| INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN<br><br>EXAMINERS' COMMENTS | |
|---|---|
| **SUBJECT**<br>Financial Accounting & Reporting I | **SESSION**<br>Certificate in Accounting and Finance (CAF) Examination - Autumn 2023 |

**Passing %**

| Question-wise | | | | | | | | | Overall |
|---|---|---|---|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | |
| 15% | 26% | 24% | 55% | 30% | 63% | 25% | 28% | 44% | 27% |

**General comments**

The current result of 27% closely aligns with the previous result of 22% and the five-session rolling average, which stands at 26%.

Roughly, half of the examinees taking this examination have been granted exemptions from the Introduction to Accounting due to the transition to the new scheme. Notably, the pass rate for these exempted examinees is considerably lower than that of the others.

The performance of the examinees displayed notable disparities among the answer scripts. A considerable number of examinees achieved exceptional scores, attaining marks in the 80s or even as high as 98. However, it is important to highlight that 19% of the examinees obtained 20 marks or less, indicating a lack of understanding of the subject's basics.

Selective study was evident as candidates successfully garnered high marks in three to four questions, yet faced challenges in securing satisfactory marks in the remaining questions.

**Question-wise common mistakes observed**

**Question 1**

- 36% of examinees did not secure any mark in this question while an additional 29% only secured a maximum of 2 marks in this question which could have been secured by basic preparation of this topic. It seems that examinees did not study this area of the syllabus on the assumption that this topic was examined in a previous attempt as a long question and has the least possibility of being examined in this attempt.
- Examinees failed to recognize that the capitalization of borrowing costs on qualifying assets is a mandated requirement of IAS 23 and is not subject to alteration.
- Effect of change in provision for doubtful receivables was applied retrospectively.

- While incorporating the effect of change in the policy of inventory on profits for 2021 and 2022, the impact of opening inventory was not taken into account.

**Question 2**

- In (ii) and (iii), the entries were made on a periodic basis instead of a perpetual method.
- In (v), two month's rent was not accrued.
- Examinees prepared correcting entries that were not required. This resulted in a loss of valuable time and also affected the performance in other questions

**Question 3**

- About half of the examinees were unable to obtain 2 marks in this question, a result that could have been attained with a fundamental grasp of diluted EPS.
- For 2021, examinees concluded that EPS (basis as well as diluted) should not be calculated due to the net loss.
- Examinees incorporated the impact of potential ordinary shares for calculating diluted EPS without undertaking the necessary ranking calculations for their inclusion.
- The calculated values of diluted EPS were not clearly designated as either "Dilutive" or "Anti-dilutive."

**Question 4**

Many examinees limited their responses to discussing the dates related to the commencement of capitalization. In contrast, other examinees provided general responses summarizing IAS 23 without adequately addressing the specific question requirements. Additionally, a notable minority attempted to calculate the capitalization amount by assuming some hypothetical figures.

**Question 5**

- The grant was recognized in the profit or loss over a period of six years, rather than the appropriate allocation period of five years.
- Loss on repayment of government grant and grant income in 2022 was not calculated or was calculated incorrectly.
- Examinees made journal entries instead of the extracts as required by the question.

**Question 6**

- MCQs at serial (v), (vii), and (ix) presented particular challenges on this exam, as they were the least well-answered questions.

**Question 7**

- Interest paid was either misconstrued as interest expense and/or was not adjusted to account for capitalized borrowing costs. Additionally, it was erroneously categorized as a cash flow from operating activities.

- The gain on disposal of property, plant, and equipment was calculated as Rs. 250 million which should have been Rs. 50 million.
- The amount payable for investment property was not excluded from changes in working capital as it should have been.
- Advance tax was not included in calculating tax paid.
- Examinees incorrectly determined the dividend paid at Rs. 120 million based on the changes in the dividend payable balance, and they omitted to calculate the dividend declared through movement in retained earnings. Those who attempted to calculate the movement in retained earnings utilized incorrect figures for bonus shares and/or profit after tax, leading to inaccuracies in their calculations.

**Question 8(a)**

- Operating expenses or net profit was used as a numerator in computing the operating profit margin
- Net profit was used as a numerator in calculating interest cover.
- Inventory turnover was computed in days instead of times

**Question 8(b)**

- 40% of examinees only managed to obtain a maximum of 1 mark in this question indicates a deficiency in their preparation and suggests that this particular area had not been studied.
- Examinees frequently provided generic explanations for variations without connecting them to the significant events outlined in the question.

**Question 9**

- Depreciation on an office building was calculated by dividing the opening book value with total life.
- While calculating depreciation on the opening balance of equipment not disposed of, the book value of equipment disposed off on the date of disposal was subtracted from the opening book value.
- Adjustment of revaluation of the building was not properly presented and/or incorrectly bifurcated into revaluation surplus and profit or loss.
- Carrying values of an office building if the cost model had been used were incorrectly calculated.
- Investment property was transferred in at Rs. 65 million instead of Rs. 73 million.

***(THE END)***