

KASNEB REVISION KIT

**FINANCIAL REPORTING
AND ANALYSIS
REVISION KIT**

www.masomomsingi.com

0728 776 317

2026

MASOMO MSINGI PUBLISHERS

CPA

INTERMEDIATE LEVEL

FINANCIAL REPORTING AND ANALYSIS

REVISION KIT

TOPICALLY ARRANGED

Updated With

APRIL 2026

Past Paper with Answers

TABLE OF CONTENTS

	PAGE
PART A: PAST PAPERS QUESTIONS	
TOPIC 1: Accounting for Assets and Liabilities	8
TOPIC 2: Accounting for Specialized Transactions.....	23
TOPIC 3: Preparation of Financial Statements for different entities/Transactions.....	30
TOPIC 4: Preparation Of Published Financial Statements.....	59
TOPIC 5: Accounting for Financial Statements for Interests in Other entities.....	105
TOPIC 6: Public Sector Accounting Standards	141
TOPIC 7: Analysing Financial Statements.....	149
 PART B: SUGGESTED SOLUTION	
TOPIC 1: Accounting for Assets and Liabilities	161
TOPIC 2: Accounting for Specialized Transactions.....	185
TOPIC 3: Preparation of Financial Statements for different entities/Transactions.....	197
TOPIC 4: Preparation Of Published Financial Statements.....	236
TOPIC 5: Accounting for Financial Statements for Interests in Other entities.....	301
TOPIC 6: Public Sector Accounting Standards	346
TOPIC 7: Analysing Financial Statements.....	358

TOPIC 1

ACCOUNTING FOR ASSETS AND LIABILITIES

QUESTION 1

April 2026 Question One A

With reference to International Accounting Standard (IAS 37) “Provisions, Contingent Liabilities and Contingent Assets” or International Public Sector Accounting Standard (IPSAS 19) “Provisions, Contingent Liabilities and Contingent Assets”:

- (i) Describe the TWO criteria that must be met for a provision to be recognised in the financial statements. (2 marks)
- (ii) Distinguish between a “present obligation” and a “possible obligation” in the context of liabilities. (4 marks)

QUESTION 2

December 2025 Question One C

With reference to International Accounting Standard (IAS) 40 “Investment Property”, explain the accounting treatment of investment properties. (4 marks)

QUESTION 3

December 2025 Question Five B

Belta Ltd. purchased an equipment for Sh.12 million on 1 July 2021. Depreciation on equipment is provided on a straight-line basis at the rate of 25% per annum. During the four years from 1 July 2021 to 30 June 2025, the profit after tax and allowed wear and tear charges for tax purposes were as follows:

	Profit after tax Sh.“000”	Allowable wear and tear charges for tax purpose
1 July 2021 – 30 June 2022	2,400	40% on cost
1 July 2022 – 30 June 2023	2,700	30% on cost
1 July 2023 – 30 June 2024	2,850	20% on cost
1 July 2024 – 30 June 2025	2,550	10% on cost

Corporation tax rate is 30%.

Required:

- (i) Taxable profits. (2 marks)
- (ii) Temporary differences. (2 marks)
- (iii) Deferred tax account. (2 marks)

QUESTION 4

August 2025 Question One C and D

c) Zee Energy has entered into a contract with GasB Limited to purchase 100,000 units of gas at Sh.50 per unit. The contract allows Zee Energy to pay a penalty of Sh.15 per unit of gas that it does not purchase.

The market price of gas has fallen to Sh.30 per unit and Zee Energy has decided to invoke the penalty clause rather than pay the Sh.50 per unit. It is still contracted to buy 74,000 units of gas.

Required:

Determine the amount of provision that Zee Energy should make in its books of account. (3 marks)

d) International Accounting Standard (IAS) 2 – “Inventory”, provides guidance on the determination of cost and its subsequent recognition as an expense including any write down to net realisable value.

In relation to the above statement, highlight THREE situations in which net realisable value is likely to be less than cost. (3 marks)

QUESTION 5

August 2025 Question Four B

In reference to International Financial Reporting Standard (IFRS) 6 “Exploration for and Evaluation of Mineral Resources”.

Explain FOUR conditions that must be met for exploration and evaluation expenditures to be recognised as assets. (4 marks)

QUESTION 6

April 2025 Question One B and D

b) In the context of International Accounting Standard (IAS) 16 “Property, Plant and Equipment” discuss the accounting treatment of revaluation gains and revaluation losses on property, plant and equipment at revalued amount. (4 marks)

(d) International Financial Reporting Standard (IFRS) 5 “Non-current asset held for sale and discontinued operations” provides guidance on the accounting treatment of discontinued operations and non-current assets held for sale.

Required:

i) With reference to IFRS 5, explain the meaning of discontinued operations. (2 marks)

- ii) Discuss the IFRS 5 criteria which must be satisfied in order for a non-current asset to be classified as held for sale. (2 marks)

QUESTION 7

April 2025 Question Two A

Distinguish between “government grants” and “government assistance” as per International Accounting Standard (IAS) 20 “Government grants”. (4 marks)

QUESTION 8

April 2025 Question Five A

With reference to International Accounting Standard (IAS) 12 “Income Taxes”, describe the bases of measurement for current tax liabilities and deferred tax liabilities. (4 marks)

QUESTION 9

December 2024 Question One A

With reference to International Financial Reporting Standard (IFRS) 9 “Financial Instruments: Recognition and Measurement”, explain the following ways of measuring financial assets that are investments in debt securities:

- (i) At amortised cost. (2 marks)
- (ii) At fair value through other comprehensive income (OCI). (2 marks)
- (iii) At fair value through profit or loss. (2 marks)

QUESTION 10

December 2024 Question Three A

Outline the accounting treatment of government grants related to income in accordance with International Accounting Standard (IAS) 20 “Accounting for Government Grants”. (4 marks)

QUESTION 11

August 2024 Question One A

Distinguish between “taxable temporary differences” and “deductible temporary differences” as per the requirements of International Accounting Standard (IAS) – 12 “Income Taxes”. (4 marks)

QUESTION 12

August 2024 Question Five A

Top Ltd. a Construction Company entered in a leasing agreement on 31 December 2023 for a piece of equipment costing Sh.94,920,000, with Zuk Bank Ltd. The lease requires Top Ltd. to pay an annual rent of Sh.27,220,000 payable in advance. The primary period of the lease is for 4 years. After the end of the primary period, Top Ltd. has the right to extend the lease indefinitely on a payment of a nominal annual rental. Top Ltd. believes

PART B

SUGGESTED

ANSWERS AND SOLUTIONS

TOPIC 1

ACCOUNTING FOR ASSETS AND LIABILITIES

QUESTION 1

April 2026 Question One A

(i) Criteria for recognizing a provision

A provision should be recognized as a liability in the financial statements when:

- An entity has a present obligation as a result of a past event.
- It is probable that an outflow of resources will be required to settle the obligation.
- A reliable estimate can be made of the amount of the obligation
- When the probability of occurrence is more than 50%

(ii) Present obligation and possible obligation

- **Present obligation:** A present obligation exists at the reporting date as a result of a past event and may be legal, e.g., arising from statute or contract. For a present obligation, the entity has no realistic alternative but to settle the obligation. If the outflow is probable and the amount can be measured reliably, a provision is recognized in the financial statements. (Provision)
- **Possible obligation:** A possible obligation is a potential obligation arising from past events whose existence will be confirmed only by the occurrence or non-occurrence of uncertain future events not wholly within the control of the entity (contingent liability).

QUESTION 2

December 2025 Question One C

Accounting treatment of an investment property

- Investment properties should initially be measured at cost or at fair value model.
- Under the cost model the asset is measured at original cost less accumulated depreciation.
- Under the fair value model the asset is revalued to fair value at the end of each period, with the gain or losses recognised in statement of profit or loss.
- No depreciation is charged on investment property carried at fair value.

QUESTION 3

December 2025 Question Five B

(i) Determining taxable profit

Depreciation: $12,000 \div 4 = 3,000$

Item	2022	2023	2024	2025
Reported profit (PBT)	2,400	2,700	2,850	2,550
Add: Depreciation	3,000	3,000	3,000	3,000
Less: Wear and tear	(4,800)	(3,600)	(2,400)	(1,200)
Taxable profit	<u>600</u>	<u>2,100</u>	<u>3,450</u>	<u>4,350</u>

(ii) Temporary differences

Item	2022	2023	2024	2025
Wear and tear	4800	3,600	2,400	1,200
Depreciation	(3,000)	(3,000)	(3,000)	(3,000)
Temporary differences	<u>1,800</u>	<u>600</u>	<u>(600)</u>	<u>(1,800)</u>
Deferred tax 30%	<u>540</u>	<u>180</u>	<u>(180)</u>	<u>(540)</u>

(iii) Deferred tax account

Deferred tax a/c			
2022		2022	
Balance c/d	<u>540</u>	Income statement	<u>540</u>
	540		540
2023		2023	
		Balance b/d	540
Balance c/d	<u>720</u>	Income statement	<u>180</u>
	720		720
2024		2024	
Income statement	180	Balance b/d	720
Balance c/d	<u>540</u>		<u>—</u>
	720		720
2025		2025	
Income statement	540	Balance b/d	540
Balance	<u>0</u>		<u>—</u>
	540		540

QUESTION 4

August 2025 Question One C and D

c) Amount of provision

Cost of buying	74,000×50	3,700,000
Value of selling	74,000×30	(2,220,000)
Loss		<u>1,480,000</u>

If it does not fulfill the contract, it will pay $(74,000 \times 15) = \text{sh}1,110,000$ but will not earn any income.

The net cost of sh1,110,000, zee energy should make a provision for an onerous contract at a lower amount of sh 1.11M.

d) Situation where net realizable value is likely to be less than cost

- Physical deterioration of inventories
- Obsolescence of stock item
- Cost increase
- Fall in selling price
- Detective produced item

QUESTION 5

August 2025 Question Four B

Condition to be met for exploration and evaluation expenditure to be recognized as asset

1. **Legal rights to explore:** The entity must have a legal right to explore a specific area that is, it has acquired the necessary permits to licenses
2. **Directly attributable expenditure:** The expenditure must be directly attributed to the exploration and evaluation activities themselves
3. **Reasonable prospect of commercial attraction:** The exploration must have reached stage where there is a reasonable prospect of extracting commercially viable quantities of mineral resources.
4. **No expenditure before exploration:** Expenditure incurred before the entity has obtained legal rights to explore an area cannot be capitalized as exploration and evaluation assets.
5. **Cost can be measured reliably**

QUESTION 6

April 2025 Question One B and D

b) Accounting treatment of revaluation gains and revaluation losses on property, plant and equipment at revalued amount

- Revaluation gains are recognized as component of other comprehensive income
- The gain will then be taken to revaluation reserve under the equity and reserves components.
- Revaluation loss will be recognised in the statement of profit or loss.

- When a Revaluation loss arises on the previously revalued asset, it should be deducted first against the previous revaluation gain and can therefore be taken to other comprehensive income for the year.

NB: Offset of gain and losses between Different properties is not permitted.

(d) i) Explain the meaning of discontinued operations

A discontinued operation is a component of an entity that either has been disposed off or has been classified as held for sale, To be considered as discontinued operations, the operations to be discontinued must represent a separation geographical area and shut down.

ii) Criteria which must be satisfied in order for a non-current asset to be classified as held for sale.

- The asset must be available for immediate sale
- It's highly probable that the sale will be made within 12 months after its classification as held for sale.
- An active program to locate potential buyer is initiated
- The management is committed to sell the asset

QUESTION 7

April 2025 Question Two A

Distinctions between government grant and government assistance

- Government grant is a transfer of resources to the entity in return for the past or future compliance with certain conditions relating to the operating activities of the company.
- Government assistance is a support whose value cannot be reasonably measured such as technical or market advice. It also refers to any government action designed to provide economic benefit to an entity without specific conditions attached.

QUESTION 8

April 2025 Question Five A

Basis of measurement for current tax liabilities and deferred tax liabilities as provided by IAS 12 Income tax

- **Current liabilities:** The current tax liabilities for the current and prior period should be measured at the amount expected to be paid to the taxation authorities using the tax rates for the period. This is tax for the current accounting period.

- **Deferred tax liabilities:** Deferred tax liabilities shall be measured at the tax rates that are expected to apply for the period. This arises as a result of the taxable temporary differences. It's a tax payable in the future

QUESTION 9

December 2024 Question One A

i) At Amortised costs

For investment in debt that are measured at fair value plus transaction cost:

- The asset is initially measured at amortised cost.
- Interest income is calculated using effective interest rate.

(ii) At fair value through other comprehensive income (O.C.I)

For debt investment measured at fair value through O.C.I

- The asset is initially measured at fair value plus transaction cost.
- Interest income is calculated at the effective interest rate.

iii) At fair value through profit or loss

For debt investment measured at fair value through profit or loss

- The assets is initially recognized at fair value, with any transaction cost charged to profit or loss.
- At the reporting date the asset will be valued to fair value with the gain or loss recognized in statement of profit or loss.

QUESTION 10

December 2024 Question Three A

Accounting treatment of government grants related to income in accordance with (IAS 20)

- IAS 20 states that government grants should not be recognized until the conditions for the receipts have been complied with and there is reasonable assurance that grant will be received
- Grant should be matched with the expenditure towards which they are intended to contribute in the statement of profit or loss
- Income grants given to subsidize expenditure should be matched with the expenditure towards which they are introduced to contribute in the statement of profit or loss
- Income grants given to subsidize expenditure should be matched to the related costs
- Income grants given to help achieve a non-financial goal such as job creation should be matched to the costs incurred to meet to goal.

QUESTION 11

August 2024 Question One A

Difference between taxable and deductible temporary differences

Taxable temporary differences are temporary differences that results or gives rise to deferred tax liability while deductible temporary differences are temporary differences which gives rise to deferred tax asset.

QUESTION 12

August 2024 Question Five A

a) Lease liability

$$27220 \times PVIFA_{10\%}^3 \rightarrow 27,220 \times \frac{1 - (1 + 0.1)^{-3}}{0.1} = 67,692$$

Right of use Asset	Sh 000
Lease liability	67,692
Payment in advance	<u>27,220</u>
	<u>94,912</u>

Depreciation P.a = $94,912 \div 4 = 23,728$

Lease Amortization Schedule					
Period	Balance b/d	Payment	Balance due	Interest 10%	Balance c/d
2024	67,692	0	67,692	6,769	74,461
2025	74,461	(27,220)	47,241	4,724	51,965
2026	51,965	(27,220)	24,745	2,475	27,220
2027	27,220	(27,220)	0	0	0

i) Income statement extract

	2024	2025	2026	2027
Expenses				
Depreciation	23,728	23,728	23,728	23,728
Interest expenses	6,769	4,724	2,475	-