

KASNEB REVISION KIT

**FINANCIAL
ACCOUNTING
REVISION KIT**

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**CPA
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**FOUNDATION LEVEL
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TOPICALLY ARRANGED

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Past Paper with Answers**

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TOPIC 8

FINANCIAL STATEMENTS OF A MANUFACTURING ENTITY

QUESTION 1

April 2025 Question Five B

Minerva Ltd. is a manufacturer of office furniture. The following trial balance was extracted from the books of the company as at 31 December 2024:

	Sh.	Sh.
Retained profit as at 1 January 2024		1,699,000
Direct wages	20,056,000	
Accounts receivables	20,000,000	
Accounts payables		18,149,840
Bank	1,500,000	
Purchase of raw materials	20,744,000	
Net sales		103,401,640
Building (Net book value)	6,800,000	
Motor vehicle (Net book value)	4,800,000	
Office equipment (Net book value)	3,420,000	
Plant and machinery (Net book value)	20,220,000	
Allowance for credit loss		40,000
Directors salaries	2,006,120	
Inventory as at 1 January 2024:		
Raw materials	2,800,000	
Work-in-progress	5,040,000	
Finished goods	10,000,000	
Selling and distribution costs	11,002,440	
Rent and rates	3,609,360	
Office salaries	6,640,520	
Insurance	804,640	
Other indirect factory costs	1,602,520	
Electricity and water	3,041,640	
General administrative expenses	2,803,240	
Preference dividend	400,000	
Ordinary share capital		16,000,000
10% preference shares		8,000,000
	<u>147,290,480</u>	<u>147,290,480</u>

Additional information:

1. Inventories as at 31 December 2024 were valued as follows:

Sh.

Raw materials	9,400,000
Work-in-progress	3,145,000

2. The company transfers output to the warehouse at a cost plus mark up of 25%. During the year ended 31 December 2024, the company produced 2,500 chairs. At the end of the year, 2,300 chairs produced during the year were sold. All opening inventories were sold during the year.
3. The allowance for credit loss was increased by Sh.15,000.
4. The company charges depreciation on all its fixed asset on reducing balance basis at the rates shown below:

Asset	Rate	Apportionment
Building	2.5%	Administration
Plant and machinery	15%	Factory
Office equipment	10%	Administration
Motor vehicle	20%	60% factory, 40% administration

5. As at 31 December 2024, there was an outstanding insurance premium of Sh.250,000 and prepaid rent amounting to Sh.275,000.
6. Rent and rates, insurance and electricity and water are to be apportioned in the ratio 4/5 to the factory and 1/5 to administration.
7. The directors have proposed the following:
 - Payment of final preference dividends.
 - Payment of ordinary dividend at 10%.
8. Corporate tax for the year ended 31 December 2024 amounts to Sh.12,500,000.

Required:

- (i) Manufacturing account for the year ended 31 December 2024. (10 marks)
- (ii) Statement of profit or loss for the year ended 31 December 2024. (8 marks)

QUESTION 2

December 2024 Question Five B

The following trial balance was extracted from the books of Venus Ltd., a manufacturing company as at 31 August 2024:

	Sh. "000"	Sh. "000"
Ordinary share capital		250,000
Retained earnings (1 September 2023)		182,750
Share premium		100,000
Bank	17,100	
Factory building (Land Sh.40,000,000)	175,000	
Plant and machinery	200,000	
Furniture and fittings	120,000	
Accumulated depreciation:		
Factory building		6,000
Furniture and fittings		25,000

TOPIC 8

FINANCIAL STATEMENTS OF A MANUFACTURING ENTITY

QUESTION 1

April 2025 Question Five B

i) Manufacturing account for the year ended 31 December 2024

Minerva Ltd.

Manufacturing account for the year ended 31 December 2024:

Cost of raw materials	2,800,000	
Opening raw materials	20,744,000	
Add: Purchases of raw materials	<u>(9,400,000)</u>	
Less: Closing raw materials		14,144,000
Cost of raw materials		<u>20,056,000</u>
Direct labour		34,200,000
Prime cost		
Factory overheads:		
Rents and rates $\frac{4}{5} \times (3,609,360 - 275,000)$	2,667,488	
Insurance $\frac{4}{5} \times (804,640 + 250,000)$	843,712	
Electricity and water $\frac{4}{5} \times 3,041,640$	2,433,312	
Other indirect costs	1,602,520	
Plant and machinery $(0.15 \times 20,220,000)$	3,033,000	
Motor vehicles $(0.2 \times 4,800,000) \times 60\%$	576,000	
Total factory overheads		11,156,032
Total work done		45,356,032
Add: Opening WIP		5,040,000
Less: closing WIP		<u>(3,145,000)</u>
Cost of work completed		47,251,032
Add: manufacturing gross profit $(0.25 \times 47,251,032)$		<u>11,812,758</u>
Cost of goods transferred		<u>59,063,790</u>

$$\text{Transport cost per unit} = \frac{59,063,790}{2,500} = \text{sh. } 23,625.516$$

$$\text{Unit cost of product} = \frac{49,251,032}{2,500} = \text{sh. } 18,900.423$$

$$\text{Unrealized profit per unit} = 23,625.516 + 18,900.423 = 4,725.093$$

$$\begin{aligned} \text{Value of unrealized profit on closing inventory} &= 4,725.093 \times 200 \\ &= \mathbf{945,018.16} \end{aligned}$$

ii) Statement of profit or loss for the year ended 31 December 2024

Minerva Ltd.

Statement of profit or loss for the period 31 December 2024:

Sales	103,401,640
Cost of sales:	
Opening inventory of finished goods	10,000,000
Add: cost of goods transferred	59,063,790
Less: closing inventory	<u>(4,725,103.2)</u>
Cost of sales	<u>64,338,686.8</u>
Gross profit	39,062,953.2
Add: Manufacturing gross profit	11,812,758
Less: Unrealized profit on closing inventory	<u>(945,018.6)</u>
	<u>49,930,692.6</u>
Expenses:	
General administrative expenses	2,802,240
Electricity and water $\frac{1}{5} \times 3,041,640$	608,328
Office salaries	6,640,520
Insurance $\frac{1}{5} \times (804,640 + 250,000)$	210,928
Rent and rates $\frac{1}{5} \times (3,609,360 - 275,000)$	666,872
Selling and distribution costs	11,002,440
Finance directors salaries	2,006,120
Increase in provision for bad debt	15,000
Motor vehicle $(0.2 \times 4,800,000)$	384,000
Building $(0.25 \times 6,800,000)$	<u>170,000</u>
Total expenses	<u>(25,992,448)</u>
Net profit before tax	23,938,244.6
Tax	<u>(12,500,300)</u>
Net profit after tax	11,438,244.6
Preference shares $(400,000 + 400,000)$	(800,000)
Ordinary shares dividend	(1,600,000)
Balance b/d	9,038,244.6
Retained profit	<u>1,699,000</u>
	<u>10,737,244.6</u>

QUESTION 2

December 2024 Question Five B

a) Manufacturing account for the year ended 31 August 2024

Venus Ltd

Manufacturing Income statement for the year ended 31st Aug 2024

	Sh 000	Sh 000
Opening inventory raw materials		55,000
Add: purchases raw materials		225,000
Add: Carriage on raw materials		7,500
Less: Return Outwards		(5,250)
Less: Closing inventory raw material		<u>(30,000)</u>

Cost of raw materials consumed	252,250
<i>Add:</i> Direct wages	<u>120,000</u>
Prime cost	372,250
Indirect Manufacturing Cost:	
Depreciation Factory building $4\% \times (175,000 - 40,000)$	5,400
Depreciation Plant and machinery $20\% \times (200,000 - 20,000)$	36,000
Electricity $\frac{3}{4} \times 20,000$	15,000
Insurance $\frac{3}{4} \times 24,000$	18,000
Maintenance and repair $\frac{3}{4} \times 34,000$	25,500
Equipment hire	<u>22,500</u>
Gross manufacturing cost	(494,650)
<i>Add:</i> Opening W.I.P	40,000
<i>Less:</i> Opening W.I.P	(56,500)
Manufacturing cost	478,150
Manufacturing profit $20\% \times 478,150$	<u>95,630</u>
Market value of manufactured goods	<u>573,780</u>

b) Income Statement for the year ended 31 August 2024

Venus Ltd

Statement of profit and loss for the year ended 31 August 2024

Sales	681,500
Less: Cost of Sales	
Opening Inventory finished goods	39,000
<i>Add:</i> Market value of manufactured goods	573,780
<i>Less:</i> closing stock finished goods	<u>(45,902)</u>
Gross profit	(566,878)
<i>Add:</i> Manufacturing profit	114,622
<i>Add:</i> Allowance for doubtful debts $17,500 - 17,000$	95,630
	500
Expenses	
Depreciation Furniture & fittings $12.5\% \times 120,000$	15,000
Electricity $\frac{1}{4} \times 20,000$	5,000
Insurance $\frac{1}{4} \times 24,000$	6,000
Maintenance repairs $\frac{1}{4} \times 34,000$	8,500
Bad debts	1,500
Administration expenses	80,000
General expenses	46,120
Bank charge	6,250
Discount allowed	9,150
Distribution Expenses:	
Sales and marketing expenses	13,630
Unrealized profit	<u>1,150</u>
Profit before tax	(192,300)
Income tax expense $30\% \times 18,412$	18,452
Profit after tax	(5,535.6)
	<u>12,916.4</u>

Working

W1: Closing stock of finished goods

$$2,000,000 = 573,780$$

$$160,000 = ?$$

$$\frac{160,000 \times 573,780}{2,000,000} = 45,902$$

W1: Allowable for doubtful debts

$$0 - 12 \text{ months} \rightarrow \frac{10}{100} \times 45,000 = 4,500$$

$$\text{Above 12 months} \rightarrow \frac{10}{100} \times 50,000 = 4,500$$

$$\underline{17,000}$$

$$\text{Decrease} = 17,500 - 17,000 = 500$$

W3: Unrealized profit on stock (U.P.S)

$$\text{UPS} = \text{Opening stock} \rightarrow \frac{20}{120} \times 39,000 = 6,500$$

$$\text{Closing stock} \rightarrow \frac{20}{120} \times 45,902 = 7,650$$

QUESTION 3

April 2024 Question Three

a) Manufacturing statement for the year ended 31 March 2024

Kwanza Ltd Manufacturing statement (Account)

For the year ended 31st March 2024

	Sh 000
Opening Raw materials (1 April 2023)	2,870
<i>Add:</i> Purchase	77,000
<i>Less:</i> Return outward	(266)
<i>Less:</i> closing raw materials	<u>(11,690)</u>
	67,914
Direct wages	<u>6,440</u>
Prime cost	74,354
Factory /Production overheads:	
Electricity ($\frac{2}{3} \times 1,386$)	924
Rates & insurance ($\frac{2}{3} \times 798$)	532
Sundry expenses ($\frac{2}{3} \times 2,436$)	1624
Maintenance ($\frac{2}{3} \times 924$)	616
Factory Power	<u>1,890</u>
	9,114
	83,468
<i>Add:</i> Opening W.I.P (1 April 2023)	4,830
<i>Less:</i> Closing W.I.P (31 March 2024)	<u>(6,930)</u>
Manufacturing cost transferred	<u>81,368</u>

b) Statement of profit or loss for the year ended 31 March 2024

Kwanza Ltd

Statement of profit or loss for the year ended 31st march 2024

	Sh 000	Sh 000
Sales (103,600 - 84)		106,516
<i>Less: Cost of sales</i>		
Opening inventory (finished)	9,100	
Manufacturing cost transferred	81,368	
<i>Less: Closing inventory (finished)</i>	<u>(8,680)</u>	<u>(81,788)</u>
		21,728
Less expenses		
Rates and insurance ($\frac{1}{3} \times 798$)	266	
electricity ($\frac{1}{3} \times 1,386$)	462	
Maintenance $\frac{1}{3} \times 924$)	308	
Sundry expenses ($\frac{1}{3} \times 2,436$)	812	
Depreciation		
Motor vehicle	1,778	
furniture & fitting	425	
Increase in provision for bad debt	520	
Bad debts	406	
Salaries	7,560	
Advertising expenses	728	
Transportation expenses	1,946	
Bank charges	<u>238</u>	<u>(15,449)</u>
Net profit		<u><u>6,279</u></u>

c) Statement of financial position as at 31 March 2024.

Kwanza Ltd

Statement of profit or loss For the year ended 31st march 2024

Non current assets	cost	Accumulated depreciation	NBV
	Sh 000	Sh 000	Sh 000
Factory building	10,500	1,502	8,998
Plant and machinery	10,920	7,234	3,686
Motor vehicle	7,112	4,340	2,772
Furniture and fittings	<u>3,400</u>	<u>1,405</u>	<u>1,995</u>
			17,451
Current Assets			
Inventories: Raw materials		11,690	
Work in progress		6,930	
Finished goods		8,680	
payables		9,972	
Bank		8,592	45,864

Capital and liabilities	63,315
Ordinary share capital	42,000
Revenue reserves	10,150
Net profit	<u>6,279</u>
	58,429
Current liabilities	
Trade payables	4,886
	<u>63,315</u>

QUESTION 4

August 2023 Question Three

a) Manufacturing statement for the year ended 30 June 2023

<u>Faido Ltd</u>			
<u>Manufacturing statement for the year ended 30 June 2023</u>			
	Sh 000	Sh 000	Sh 000
Raw materials consumed			
Opening stock of raw materials	140,000		
Add: Purchase of raw materials	1,030,000		
Add: Carriage inwards	170,026		
Less: Closing stock of raw materials	<u>(116,000)</u>		
Raw materials cost	1,224,026	1,224,026	
Direct wages		1,062,800	
Prime cost		<u>2,286,826</u>	2,286,826
Add: Production /Factory overheads			
Depreciation:			
Plant & machinery (10x140,000)			140,000
Rent (80,126 + 2,400)80%			66,020.8
Rates (80,342 - 4,200)80%			60,913.6
Light & heat (102,054 + 1,500)80%			82,843.2
Insurance (30,232 – 3,200)80%			21,625.6
Factory Power			70,028
Plant repairs			<u>100,204</u>
Cost of goods available			2,828,461.2
Add: Opening work in progress			252,000
Less: Closing work in progress			<u>(64,000)</u>
Total cost of production			<u>3016,461.2</u>

$$\text{Cost per unit} = \frac{301,646.2}{2,000} = 1,508.2306$$

$$\text{Closing finished goods} = 1,508.2306 \times 150 = 226,234.59$$