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Financial Reporting

December 2025

Level: Intermediate Level

Question 1a

 Preparation of Published Financial Statements

International Accounting Standard (IAS) 8 “Accounting Policies, Changes in Accounting Estimates and Errors” provides guideline on the treatments of prior period errors.

Required:

(i) Explain the term “prior period errors” as per IAS 8.

(ii) Describe how prior period errors are corrected as provided by IAS 8.

✓ Answer for Question 1a

(i) Explanation of "Prior Period Errors" as per IAS 8

As per **IAS 8**, **prior period errors** are omissions from, and misstatements in, an entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

1. **Was available** when the financial statements for those periods were authorized for issue; and
2. **Could reasonably be expected to have been obtained and taken into account** in the preparation and presentation of those financial statements.

Such errors include the effects of **mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud**. They do not include changes in accounting estimates which result from new information or developments; these are dealt with prospectively as changes in estimates.

(ii) Description of Correction

How Prior Period Errors are Corrected (IAS 8 Requirements):

1. **Retrospective Restatement:** The correction of a material prior period error must be accounted for **retrospectively**. This means:
   - The comparative amounts for the prior period(s) presented are **restated** as if the error had never occurred.
   - If the error occurred before the earliest prior period presented, the **opening balances of assets, liabilities, and equity** for the earliest prior period presented are restated.
2. **Disclosure Requirements:**
   - The **nature** of the prior period error.
   - For each prior period presented, the **amount of the correction** for each financial statement line item affected.
   - The **amount of the correction at the beginning of the earliest prior period presented** (for opening balances).

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Financial Reporting

August 2025

Level: Intermediate Level

Question 1b

 Accounting for Specialized Transactions

When an entity transfers its product to a dealer or distributor for sale to end customers, it must determine whether the contract is a sale or a consignment arrangement.

In relation to the above statement, explain TWO indicators of a consignment arrangement.

✓ Answer for Question 1b

INDICATORS OF A CONSIGNMENT ARRANGEMENT

When a manufacturer or supplier transfers goods to a dealer/distributor, determining whether it's a **sale** or **consignment arrangement** is crucial for proper revenue recognition under IFRS 15. Here are the key indicators that suggest a **consignment arrangement**:

PRIMARY INDICATORS

1. INVENTORY RISK REMAINS WITH SUPPLIER

The **supplier retains the significant risks and rewards** of ownership until the goods are sold to the end customer.

Specific indicators:

- **Return rights:** Dealer can return unsold goods without penalty
- **Price protection:** Supplier bears risk of price declines after transfer
- **Slow-moving/obsolete stock risk:** Supplier responsible for unsellable inventory
- **Insurance responsibility:** Supplier insures goods while at dealer's premises
- **Physical damage/theft risk:** Supplier bears loss from damage or theft at dealer's location

2. TITLE DOES NOT PASS AT TRANSFER

Legal ownership remains with the supplier until specific conditions are met.

Specific indicators:

- **Title passes only upon sale to end customer**
- **Dealer acts as agent** rather than principal
- **Goods appear on supplier's balance sheet** until sold

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Financial Reporting

April 2025

Level: Intermediate Level

Question 1c

 Accounting for Assets and Liabilities, Public Sector Accounting Standards

In view of International Public Sector Accounting Standard (IPSAS) 19 “Provisions, Contingent Liabilities and Contingent Assets” describe THREE conditions that must be met before a provision can be recognised.

✓ Answer for Question 1c

IPSAS 19 "PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS"

CONDITIONS FOR RECOGNITION OF A PROVISION

OVERVIEW

IPSAS 19 establishes the accounting treatment for provisions, contingent liabilities, and contingent assets in the **public sector**. It ensures that only **genuine obligations** are recognized as liabilities and that **sufficient disclosure** is made about uncertainties.

A **provision** is defined as a **liability of uncertain timing or amount** that arises from past events.

THREE CRITICAL CONDITIONS FOR RECOGNITION

For a provision to be recognized in the financial statements, **ALL THREE** of the following conditions must be met:

1. PRESENT OBLIGATION (LEGAL OR CONSTRUCTIVE)

The entity has a **present obligation** as a result of a past event.

Types of Obligations:

A. Legal Obligation:

- Obligation that derives from:
  - **Contract** (explicit or implicit)
  - **Legislation** (statutes, regulations)

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Financial Reporting

December 2024

Level: Intermediate Level

Question 1c

 Public Sector Accounting Standards

The following information was obtained from the Ministry of Finance of a developing country with a view of presentation of budget information for the fiscal year ended 30 June 2024:

	Budgeted amounts	Actual amounts
	Sh.“billion”	Sh.“billion”
Receipts:		
Taxes	1,175	968
Local borrowings	558	495
Overseas borrowings	630	716
Donations from foreign agencies	378	486
Trading activities	754	1,066
Sale of fixed assets	792	1,012
Other receipts	261	220
Payments:		
Internal security	806	738
Education	797	810
Agriculture	263	291
Health	423	486
Affordable housing	450	410
Social welfare	218	216
Transport	535	540
Defence	389	512
Other payments	475	627

Additional information:

During the year ended 30 June 2024, the National Assembly approved a supplementary budget for the following votes:

	Sh.“billion”	
Overseas borrowings	54	Addition
Sale of fixed assets	140	Addition
Education	63	Addition
Health	37	Addition
Affordable housing	(32)	Reduction

Required:
Prepare a statement of comparison of budget and actual amounts for the fiscal year ended 30 June 2024 as per the requirements of International Public Sector Accounting Standard (IPSAS) 24 “Presentation of Budget Information in Financial Statements”.

✓ Answer for Question 1c

Ministry of Finance

Statement of Comparison of Budget and Actual Amounts

For the Fiscal Year Ended 30 June 2024

Description	Original	Adjustments	Final	Actual	Variance
	Sh. "bn"	Sh. "bn"	Sh. "bn"	Sh. "bn"	Sh. "bn"
Receipts:					
Taxes	1,175	-	1,175	968	(207)
Local borrowings	558	-	558	495	(63)
Overseas borrowings	630	54	684	716	32
Donations	378	-	378	486	108
Trading activities	754	-	754	1,066	312
Sale of fixed assets	792	140	932	1,012	80
Other receipts	261	-	261	220	(41)
Total Receipts (A)	**4,548**	**194**	**4,742**	**4,963**	**221**
Payments:					
Internal security	806	-	806	738	68
Education	797	63	860	810	50
Agriculture	263	-	263	291	(28)
Health	423	37	460	486	(26)
Affordable housing	450	(32)	418	410	8
Social welfare	218	-	218	216	2
Transport	535	-	535	540	(5)

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Financial Reporting

August 2024

Level: Intermediate Level

Question 2

 Accounting and Financial Statements for Interests in Other Entities

The following information was extracted from the financial statements of Xcel Ltd., Yep Ltd. and Zed Ltd. for the year ended 30 June 2024.

Statement of financial position as at 30 June 2024:

	Xcel Ltd.	**Yep Ltd.**	**Zed Ltd.**
Non-current assets:	**Sh."million"**	**Sh."million"**	**Sh."million"**
Property, plant and equipment	2,100	1,500	900
Intangible assets (including patents)	400	300	200
Intangible assets (including patents)	1,400	-	-
Current assets:			
Inventories	700	600	240
Trade receivables	640	340	160
Financial assets at fair value	360	260	240
Bank and cash balance	200	100	160
Total assets	5,800	3,100	1,900
Equity and liabilities:			
Equity and reserves:			
Ordinary share capital (Sh.20 per share)	1,600	400	200
Share premium	400	200	100
Retained earnings	800	700	500
Shareholders funds	2,800	1,300	800
Non-current liabilities:			
10% debentures	1,200	400	400
Deferred tax	500	200	100
Current liabilities:			
Trade payables	600	700	300

Current tax	500	300	200
Proposed dividends	200	200	100
Total equity and liabilities	5,800	3,100	1,900

Additional information:

1. Xcel Ltd. acquired its investments as follows:

Company	Number of shares acquired	Cost of investment	Retained earnings	Date of acquisition
		Sh."million"	Sh."million"	
Yep Ltd.	16 million	960	300	1 July 2022
Zed Ltd.	3 million	240	200	1 July 2023

Xcel Ltd. also invested in half of the 10% debentures of Yep Ltd. The fair value of the non-controlling interest in Yep Ltd. amounted to Sh.240 million.

2. The group use the full goodwill method. However it does not armotise goodwill, instead goodwill is assessed for impairment annually. Impairment tests for the year ended 30 June 2024 revealed that none of the goodwill is impaired.

3. Immediately prior to the date of its acquisition, Yep Ltd. revalued its non-current assets in readiness for acquisition as shown below:

	Carrying amount	Fair value	Remaining useful life in years
	Sh."million"	Sh."million"	
Equipment	500	580	10
Patents	300	320	10

Equipment and patents are depreciated or amortised on a straight-line basis over their remaining useful life respectively by Xcel Ltd.

4. During the year ended 30 June 2024, Xcel Ltd. sold non-current assets to Yep Ltd. for Sh.360 million. Xcel Ltd. marked-up the equipment at the rate of 20% per annum on cost. Yep Ltd. included the equipment in its non-current asset and charged depreciation at the rate of 20% per annum on cost.

5. During the year ended 30 June 2024, Yep Ltd. sold inventories to Xcel Ltd. for Sh.300 million. Yep Ltd. marked-up these goods at 25% on cost. Half of these goods were still held by Xcel Ltd. at the year end.

6. Xcel Ltd. owed Yep Ltd. Sh.200 million as at the year end with regards to the transaction in note 5 above. The books of Xcel Ltd. however showed that it owed Yep Ltd. Sh.160 million. Xcel Ltd. had sent a cheque to Yep Ltd. on 24 June 2024 which was not received by Yep Ltd. until 2 July 2024.

Required:

(a) Calculate the value of the goodwill arising on acquisition of the investments in Yep Ltd. and Zed Ltd.

(b) Prepare the group statement of financial position as at 30 June 2024.

✓ Answer for Question 2

(a) Calculation of Goodwill / Investment in Associate

Details	Yep Ltd (Subsidiary)	Zed Ltd (Associate)
	Sh. "million"	Sh. "million"
Purchase Consideration	960	240
Fair Value of NCI at Acquisition	240	-
Total Value (A)	**1,200**	**240**
Net Assets at Acquisition:		
Ordinary Share Capital	400	200
Share Premium	200	100
Retained Earnings	300	200
Fair Value Adjustments (80 + 20)	100	-
Total Net Assets at Acquisition (B)	**(1,000)**	**(500)**
Goodwill / (Investment in Assoc.)	200	(Note 1)

(b) Xcel Group Consolidated Statement of Financial Position as at 30 June 2024

Assets	Sh. "m"
Non-current assets:	
Property, plant and equipment (W1)	3,616
Intangible assets (W2)	718

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April 2024

Level: Intermediate Level

Question 2b

Accounting for Assets and Liabilities

On 30 June 2022, Fora Ltd. had a credit balance on its deferred tax account of Sh.1,340,600 all in respect of differences between depreciation and capital allowances. During the year ended 30 June 2023, the following transactions took place:

1. Sh.45 million was charged against profit in respect of depreciation. The tax computation showed capital allowances of Sh.50 million.
2. Interest receivable of Sh.50,000 was reflected in profits for the period. However, only Sh.45,000 of interest was actually received during the year. Interest is not taxed until received.
3. Interest payable of Sh.32,000 was treated as an expense for the period. However, only Sh.28,000 of interest was actually paid during the year. Interest is not an allowable expense for tax purposes until it is paid.
4. During the year, Fora Ltd. incurred development costs of Sh.500,600 which it has capitalised. Development costs are an allowable expense for tax purposes in the period in which they are paid.
5. Land and buildings with a net book value of Sh.4,900,500 were revalued to Sh.6 million.
6. The tax rate is 30%.
7. Fora Ltd. has a right to offset deferred tax asset and deferred tax liabilities.

Required:

Determine the deferred tax liability on 30 June 2023.

✓ Answer for Question 2b

Determine the deferred tax liability on 30 June 2023.

Solution 1

Item	Carrying Amount (Sh.)	Tax Base (Sh.)	Temporary Difference (Sh.)	Type
Opening Difference (b/f)	-	-	1,340,600 / 0.30 = 4,468,667	Liability(TTD)
1. PPE (Depr. vs Capital Allow.)	5,000,000	0	5,000,000	Liability(TTD)
2. Interest Receivable	5000	0	5,000	Liability(TTD)
3. Interest Payable	4,000	0	4,000	Asset(DTD)
4. Development Costs	500,600	0	500,600	Liability(TTD)
5. Revaluation of Buildings	6,000,000	4,900,500	1,099,500	Liability(TTD)
			11,069,767	Liability(TTD)
Deferred tax liability		**30% * 11,069,767**	**3,320,930**	

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Financial Reporting

December 2023

Level: Intermediate Level

Question 3

 Preparation of Financial Statements for different entities/Transaction

R and M were partners in the business of buying and selling fruits for two activities; export and oil processing, sharing profits and losses in the ratio 2:1 for R and M respectively. The partners agreed that with effect from 1 October 2023, the business be split off and transferred to two separate companies; P Ltd. and Q Ltd. P Ltd. took over the fruit buying for export business while Q Ltd. took over the fruit buying for oil processing business.

	Sh.“000”	Sh.“000”
Non-current assets:		
Land and building (cost)		750,000
Motor vehicles (cost)		300,000
Equipment (net book value)		90,000
Investment property		9,000
		1,149,000
Current assets:		
Cash in hand	3,000	
Trade receivables: Export	384,000	
Trade receivables: Oil	648,000	
Inventory: Export	1,380,000	
Inventory: Oil	675,000	3,090,000
Total assets		**4,239,000**
Capital and liabilities:		
Capital: R	1,500,000	
Capital: M	900,000	2,400,000
Current account: R	78,000	
Current account: M	72,000	150,000
Non-current liabilities:		
Bank loan		72,000

Current liabilities:		
Bank overdraft	537,000	
Trade payables: Export	924,000	
Trade payables: Oil	56,000	1,617,000
Total capital and liabilities		**4,239,000**

Additional information:

1. P Ltd. took over all the non-current assets, cash, bank overdraft and its share of trade receivables, inventory and trade payables. Q Ltd. took its share of trade receivables, inventory and trade payables. The assets and liabilities were transferred at book values and the partners were paid Sh.300 million being goodwill for the oil business and Sh.240 million being goodwill for export business.

2. The bank that had provided the loan agreed to accept Sh.43.2 million 10% debentures in P Ltd. and Sh.28.8 million 10% debentures in Q Ltd.

3. On 1 October 2023, the purchase consideration was settled by the allotment of fully paid ordinary shares of Sh.20 each in the respective companies as follows:
   R: 71,250,000 shares in P Ltd. and the balance in shares in Q Ltd.
   M: 47,760,000 shares in Q Ltd. and the balance in shares in P Ltd.

4. P Ltd. also raised a 12% debenture of Sh.600 million on 1 October 2023 and paid-off the bank overdraft. The expenses incurred in raising the 12% debentures amounted to Sh.21 million.

5. P Ltd. and Q Ltd. also issued 3,000,000 and 4,500,000 fully paid ordinary shares of Sh.20 each respectively to two companies, E Ltd., and F Ltd. on 1 October 2023.

6. None of the companies has amortised the goodwill.

7. The formation expenses were paid by the respective companies as follows:

	Sh.“million”
P Ltd.	39
Q Ltd.	24

Required:

(a) Business purchases accounts.

(b) Partners’ capital accounts.

(c) Bank account.

(d) Vendor’s account.

(e) Statements of financial position for P Ltd. and Q Ltd. as at 31 October 2023 (assuming no other transactions took place).

✓ Answer for Question 3

(a) Business Purchase Accounts

Dr.	P Ltd. (Export)	Q Ltd. (Oil)	Cr.	P Ltd. (Export)	Q Ltd. (Oil)
Liabilities/PC:	**Sh."000"**	**Sh."000"**	**Assets:**	**Sh."000"**	**Sh."000"**
10% Debentures	43,200	28,800	Land & Buildings	750,000	-
Bank Overdraft	537,000	-	Motor Vehicles	300,000	-
Trade Payables	924,000	56,000	Equipment/Property	99,000	-
Purchase Cons. (Partners)	1,651,800	1,538,200	Cash	3,000	
			Receivables	384,000	648,000
			Inventory	1,380,000	675,000
			Goodwill	240,000	300,000
Total	**3,156,000**	**1,623,000**	**Total**	**3,156,000**	**1,623,000**

(b) Partners' Capital Accounts

Particulars	R (Sh."000")	M (Sh."000")	Particulars	R (Sh."000")	M (Sh."000")
Ordinary Shares:			Bal b/d	1,500,000	900,000
- P Ltd.	1,425,000	226,800	Current A/c	78,000	72,000
- Q Ltd.	513,000	925,200	Goodwill (2:1)	360,000	180,000
Total	**1,938,000**	**1,152,000**	**Total**	**1,938,000**	**1,152,000**

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Financial Reporting

August 2023

Level: Intermediate Level

Question 4a

 Preparation of Published Financial Statements

Lilongwe Ltd. is a public listed company. Details of the company's statement of financial position as at 31 March 2022 and 31 March 2023 are shown below together with other relevant information.

	Statement of financial position as at 31 March:			
	2023		2022	
	Sh.“million”	Sh.“million”	Sh.“million”	Sh.“million”
Non-current assets:				
Property, plant and equipment		880		760
Intangible assets		400		510
		1,280		**1,270**
Current assets:				
Inventory	350		420	
Trade receivables	808		372	
Interest receivable	5		3	
Short term deposits	32		120	
Bank	15	1,210	75	990
Total assets		**2,490**		**2,260**
Share capital and reserves:				
Ordinary shares of Sh.1 each		300		200
Reserves:				
Share premium	60		-	
Revaluation reserves	112		45	
Retained earnings	1,098	1,270	1,165	1,210
Total equity		**1,570**		**1,410**
Non-current liabilities:				
Non-current liabilities:				
12% loan note	-		150	
8% variable rate loan note	160		-	
Deferred tax	90	250	75	225
Current liabilities:				
Trade payables	530		515	
Bank overdraft	125		-	

Taxation	15	670	110	625
		2,490		**2,260**

Additional information:

1. Details of property, plant and equipment as at:

	31 March 2023			31 March 2022		
	Cost/ valuation	**Depreciation**	**Carrying amount**	**Cost/ valuation**	**Depreciation**	**Carryi amou**
	Sh.“million”	**Sh.“million”**	**Sh.“million”**	**Sh.“million”**	**Sh.“million”**	**Sh.“mill**
Land and building	600	12	588	500	80	420
Plant	440	148	292	445	105	340
			880			760

2. The company revalued the carrying value of land and building by an increase of Sh.70 million on 1 April 2022. On 31 March 2023, it transferred Sh.3 million from revaluation reserves to retained earnings relating to depreciation on revaluation of buildings.

3. During the year, the company acquired new plant at a cost of Sh.60 million and sold some old plant for Sh.15 million, incurring a loss of Sh.12 million.

4. The following is the statement of profit or loss (extract) for the year ended 31 March 2023:

	Sh.“million”	**Sh.“million”**
Operating loss		(32)
Interest receivable		12
Finance costs		(24)
Loss before tax		(44)
Income tax repayment claim	14	
Deferred tax charge	(15)	(1)
Loss for the period		(45)
Finance costs are made of:		
Interest expenses	(18)	
Penalty for early loan redemption	(6)	
	24)	

5. Short term deposits are deemed as cash equivalents.

6. Dividends of Sh.25 million were paid during the year.

Required:

Cash flow statement for Lilongwe Ltd. for the year ended 31 March 2023 in line with International Accounting Standard (IAS) 7 - Cash Flow Statements.

✓ Answer for Question 4a

Lilongwe Ltd.

Statement of Cash Flows for the Year Ended 31 March 2023

Cash flows from operating activities	**Sh. million**	**Sh. million**
Loss before tax		(44)
Adjustments for non-cash items:		
Depreciation (12 L\&B+81 Plant) (W1)	93	
Amortization of Intangible Assets (510−400)	110	
Loss on sale of plant (Note 3)	12	
Interest income (Non-cash accrual)	(12)	
Interest expense (Non-cash accrual)	24	
Operating profit before working capital changes		**183**
Decrease in inventory (420−350)	70	
Increase in trade receivables (Adjusted) (W2)	(436)	
Increase in trade payables (530−515)	15	
Cash generated from operations		**(168)**
Interest paid (W3)	(18)	
Interest received (W4)	10	
Tax paid (W5)	(81)	
Net cash used in operating activities		**(257)**
Cash flows from investing activities		
Purchase of Plant (Note 3)	(60)	
Purchase of Land & Buildings (W6)	(110)	
Proceeds from sale of plant	15	
Net cash used in investing activities		**(155)**
Cash flows from financing activities		
Issue of ordinary shares (100 Cap+60 Prem)	160	

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Financial Reporting

April 2023

Level: Intermediate Level

Question 4

 Preparation of Financial Statements for different entities/Transaction

Baraka and Faulu were in partnership sharing profits and loses equally until 30 September 2021 when they decided to convert the partnership into a limited company; Bafa Ltd. The conversion of the books of account was however not completed.

The following trial balance was extracted from the books of account as at 30 September 2022:

	Sh."000"	Sh."000"
Revenue		780,000
Production costs	450,000	
Distribution costs	42,000	
Administrative expenses	156,000	
Inventory – 30 September 2021	109,200	
Interest paid on loan stock	18,000	
Income tax		1,200
Dividends paid	12,000	
Property, plant and equipment	342,000	
Accumulated depreciation – 30 September 2021		93,540
Suspense account		7,200
Trade receivables	296,000	
Cash and cash equivalents	80,740	
Trade payables		72,000
Provisions (Legal claim)		24,000
Loan stock		240,000
Lease rentals	48,000	
Deferred tax		36,000
Net profit to 30 September 2021		40,000

Current account - Baraka		16,000
- Faulu		4,000
Drawings to 30 September 2021 - Baraka	28,000	
- Faulu	12,000	
Capital accounts - Baraka		160,000
- Faulu		120,000
	1,593,940	**1,593,940**

Additional information:

1. Closing inventory as at 30 September 2022 was valued at Sh.132 million.

2. On 1 October 2021, the company leased some equipment to boost production. The lease was for five years. The lease rental payments were Sh.24 million payable semi-annually in arrears. The fair value of the equipment was Sh.186 million. Depreciation is to be charged on straight line basis and allocated to cost of sales. The interest rate implicit in the lease is at 5% per half year.

3. The suspense account represents sales proceeds from some items of plant and equipment which had cost Sh.36 million and which were disposed of during the year. The accumulated depreciation for the disposed items as at 30 September 2021 was Sh.27 million. Any gain or loss on disposal was to be adjusted in the depreciation expense account.

4. The income tax amount of Sh.1.2 million included in the trial balance was the estimated tax as at 30 September 2021. The current year's tax is estimated at Sh.9 million. In addition, a deferred tax liability of Sh.36 million was provided for as at 1 October 2021. As at 30 September 2022, temporary differences were Sh.168 million. The tax rate is 30%.

5. A legal claim of Sh.60 million was lodged against the company during the year by a customer. The directors estimated that there was a 40% possibility of the claim being successful and had made a provision of Sh.24 million which was included in the administrative expenses.

6. Property, plant and equipment as at 30 September 2022 comprised:

	Land	Building	Plant, equipment and furniture
	Sh."000"	Sh."000"	Sh."000"

Cost	72,000	108,000	162,000
Accumulated depreciation	-	27,000	66,540
Useful life (in years)	-	50	4

7. Depreciation is to be provided on a straight-line basis and apportioned as follows:

Cost	**Percentage (%)**
Cost of sales	80
Distribution cost	10
Administrative expenses	10

8. No entries were made to record the conversion of the partnership into a limited company. The assets were taken over by the company on 1 October 2021 at their book values except land which was revalued to Sh.80 million. The company issued to the partners 32 million shares of Sh.10 each in settlement of their outstanding capital account balances.

Required:

(a) Statement of profit or loss for the year ended 30 September 2022.

(b) Statement of financial position as at 30 September 2022.

✓ Answer for Question 4

(a) Bafa Ltd: Statement of Profit or Loss for the year ended 30 September 2022

Item	Sh."000"	Sh."000"
Revenue		780,000
Cost of sales (W1)		(492,768)
Gross profit		**287,232**
Distribution costs (42,000 + 3,546)	(45,546)	
Administrative expenses (W2)	(135,546)	(181,092)
Operating Profit		**106,140**
Finance cost (18,000 + 17,865)		(35,865)
Profit before tax		**70,275**
Income tax expense (9,000 + 14,400)		(23,400)
Net profit for the year		**46,875**

(b) Bafa Ltd: Statement of Financial Position as at 30 September 2022

ASSETS	Sh."000"
Non-current assets	
PPE (W6)	213,800
Right of Use Asset (Lease)	148,800
Goodwill (W7)	12,000
Current assets	

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Financial Reporting

December 2022

Level: Intermediate Level

Question 5

 Preparation of Published Financial Statements

The following draft financial statements were extracted from the financial records of Maalum Limited, a public limited entity, as at 30 April 2022 with comparatives for the year ended 30 April 2021.

Statements of financial position as at 30 April:

	2022	2021
Assets:	**Sh.“000”**	**Sh.“000”**
Non-current assets:		
Property, plant and equipment	36,300	27,450
Intangible assets	6,750	6,150
	43,050	**33,600**
Current assets:		
Inventory	13,300	11,445
Trade receivables	9,230	7,080
Cash and cash equivalents	900	410
Total assets	**66,480**	**52,635**
Equity and liabilities:		
Share capital and reserves:		
Ordinary share capital (Sh.10 par value)	7,500	6,000
Share premium	1,350	1,050
Revaluation surplus	2,550	-
Retained earnings	28,065	25,980
Total equity	**39,465**	**33,030**
Non-current liabilities:		
10% loan notes (2025)	8,250	5,250
Government grants	3,150	2,400

Deferred tax	1,920	810
Current liabilities:		
Trade payables	10,200	7,770
Current tax	2,685	2,775
Government grants	810	600
Total equity and liabilities	**66,480**	**52,635**

Statement of profit or loss and other comprehensive income for the year ended 30 April 2022:

	Sh.“000”
Revenue	54,975
Cost of sales	(43,860)
Gross profit	**11,115**
Other operating income – government grant	750
	11,865
Other operating expenses	(2,970)
Profit from operations	**8,895**
Finance costs	(705)
Profit before tax	**8,190**
Income tax expense	(2,655)
Profit for the year	**5,535**
Other comprehensive income:	
Gain on property revaluation	2,550
Total comprehensive income for the year	**8,085**

Additional information:

1. Maalum Limited acquired some new plant during the year to 30 April 2022 at a cost of Sh.1,800,000 from a finance company. An arrangement was made at the date of acquisition for the liability for the plant to be settled by Maalum Limited issuing at par a 10% loan note dated 2025 to the finance company. The value by which the loan note exceeded the liability for the plant was received from the finance company in cash.
2. The company's motor vehicle haulage fleet with a cost of Sh.2,630,000 and accumulated depreciation of Sh.1,165,000 was disposed of during the year for cash proceeds of Sh.1,810,000. The profit on disposal has been included in the other operating expenses.
3. Depreciation charged on property, plant and equipment during the year was Sh.5,490,000 and was included in the cost of sales.
4. Intangible assets were amortised during the year and amortisation charged to profit or loss amounted to Sh.540,000.
5. During the year ended 30 April 2022, Maalum Limited made a bonus issue of ordinary shares of one new share for every ten shares held utilising the share premium account.

Required:

A statement of cash flows for Maalum Limited for the year ended 30 April 2022 using the indirect method in accordance with International Accounting Standard (IAS) 7 "Statement of Cash Flows".

✓ Answer for Question 5

Maalum Limited

Statement of Cash Flows for the year ended 30 April 2022

Cash flows from operating activities	**Sh. "000"**	**Sh. "000"**
Profit before tax		8,190
Adjustments for non-cash items:		
Finance costs	705	
Depreciation (Note 3)	5,490	
Amortisation of intangible assets (Note 4)	540	
Profit on disposal of motor vehicles (W1)	(345)	
Government grants released (W2)	(750)	
Operating profit before working capital changes		13,830
(Increase) in inventory (13,300 - 11,445)	(1,855)	
(Increase) in trade receivables (9,230 - 7,080)	(2,150)	
Increase in trade payables (10,200 - 7,770)	2,430	
Cash generated from operations		12,255
Interest paid (finance costs)	(705)	
Income tax paid (W3)	(1,635)	
Net cash from operating activities		**9,915**
Cash flows from investing activities		
Proceeds from disposal of motor vehicles (Note 2)	1,810	
Purchase of property, plant, and equipment (W4)	(11,455)	
Purchase of intangible assets (6,750 + 540 - 6,150)	(1,140)	

Email: customercare@senm-answers.com Tel: 254-734-053-765

CPA

Financial Reporting

August 2022

Level: Intermediate Level

Question 5a

 Preparation of Published Financial Statements

Discuss the business concept of “triple bottom line” as applied in financial reporting.

✓ Answer for Question 5a

Core Concept: The Three Ps

Instead of only measuring **financial profit** (the “bottom line”), TBL evaluates performance across three dimensions:

1. **Profit (Economic)**
   - Traditional measure of financial performance.
   - Includes revenue, costs, profitability, economic value added, taxes, etc.
   - Focus: **Economic impact** on stakeholders (shareholders, employees, suppliers, etc.).
2. **People (Social)**
   - Measures the business’s impact on people.
   - Includes: employee welfare, diversity and inclusion, community development, human rights, health and safety, fair wages, customer satisfaction.
   - Focus: **Social equity and well-being**.
3. **Planet (Environmental)**
   - Measures the business’s impact on the natural environment.
   - Includes: carbon emissions, waste management, water usage, energy efficiency, biodiversity, pollution, resource consumption.
   - Focus: **Environmental stewardship**.

Application in Financial Reporting

1. Integrated Reporting (IR)

- Organizations following the **International Integrated Reporting Council (IIRC)** framework include TBL elements alongside financial results.
- Shows how environmental, social, and governance (ESG) factors create long-term value.

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Financial Reporting

April 2022

Level: Intermediate Level

Question 5b

 Accounting for Assets and Liabilities

Zeon Limited, a public limited entity is in the process of finalising its financial statements for the year ended 31 October 2021.

The following information the has been extracted from its accounting records for the purpose of estimating deferred tax balance:

1. Inventory is stated in the financial statements at the lower of cost and net realisable value. The company wrote down its inventory by Sh.120 million to a net realisable value of Sh.1,130 million. The reduction in value is ignored for tax purposes until the inventory is sold.
2. Trade receivables had a carrying amount of Sh.450 million after making a general provision for doubtful debts of Sh.30 million. The provision is not allowed for tax purposes.
3. Property, plant and equipment has a carrying amount of Sh.3,050 million and a tax base of Sh.2,750 miflion. During the year ended 31 October 2021, property was revalued upwards by Sh. 150 million.
4. During the year to 31 October 2021, development expenditure amounting to Sh.480 million was capitalised. Amortisation of Sh.20 million was charged to profit or loss for the year. This development expenditure was allowed for tax purposes in full during the year.
5. Trade and other payables are carried at Sh.600 million. Included in the other payables are acrued expenses of Sh. 100 million whose related expenses are deductible for tax purposes on cash paid basis.
6. Deferred tax liability as at 1 November 2020 amounted to Sh.272 million.
7. The income tax rate of 30% is applicable

Required:

(i) Compute the relevant temporary differences.

(ii) Deferred tax account as at 31 October 2021.

✓ Answer for Question 5b

(i) Computation of Temporary Differences

- **CA -** Carrying Amount
- **TB -** Tax Base
- **TD -** Temporary Difference
- **DTD -** Deductable Temporary Difference
- **TTD -** Taxable Temporary Difference

Item	CA (Sh. "M")	TB (Sh. "M")	TD (Sh. "M")	Type
Assets:				
Inventory	1,130	1,250	(120)	DTD
Trade Receivables	450	480	(30)	DTD
PPE (including revaluation)	3,050	2,750	300	TTD
Development Expenditure	460	0	460	TTD
Liabilities:				
Accrued Expenses	100	0	(100)	DTD
Net Taxable Temporary Difference			**510**	TTD

(ii) Deferred Tax Account as at 31 October 2021

1. Calculate Closing Balance:

- 510 million × 30% = 153 million (Liability)

2. Calculate Revaluation Adjustment (OCI):

- 150 million × 30% = 45 million (Charge to OCI)

Deferred Tax Account (Sh. "M")