

KASNEB REVISION KITS

ADVANCED FINANCIAL REPORTING AND ANALYSIS REVISION KIT

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ADVANCED FINANCIAL REPORTING REVISION KIT

PAST EXAMINATION PAST PAPERS WITH
SUGGESTED ANSWERS
TOPICALLY ARRANGED

Updated With
DECEMBER 2025
Past Paper with Answers

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PART A

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PAST EXAMINATION QUESTIONS

TOPIC 1

ACCOUNTING FOR ASSETS AND LIABILITIES

QUESTION 1

December 2025 Question Three

Uzuri Limited, a public limited company whose financial year ends on 30 September, offers stock options to its full time employees.

On 1 October 2021, the company directors offered 5,000 stock options to each of its 300 employees on condition that they remain in employment until 30 September 2025.

The fair value of each option was Sh.16 at 1 October 2021. At the grant date, it was estimated that 10% of the employees would leave the company over the vesting period. At 30 September 2022, ten (10) employees had left the company and the estimate of the leavers remained the same.

At 30 September 2023, another fifteen (15) employees left the company and the estimate of the possible leavers was revised to 15% over the vesting period.

At 30 September 2024, another eight (8) employees left the company and the estimate of leavers remained at 15% of the employees over the vesting period.

At the vesting date of 30 September 2025, additional seven (7) employees had left the company and therefore forfeited their stock options.

Required:

Analyse the accounting treatment of the above share-based payment transactions in the financial statements of Uzuri Limited for each of the years ended 30 September: 2022, 2023, 2024 and 2025 in line with International Financial Reporting Standard (IFRS) 2 “Share-based payments”. (8 marks)

(b) On 31 December 2023, Amasa Ltd. purchased Sh.10 million 5% bonds issued by Jamii Ltd. at par value. The bonds are repayable on 31 December 2026 and the effective rate of interest is 8%. Amasa Ltd.’s business model is to collect the contractual cash flows over the life of the asset.

As at 31 December 2023, the bonds were considered to be low risk and as a result, the 12-month expected credit losses were expected to be Sh.10,000. On 31 December 2024, Jamii Ltd. paid the coupon interest. However, as at that date, the risks associated with the bonds were deemed to have increased significantly.

The present value of the cash shortfall for the year ending 31 December 2025 was estimated to be Sh.462,963 and the probability of default is 3%. On 31 December 2024, it was also anticipated that no further coupon payments would be received during the year ending 31 December 2026 and only a portion of the nominal value of the bonds would be repaid. The present value of the bonds was assessed to be Sh.6,858,710 with a 5% likelihood of default in the year ended 31 December 2026.

Required:

With reference to the IFRS 9 (Financial Instruments), demonstrate the financial reporting treatment of the bonds, including any impairment losses, in the financial statements of Amasa Ltd:

- (i) As at 31 December 2023. (4 marks)
- (ii) For the year ended 31 December 2024. (8 marks)

QUESTION 2

December 2025 Question Four B

Kasuku Ltd. issued a Sh.5,000,000, 18% convertible loan note at par on 1 November 2022 with interest payable annually in arrears. Three years later, on 31 October 2025, the loan note becomes convertible into equity shares on the basis of Sh.100 of loan note for 50 equity shares or it may be redeemed at par in cash at the option of the loan note holder.

Kasuku Ltd.’s accountant has observed that the use of a convertible loan note was preferable to a non-convertible loan note as the latter would have required an interest rate of 24% in order to make it attractive to investors.

The present value of Sh.1.00 receivable at the end of the year, based on discount rates of 18% and 24% are given below:

Year	18%	24%
1	0.847	0.806
2	0.718	0.650
3	0.609	0.524

Required:

The accounting treatment for Kasuku Ltd.’s convertible loan note in the:

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PART B

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SUGGESTED

ANSWERS AND SOLUTIONS

TOPIC 1

ACCOUNTING FOR ASSETS AND LIABILITIES

QUESTION 1

December 2025 Question Three

(a) Equity Expenses

Year	Calculation	Cumulative Equity (Sh)	Expense for Period (Sh)
	Sh '000'	Sh '000'	Sh '000'
2022	$(300-10-20) \times 5,000 \times 16 \times \frac{1}{4} =$	5,400	5,400
2023	$(300-10-15-20) \times 5,000 \times 16 \times \frac{2}{4} =$	10,200	4,800
2024	$(300-10-15-8-12) \times 5,000 \times 16 \times \frac{3}{4} =$	15,300	5,100
2025	$(300-10-15-8-7) \times 5,000 \times 16 \times \frac{4}{4} =$	20,800	5,500

Or

Period	Calculation	Equity Reserves	Expenses (Employee Benefit Exp.)
	Sh '000'	Sh '000'	Sh '000'
2022	$[300 \times 90\%] 5,000 \times 16 \times \frac{1}{4} =$	5,400	5,400
2023	$[300 \times 85\%] \times 5,000 \times 16 \times \frac{2}{4} =$	10,200	4,800
2024	$[300 \times 85\%] \times 5,000 \times 16 \times \frac{3}{4} =$	15,300	5,100
2025	$(300-10-15-8-7) \times 5,000 \times 16 \times \frac{4}{4} =$	20,800	5,500

(All figures in Sh '000')

Uzui Ltd				
Statement of Profit or Loss Extract for the year ended 30 Sep				
	2022	2023	2024	2025
Expenses				
Employee benefit expenses	5,400	4,800	5,100	5,500

(All figures in Sh '000')

Statement of Financial Position Extract as at 30 Sep				
	2022	2023	2024	2025
Equity				
Share-based equity reserve	5,400	10,200	15,300	20,800

(b) (i) Accounting as at 31 Dec 2023

- **Business Model:** The business model of Amasa Ltd is to collect the contractual cashflows of the bonds over the life of the asset.
- **Measurement:** This means the bond should be measured at amortised cost.
- **Initial Recognition:** All financial assets (including amortised cost assets) should initially be recognized at fair value. This would be equal to Sh 10 million paid on acquisition of the bonds.
- **Impairment Approach:** IFRS 9 requires entities to adopt an expected value approach to the consideration of impairment losses on financial assets.
- **Status at Year-End:** As at 31 December 2023, the bonds are considered low risk and are not credit impaired. The bonds would then be classified as a Stage 1 financial asset as at 31 Dec 2023. Amasa Ltd should create an expected credit loss equal to a 12-month expected credit loss.
- **Recognition:** Therefore, a default allowance of Sh 10,000 should be recognized as at 31 Dec 2023.
- **Accounting Treatment:** This will be expensed to the statement of profit or loss, and a separate allowance account is created rather than offsetting it against the fair value of the bonds.

Carrying Amount:

The carrying amount as at 31 December 2023 will be:

$$Sh\ 10,000,000 - Sh\ 10,000 = Sh\ 9,990,000$$

(ii) Accounting as at 31 Dec 2024

- **Interest Income:** Since the bond is measured at amortised cost, the interest at the effective rate of 8% will be included in the profit or loss and added to the fair value (FV) of the bond.
- **Calculation Base:** This will be calculated on the initial Sh 10,000,000 and is not affected by the loss allowance of Sh 10,000.
- **Coupon Payment:** The coupon interest of Sh 500,000 (5% of Sh 10,000,000) will be deducted from the carrying amount of the bonds.

Carrying Amount Calculation as at 31 Dec 2024

(All figures in Sh)

Balance b/f	Interest income at 8%	Coupon interest (5%)	Balance c/d
10,000,000	800,000	(500,000)	10,300,000

Credit Risk Assessment (Stage 2)

- **Risk Status:** As at 31 Dec 2024, there is a significant increase in credit risk.

- **Classification:** No actual default has occurred; hence the bonds are classified as a Stage 2 financial asset.
- **Lifetime Credit Loss:** Amasa Ltd should make an allowance to recognize the lifetime credit losses.

Expected Loss Allowance Calculation		
Date	Calculation	Amount (Sh)
31 Dec 2025	$3\% \times 462,963$	13,889
31 Dec 2026	$5\% \times 6,858,710$	<u>342,936</u>
Total		<u>356,825</u>

- **Expected Loss Allowance Adjustment:** The expected loss allowance should be increased to Sh 356,825.
- **Expense Recognition:** An expense of Sh 346,825 (calculated as Sh 356,825 - Sh 10,000) should be recorded as an expense in the year ended December 2024.
- **Carrying Amount:** The loss allowance is deducted directly from the value of the bond.
- **Final Carrying Value:** The carrying amount of the bond as at 31 December 2024 will be Sh 9,943,175 (calculated as Sh 10,300,000 - Sh 356,825).

QUESTION 2

December 2025 Question Four B

(i) Fair Value Determination

Coupon Interest: $18\% \times 5,000,000 = \text{Sh } 900,000$

Maturity Convertible Amount: $\frac{50 \times \text{Sh } 5,000,000}{\text{Sh. } 100} = 2,500,000 \text{ shares.}$

Debt Element Calculation

Period	Cashflows	PVIF (at 20%)	Present Value (Sh)
2023	900,000	0.806	725,400
2024	900,000	0.650	585,000
2025	5,900,000 (5m+0.9m)	0.524	<u>3,091,600</u>
Total		Debt element	<u>4,402,000</u>

Amortization Schedule

Period	Balance b/f (Sh)	Interest expense (24%)	Coupon Interest (Sh)	Balance c/d (Sh)
2023	4,402,000	1,056,480	(900,000)	4,558,480
2024	4,558,480	1,094,035	(900,000)	4,752,515
2025	4,752,515	1,140,604	(900,000)	5,000,000

Kasuku Ltd			
Statement of Profit or Loss Extract for the year ended 31 October			
	2023 (Sh)	2024 (Sh)	2025 (Sh)
Expenses			
Interest expenses	1,056,480	1,094,035	1,140,604

Statement of Financial Position Extract as at 31 October			
	2023 (Sh)	2024 (Sh)	2025 (Sh)
Equity and Liability			
Equity reserve (5,000,000–4,402,000)	598,000	598,000	598,000
Non-current liabilities			
18% Loan note	4,558,480	4,752,515	5,000,000

QUESTION 3

August 2025 Question Two C

IFRS 5 requires an asset that is held for sale to be initially

Re-measured to its carrying amount using the existing accounting Standard

- Non-current asset held for sale shall be Classified as a separate item under current asset
- It shall be recognized based on the lower of Carrying amount and net realisable value

Determining carrying amount as at Jun 2025

Depreciation = $10\% \times 20M = 2 \times 3 = 6M$

<i>Carrying amount</i>	<i>Sh 000</i>
Cost	20,000
Less: Accumulated depreciation	<u>(6,000)</u>
Carrying amount	<u>14,000</u>

Fair value less cost to sell

$14,000 - 400 = 13,600$

Receivable amount 15,200

Impairment loss $14,000 - 13,600 = 400$

NB: Non current asset held for sale will be recognized based on the lower of carrying amount and NRV (Sh 14,000,000)

QUESTION 4

August 2025 Question Four

(a) **How to account for the above transactions in the company’s financial statements**

Year	Equity	Expenses
2023	$(9 - 4)21,000 \times 100 \times \frac{1}{3} = 3,500,000$	3,500,000
2024	$(9 - 2) 21,000 \times 100 \times \frac{2}{3} = 9,800,000$	$(9,800 - 3,500) = 6,300,000$

	2023	2024
Dr Expenses.	3,500,000	6,300,000
Cr Equity reserve	3,500,000	9,800,000

b) **Determining the value of hence Investment as at 1 Jan 2024**

Lease investment value will initially be measured at present value of hence rentals not received at the commencement

$$\begin{aligned}
 \text{Present value} &= 10,000,000 \times \frac{1 - [1 + 0.0949]^{-6}}{0.0949} \\
 &= 10,000,000 \times 4.4211 = 44,211,320 \\
 \text{Add: Terminal value,} &= 2,500,000 \times 0.5804 = 1,451,000 \\
 \text{Lease: investment receivable} &= \underline{\underline{45,662,320}}
 \end{aligned}$$

Subsequent measurement

Year ended 31 Dec	Balance b/d <i>x</i>	Lease Receipts <i>y</i>	Interest Income 9.49% <i>z</i>	Principal Repayment <i>y - z</i>	Balance b/d <i>x - (y - z)</i>
2024	45,662,320	10,000,000	4,333,354	5,666,646	39,995,674
2025	39,995,674	10,000,000	3,795,589	6,204,410	33,791,263
2026	33,791,263	10,000,000	3,206,791	6,793,209	26,998,054
2027	26,998,054	10,000,000	2,562,115	7,437,885	19,560,169
2028	19,560,169	10,000,000	1,856,260	8,143,740	11,416,429
2029	11,416,429	10,000,000	1,083,419	8,916,580	2,500,000

Pambana ltd	
Statement of profit or loss extract for the year ended 31Dec 2024	
Income	
Interest income	4,333,354
Additional lease payment received	1,500,000
Expenses	
Lease arrangement cost.	2,100,000

Pambana ltd	
Statement & Financial position extract as at 31 Dec 2024	
Non current asset	Sh
Lease investment	33,791,213
Current assets	
Lease investment	6,204,410

QUESTION 5

August 2025 Question Five

(a) Recommended correct accounting treatment for the above transactions to the directors of Urembo Ltd

Urembo utd	
Statement of profit or loss extract as at 31 Dec 2024	
	Sh million
Current service cost	165
<i>Less: on curtailment</i>	33
Interest cost	<u>18</u>
Net pension cost	<u>216</u>

Urembo Ltd	
Statement of financial position extract as at 31 December 2024	
Equity and liabilities	Sh million
Actual gain reserve	27
None current liabilities	
Net pension liabilities	249

Item	Carrying amount	Tax base	Temporary Difference
PPE.	95	72	23
Provision	(11)	(0)	(11)
Inventory	24	(24+3) 27	(3)
Software $(15 - \frac{15}{5})$	12	0	<u>12</u>
			<u>21</u>

Deferred tax liability $30\% \times 21M = 6.3M$

(b) **Auma Ltd.’s deferred tax liability as at 31 July 2025 in accordance with IAS 12 (Income Taxes)**

Defined plan liability

	sh million
Net obligation as at 1 January 2024.	360
Add: Current service, cost → <i>To P & L</i> .	165
Loss on curtailment → <i>To P & L</i>	33
Interest cost $5\% \times 360 \rightarrow To P \& L$.	18
Less: Cash contribution.	<u>(300)</u>
	276
Actuarial gain	<u>(27)</u>
Net pension liability balance bid	<u>249</u>

NB: The benefits Paid do not affect the net liability for the year since only the cash contribution have been recorded for the year. The net obligation should be increased

QUESTION 6

April 2025 Question One B and D

b) Defined benefit plan assets

- Where the plan assets exceeds the plan obligation, the amount of net pension surplus reported in the statement of financial position can only be recognized to the extent that will be recoverable in the form of refunds or reduced contribution in the future
- This ensures that an asset is only recognised if it has the potential to bring economic benefit to the reporting entity
- IAS 19 requires that the net pension surplus should be recognized by applying the "asset ceiling" and measured at the lower of:
 - The net reported pension asset or
 - The total of the present value of any economic benefits available in the form of refunds from the plan

d) Presentation and disclosure requirement for non-current asset held for sale and discontinued operations

- IFRS 5 states that an entity shall present and disclose information that enables users of financial information to assess the financial effects of discontinued operations and disposal of assets or disposal of groups
The following are presentation and disclosure requirement:
- On the statement of profit and loss, a single amount composing the total of:
 - The post tax profit or loss from discontinued operations
 - The past tax gain or loss recognized on the re-measurement to fair valueless cost of disposal