/TRANSACTIONS****QUESTION 1****August 2025 Question One E**

As at 31 December 2023, a plantation consisted of 100 insignis pine trees that were planted 10 years earlier. Insignis pine takes 30 years to mature and will ultimately be processed into building material for houses or furniture.

Only mature trees have established fair values by reference to a quoted price in an active market. The fair value (inclusive of current transport costs to get 100 logs to market) for a mature tree of the same grade as the plantation is:

	Sh.
As at 31 December 2023	171
As at 31 December 2024	165

The appropriate discount rate is 6% per annum.

Required:

- (i) Estimate fair value of plantation as at 31 December 2023 and 31 December 2024. (4 marks)
- (ii) Using suitable computation, explain the accounting treatment of the change in fair value in the year 2024. (2 marks)

QUESTION 2**August 2025 Question Three A**

A company enjoys a number of benefits over a partnership business enterprise. This is the reason as to why conversion of partnership to a company offers several advantages.

With reference to the above statement, explain FIVE advantages of converting a partnership into a limited liability company. (5 marks)

QUESTION 3**April 2025 Question Four C**

Elite Ltd., operates a pension scheme for its employee by the name Smart Retirement Benefit Scheme. The following trial balance was extracted from the books of the scheme as at 31 December 2024:

	Sh.“000”	Sh.“000”
Normal contribution by:		
Elite Ltd. (Employer)		36,480
Employees		18,240
Transfer in from other scheme		3,150
Individual transfers out to other schemes	1,860	
Investment income		47,400
Property, plant and equipment	132,320	
Government securities (long-term)	263,605	
Member’s voluntary contribution		4,560
Pension	7,640	
Equity investment: Quoted	87,835	
Unquoted	19,990	
Unpaid benefits		320
Accumulated fund as at 1 January 2024		461,560
Accrued expenses		240
Administrative expenses	2,840	
Cash and demand deposits	23,460	
Change in market value of investments	22,640	
Lumpsum retirement benefits	4,820	
Contributions due in 30 days	4,940	
	<u>571,950</u>	<u>571,950</u>

Required:

- Statement of changes in net assets for Smart Retirement Benefit Scheme for the year ended 31 December 2024. (5 marks)
- Smart Retirement Benefit Scheme statement of net assets as at 31 December 2024. (5 marks)

QUESTION 4

December 2024 Question Four

Farmland Ltd. has been in operation for the past 15 years dealing in agricultural produce processing business. The following trial balance was extracted from the books of the company as at 31 October 2024:

	Sh.“000”	Sh.“000”
Revenue		278,400
Income from investment		4,500
Ordinary shares of Sh.20 each		150,000
Retained earnings		119,500
8% loan stock		50,000
Accounts payable		33,400
Deferred tax		12,500
Bank balance		15,400
Land and building at cost	270,00	

PART B

SUGGESTED

ANSWERS AND SOLUTIONS

TOPIC 3

PREPARATION OF FINANCIAL STATEMENTS FOR DIFFERENT ENTITIES/TRANSACTIONS

QUESTION 1

August 2025 Question One E

i) Estimating fair value of plantation as at 31 December 2023

Mature plantation would be measured at $171 \times 100 = 17,100$

The estimate of immature plantation is $\frac{17,100}{1.06^{20}} = 5,332$

Estimating fair value of plantation as at 31 December 2024

Mature plantation would have been measured at $(165 \times 100) = 16,500$

Estimate of immature plantation= is $\frac{16,500}{1.06^{19}} = 5453$

Gain to profit or loss= $5,453 - 5,332 = 121$

ii) Accounting treatment of change in fair value

Gain to be posted to the income value statement will be sh 121

QUESTION 2

August 2025 Question Three A

Advantages of converting a partnership into a limited liabilities compliant

1. It protects shareholders from liability arising from company's legal obligation.
2. Easy access to capital compared with partnership business
3. It enhances public image and credibility
4. Companies has perpetual succession, that is confine to exist even if shareholders or directors passes away
5. Tax planning flexibility since companies has more tax opportunities for tax efficiency

QUESTION 3**April 2025 Question Four C**

- i) Smart Retirement benefit scheme statement of changes in net asset for the year ended 31st December 2024

<u>Smart Retirement Benefit Scheme</u>	
<u>Statement Of Changes In Net Asset for the year ended 31st Dec 2024</u>	
Incomes	Sh Millions
Normal Contribution – Elite employer	36,480
Employers contribution	18,240
Transfer from other schemes	3,150
Investment income	47,400
Members Voluntary contribution	4,560
Expenses	
Individual transfer out to other schemes	(1,860)
Pension	(7,640)
Administrative expense	(2,840)
Change in market value of investment	(22,640)
Lumpsum retirement benefit	<u>(4,820)</u>
Surplus	<u>70,030</u>

- ii) Smart Retirement Benefit Scheme statement of net assets as at 31 December 2024

<u>Smart Retirement Benefit Scheme</u>	
<u>Statement of Net Assets As At 31 December 2024</u>	
Assets	Sh Millions
Non-current assets	
Property, Plants and equipment	132,320
Government securities	263,605
Equity Investment in quoted	87,835
Equity Investment in unquoted	19,990
Current assets	
Contribution due in 30 days	4,940
Cash and demand deposit	23,460
Current liabilities	
Accrued expenses	(240)
Unpaid benefits	<u>(320)</u>
Net asset	<u>531,590</u>
Funded by	
Accumulated funds	461,560
Add: Surplus	<u>70,030</u>
	<u>531,590</u>

QUESTION 4**December 2024 Question Four****a) Statement of profit or loss for the year ended 31 October 2024****Farmland Ltd****Statement of profit or loss for the year ended 31 Oct 2024**

Revenue	278,400
Cost of sales	<u>(112,933)</u>
Gross profit	165,467
Investment income	4,500
Expenses	
Administrative expenses	(5,500)
Distribution expenses	(10,000)
Finance cost	<u>(10,307)</u>
Profit before tax	144,160
Tax expenses (W5)	<u>(29,900)</u>
Profit after tax	144,160
Other comprehensive Income	
Revaluation gains	<u>45,000</u>
Total comprehensive income	<u>159,260</u>

b) Statement of changes in equity for the year ended 31 October 2024**Farmland Ltd****Statement of changes in Equity for the year ended 31 Oct 2024**

	Ordinary share capital Sh000	Retained earning Sh 000	Revaluation Reserve Sh 000
Balance b/d	150,000	119,500	-
PAT	-	114,260	-
Revaluation	-	-	45,000
Dividend paid	-	<u>(15,000)</u>	-
Closing balances	<u>150,000</u>	<u>218,760</u>	<u>45,000</u>

c) Statement of financial position as at 31 October 2024**Farmland Ltd****Statement of financial position as at 31st Oct 2024**

Assets	Sh 000
Non current Assets	
PPE (W1)	363,214
Long term investment	90,000
Rights of use Asset 91,737-18,347(W6)	73,390
Current Assets	
Inventory	43,200
Receivables	<u>63,200</u>
	<u>633,004</u>