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ADVANCED FINANCIAL REPORTING REVISION KIT

PAST EXAMINATION PAST PAPERS WITH
SUGGESTED ANSWERS
TOPICALLY ARRANGED

Updated With
APRIL 2026
Past Paper with Answers

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SAMPLE WORK 0728 776 317

PART A

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PAST EXAMINATION QUESTIONS

TOPIC 1

ACCOUNTING FOR ASSETS AND LIABILITIES

QUESTION 1

April 2026 Question Three

a) Wanga Autos is a major car dealer in the country. The company is currently preparing its financial statement for the year ended 31 March 2026. The company sells cars in three different regions across the country. At the reporting date, the company has 300 cars (same type, model and age) whose fair value the company's directors would like to estimate.

The directors believe that the fair value should be based on inputs from the market which provides the highest net benefits from car sales.

Information about the three regions as follows:

Region	Total Market Volume (No. of cars)	Wanga Autos' sales volume (No. of cars)	Selling price per car (Sh.)	Transportation costs per car (Sh.)	Transaction costs per car (Sh.)
Northern Region	6,500	960	2,700,000	200,000	150,000
Southern Region	9,800	608	2,800,000	310,000	190,000
Western Region	5,000	800	2,500,000	250,000	250,000
Total	21,300	2,368			

Required:

Determine, with appropriate computations, what fair value should be placed on the 300 cars at 31 March 2026 in line with the requirements of IFRS 13 (Fair Value Measurements). (8 marks)

b) On 1 January 2022, Maiyo Ltd. granted 700 share appreciation rights (SARs) to each of its 400 employees. All of the rights vested on 31 December 2023 and could be exercised from 1 January 2024 up to 31 December 2025.

At the grant date, the value of each SAR was Sh.15 and it was estimated that 5% of the employees of Maiyo Ltd. would leave during the vesting period.

The fair values of the SARs were as follows:

Date	Fair Value of SARs (Sh.)
31 December 2022	14
31 December 2023	16
31 December 2024	17

At the employees who were expected to leave the employment did leave the company as expected before 31 December 2023. On 31 December 2024, 80 employees exercised their options when the intrinsic value of the right was Sh.15.5 and were paid in cash.

Required:

Advise Maiyo Ltd., with appropriate computations, on how the above transactions should have been accounted for in its financial statements up to 31 December 2024 in conformity with IFRS 2 (share - based Payment). (12 marks)

QUESTION 2

April 2026 Question Four B

Saikati Ltd. has three cash generating units (CGUs), a head office and a research facility. The carrying amounts of the assets and their recoverable amounts are as follows:

	Unit X	Unit Y	Unit Z	Head office	Research facility	Saikati Ltd.
	Sh. "million"					
Carrying value amount	500	700	1,000	750	250	3,250
Recoverable amount	645	820	1,355	-	-	2,920

The assets of the head office can be reasonably allocated to the three CGUs as follows:

Unit X:	Sh.95 million
Unit Y:	Sh.280 million
Unit Z:	Sh.375 million

The assets of the research facility cannot be reasonably allocated to the CGUs.

Required:

Assuming that all assets can be adjusted for impairment, show how the adjusted carrying values of the assets of Saikati Ltd. should be determined in line with IAS 36 (Impairment of Assets) after taking into account any impairment losses in the above scenario. Show the relevant financial statements extracts. (10 marks)

QUESTION 3**April 2026 Question Five B and C**

(b) Zamba Ltd. manufactures equipment for lease or sale and makes up its financial statements at 31 December.

On 31 December 2025, Zamba Ltd., leased out equipment under a 10-year finance lease. The selling price of the leased item was Sh.50 million and the present value of the minimum lease payments was Sh.47 million. The carrying value of the leased asset was Sh.40 million and the present value of the residual value of the equipment when it reverts back to Zamba Ltd. at the end of the term is Sh.2.8 million.

Zamba Ltd. has shown sales of Sh.50 million and cost of sales of Sh.40 million in its financial statements.

Required:

Show how the above transaction should be correctly accounted for in the financial statements of Zamba Ltd. for the year ended 31 December 2025 in accordance with IFRS 16 (Leases). (6 marks)

(c) On 1 January 2025, Jamago Ltd. raised finance by issuing a two-year deeply discounted 2% bond with a nominal value of Sh.20 million. This bond was issued at a discount of 5% and was redeemable at a premium of Sh.2.15 million. There were no issue costs and the bond has an effective rate of 10%. Jomago Ltd.'s year end is 31 December.

Required:

Show how the above transaction should be accounted for in the financial statements of Jomago Ltd. for the year ended 31 December 2025 in accordance with IFRS 9 (Financial Instruments) (6 marks)

QUESTION 4**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.

PART B

SUGGESTED

ANSWERS AND SOLUTIONS

TOPIC 1

ACCOUNTING FOR ASSETS AND LIABILITIES

QUESTION 1

April 2026 Question Three

a) Fair value should be placed on the 300 cars at 31 March 2026

Region		Net Realisable Value (Sh)
Northern Region	2,700,000 - 200,000 - 150,000	2,350,000
Southern Region	2,800,000 - 310,000 - 190,000	2,300,000
Western Region	2,500,000 - 250,000 - 250,000	2,000,000

IFRS 13 (Fair Value Measurement):

The table above determines the Net Realisable Value (NRV) based on the regional breakdowns provided. Under IFRS 13, the objective when measuring fair value is to estimate the price at which an orderly transaction to sell the asset would take place between market participants at the measurement date under current market conditions.

A fair value measurement assumes that the transaction takes place in the principal market (the market with the greatest volume and level of activity for the asset or liability) rather than being based on firm-specific volume.

Only in the absence of a principal market does the entity assume that the transaction takes place in the most advantageous market (the market that maximises the amount that would be received to sell the asset, after taking into account transaction costs and transport costs).

Evaluation and Application for Wanga Autos

- **Market Selection:** Wanga Autos should therefore base its measurement of fair value on prices in the Southern Region. Pricing is taken from the principal market even though the company does not normally transact in that market and it is not the most advantageous market.
- **Fair Value Valuation:** Therefore, the fair value per car is **Sh 2,490,000** (2,800,000–310,000). This is determined by considering transport costs but excluding transaction costs, even though the company does business mostly in the Northern Region and could maximise the net proceeds in that market (2,700,000–200,000–150,000=2,350,000).

- **Inventory Measurement:** As at 31 March 2026, the total value of all the 300 cars should be measured as follows:

$$\text{Total Value} = \text{Sh } 2,490,000 \times 300 = \text{Sh } 747 \text{ million}$$

- **Exception Rule:** The company would only be allowed to use the fair value input from the Northern Region (which represents the most advantageous market) if the company is unable to access the principal market (that is, the Southern Region).

b) IFRS 2: Cash-Settled Share-Based Payment Transaction

This is a share-based transaction, specifically a **cash-settled share-based payment transaction**. In such cases, the fair value of the liability is measured in accordance with **IFRS 2** initially at the grant date, at each reporting date, and at the date of settlement using an option pricing model.

- **Vesting Period:** 1 January 2022 to 31 December 2023 (2 Years).
- **Exercise Period:** 31 December 2024 to 31 December 2026.

The Share Appreciation Rights (SARs) would be allocated and accounted for as follows:

SARs Liability and Expense Schedule

Period	Liability	Expense for the Year (Sh)
31 Dec 2022	$(400 \times 95\%)700 \times 14 \times \frac{1}{2} = 1,862,000$	1,862,000
31 Dec 2023	$(400 \times 95\%)700 \times 16 \times \frac{2}{2} = 4,256,000$	2,394,000
31 Dec 2024	$(380 - 80)700 \times 17 = 3,570,000$	182,000 (W1)

Workings

W1: Analysis for the Year 2024

- Cash Paid (Settlement): $80 \times 700 \times 15.5 = \text{Sh } 868,000$.
- Reduction in Existing Liability: $4,256,000 - 3,570,000 = \text{Sh } 686,000$.
- Net Expense for 2024:
 $= \text{Cash Paid} - \text{Reduction in Liability}$
 $= \text{Sh } 868,000 - \text{Sh } 686,000$
 $= \text{Sh } 182,000$.

Maryo Ltd			
Statement of Profit or Loss Extract for the Year Ended 31 December			
	2022	2023	2024
Expenses	(Sh)	(Sh)	(Sh)
Staff Cost (SAR Expense)	1,862,000	2,394,000	182,000

Statement of Financial Position Extract as at 31 December			
Non-Current / Current Liabilities	2022 (Sh)	2023 (Sh)	2024 (Sh)
SAR Liability	1,862,000	4,256,000	3,570,000

QUESTION 2

April 2026 Question Four B

IAS 36 Impairment of Assets: CGU Impairment Testing with Corporate Assets

- For each Cash-Generating Unit (CGU), a comparison is required between the carrying amount and the recoverable amount of the assets of the CGU to determine any impairment loss.
- As the assets of the Head Office can be allocated to each of the units, the carrying amount of each of the CGUs must include its allocated portion of the head office asset.

Step 1: Allocation of Head Office Asset and Impairment Determination

The allocation of the Head Office asset to each CGU and the subsequent impairment test are performed as follows:

Valuation Component	Unit X (Sh)	Unit Y (Sh)	Unit Z (Sh)
Carrying Amount	500	700	1,000
Head Office Asset Allocation	<u>95</u>	<u>280</u>	<u>375</u>
Adjusted Carrying Amount	595	980	1,375
Recoverable Amount	<u>645</u>	<u>820</u>	<u>1,355</u>
Impairment Loss	<u>0</u>	<u>160</u>	<u>20</u>

- **Unit X** is not impaired because its recoverable amount exceeds its adjusted carrying amount.

Step 2: Allocation of Impairment Loss within Units

For Units Y and Z, the total impairment losses must be allocated to the individual assets within those units in proportion to their respective carrying amounts as follows:

Asset Type	Unit Y Loss	Unit Z Loss
Head Office Asset	$\frac{280}{980} \times 160 = 46$	$\frac{375}{1375} \times 20 = 5$
Other Assets	$\frac{700}{980} \times 160 = 114$	$\frac{1000}{1375} \times 20 = 15$
Total Allocated Loss	<u>160</u>	<u>20</u>

- **Unit Y** and **Unit Z** suffer impairment losses of **Sh 160** and **Sh 20** respectively.

Step 3: Treatment of Non-Allocable Corporate Assets (Research Centre)

In relation to the **Research Centre**, the assets of this centre cannot be allocated to individual units on a reasonable and consistent basis. Therefore, the second layer of the impairment test must be based on the smallest CGU that contains the research centre, which in this case is the **entity as a whole (Saikati Ltd)**.

For this grand total calculation, the carrying amounts of the assets of the individual units, as well as the head office, are first reduced by the initial impairment losses already allocated above. The total assets of Saikati Ltd will then consist of all the combined assets of the entire entity.

The next step involves performing the impairment testing for Saikati Ltd as a whole to determine the final revised carrying amounts.

Operating / Corporate Unit	Carrying Value (Sh)	Proportional	Allocation of Loss (Sh)	Final Revised Carrying Amount (Sh)
Unit X	500	$(500 \div 3,020) \times 100$	17%	483
Unit Y (700 - 114)	586	$(586 \div 3,020) \times 100$	19%	567
Unit Z (1000 - 14)	986	$(986 \div 3,020) \times 100$	33%	953
H.O 750-46-5	699	$(699 \div 3,020) \times 100$	23%	676
Research Centre	<u>250</u>	$(250 \div 3,020) \times 100$	<u>8%</u>	<u>242</u>
Total	<u>3,020</u>		<u>100%</u>	<u>2,920</u>

$$\text{Allocation loss} = 3,020 - 2,920 = 100$$

QUESTION 3**April 2026 Question Five B and C****b) IFRS 16 Leases: Manufacturer/Dealer Lessor Adjustments for Zambia Ltd**

According to **IFRS 16**, a manufacturer or dealer lessor must recognize selling profit or loss in accordance with its policy for outright sales. Zambia Ltd should have recorded the revenue/sales at the lower of the asset's fair value (Sh 50 million) and the present value of the minimum lease payments (Sh 47 million).

Required Accounting Corrections:

- **Revenue Adjustment:** An adjustment for **Sh 3 million** (Sh 50 million–Sh 47 million) must be debited to profit or loss and credited to the lease receivable.
- **Cost of Sales Adjustment:** The cost of sales should be measured as the cost of the asset (Sh 40 million) less the present value of the unguaranteed residual value

(Sh 2.8 million) because the asset reverts to Zambia Ltd at the end of the lease term. This makes the correct cost of sales **Sh 37.2 million** (Sh 40 million–Sh 2.8 million). An adjustment of **Sh 2.8 million** must be debited to the lease receivable and credited to profit or loss.

Summary of Correcting Journal Entries

Account Details	Debit (Sh Million)	Credit (Sh Million)
Dr: Profit or Loss (Reduction in Revenue)	3	
Cr: Lease Receivable		3
<i>(To correct the overstatement of revenue)</i>		
Dr: Lease Receivable (PV of Residual Value)	2.8	
Cr: Profit or Loss (Reduction in Cost of Sales)		2.8
<i>(To adjust cost of sales for the asset reversion)</i>		

Financial Statements Statement Extracts

- **Finance Lease Receivable:** The final adjusted lease receivable figure on the Statement of Financial Position will be **Sh 49.8 million** (Sh 50 million+Sh 2.8 million–Sh 3 million).
- **Cost of Sales:** The adjusted cost of sales appearing in the Profit or Loss statement will be **Sh 37.2 million** (Sh 40 million–Sh 2.8 million).

Statement of Profit or Loss Extract for the Year Ended 31 December 2025	
	Sh million
Lease revenue (50 – 3)	47
Lease cost of sale (40 – 2.8)	<u>(37.2)</u>
	<u>9.8</u>

Statement of Financial Position extract as at 31 December 2025	
Non-current Liability	Sh million
Lease receivable	49.8

(c) Jomago Ltd

Financial Liability:

Annual Coupon Interest Paid: $2\% \times Sh\ 20\ m = Sh\ 0.4\ m$

Maturity Value: $Sh\ 20m + Sh\ 2.15m = Sh\ 22.15\ m$

	Sh million
Nominal Value (Face Value)	20
<i>Less Discount: $5\% \times 20$</i>	<u>1</u>
Initial Fair Value	<u>19</u>