

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN

Certificate in Accounting and Finance Stage Examination

Financial Accounting and Reporting-I

Examiners' Comments

Autumn 2025

PASSING %

Question-wise									Overall
1	2	3	4	5	6	7	8	9	37%
40%	24%	55%	45%	38%	54%	53%	13%	48%	

GENERAL COMMENTS

The latest session's 37% pass rate marks a continued upward trend, improving from 30% in the previous session and the five-session average of 27%. Earlier sessions had shown a gradual improvement of 2%–3%, largely attributable to the declining proportion of examinees exempted from Introduction to Accounting under the transition to the Education Scheme, 2021. The latest increase of 7% coincides with a notable rise in first-attempt examinees, who achieved the highest passing rate of 41%. This reflects the comparatively stronger preparation and motivation of new entrants seeking timely progression within the revised qualification structure.

The quality of answer scripts varied considerably. Several examinees demonstrated strong conceptual grasp and sound preparation, securing marks in the 80s as well as in the 90s. However, the trend of selective study remained evident, with examinees scoring well on familiar questions but obtaining zero marks in others, even where a large number of examinees had achieved full marks. It was also observed that examinees who attempted all nine questions had a significantly higher likelihood of passing, whereas omitting even a single question reduced the probability of success substantially, and leaving two questions almost eliminated that possibility.

As this is often the first written paper attempted by examinees at the CAF level, their work frequently lacked organization and structure, making it difficult to award partial marks due to the absence of a clear audit trail of calculations.

QUESTION-WISE COMMON MISTAKES OBSERVED

Question 1

- On revaluation as at 1 January 2024, examinees incorrectly determined the amount of revaluation gain to be recognised in profit or loss, frequently using Rs. 90 million or Rs. 81 million instead of the correct amount of Rs. 80 million.
- Although examinees recorded the journal entry on 31 August 2024 for the disposal of the machine, a number of them omitted the depreciation entry for the eight months up to the date of disposal. Moreover, the majority failed to record the transfer of the related revaluation surplus pertaining to the disposed machine to retained earnings.

- Examinees computed depreciation for 2024 using the original useful life of 10 years instead of the remaining useful life of 8 years following revaluation, resulting in an understated depreciation charge.

Question 2

- Approximately 24% of the examinees did not secure any marks in this question, despite several examinees achieving full marks, indicating a wide variation in performance. Examinees also demonstrated a lack of understanding that items affecting gross profit invariably have a corresponding impact on net profit, leading to incomplete or inconsistent adjustments.
- In respect of error (iii), the adjustment of Rs. 40,000 was required to be deducted twice from gross profit and twice from net profit, reflecting the combined effect of both the customer credit note and the supplier credit note being recorded incorrectly. However, examinees deducted the amount only once or offset the two entries against each other, effectively showing a net impact of nil, which was incorrect.
- In respect of error (iv), examinees corrected only the calculated gain on disposal but ignored the need to reverse the full amount of sale proceeds that had earlier been credited entirely as gain.
- In respect of error (v), examinees failed to consider the consequential impact on the provision for doubtful receivables arising from the corrections made in the trade receivables balance.

Question 3

- While calculating depreciation for the first year, examinees incorrectly applied the depreciation rate to the cost reduced by residual value instead of applying it to the full cost of the asset.
- In respect of the grant income amortisation, several examinees either adopted the straight-line method or applied the 40% rate to the gross cost each year rather than to the written-down value (WDV). These errors resulted in inaccurate calculations of both depreciation expense and the portion of the government grant to be recognised in income.
- In respect of the timing of grant income recognition, examinees failed to align the amortisation of the deferred income with the depreciation pattern of the related asset. Examinees either recognised the grant on a straight-line basis, ignoring the reducing-balance depreciation, or incorrectly took the entire grant to income in the year of receipt, contrary to the requirements of the standard.

Question 4

- Approximately 19% of the examinees did not secure any marks in this question, despite several examinees achieving full marks, indicating a wide variation in performance and preparation levels.
- In respect of Property B, examinees recorded the transfer to investment property at cost rather than at fair value, contrary to the requirements of IAS 40. Property D was frequently misclassified as investment property, despite being held for the construction of a future factory. Furthermore, several examinees incorrectly applied depreciation to investment properties, even though the fair value model was specified in the question.

Question 5

Approximately 24% of the examinees did not secure any marks in this question, even though several examinees achieved full marks, indicating a significant variation in preparation. Examinees appeared to be surprised by the theoretical nature of the question and therefore either did not attempt it or scored zero marks. Among those who attempted, a common error was the misclassification of external sources as internal sources and vice versa, reflecting inadequate familiarity with the impairment assessment guidance under IAS 36.

Question 6

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

Question 7

- In part (a), examinees were confused when computing the receivable and inventory turnover ratios. Although the question required the ratios to be expressed in “times,” several examinees incorrectly calculated them in days. In addition, the numerator used for return on assets was often incorrect, as some examinees used profit after tax instead of profit before interest and tax, leading to inaccurate results.
- In part (b), examinees provided generic reasons for variations in ratios without linking their explanations to the specific operational insights mentioned in the CEO’s speech. The question required examinees to interpret the ratios in the context of management’s remarks—such as the launch of three flagship stores, price reductions on the e-commerce platform, increased promotional spending, higher inventory levels, and extended credit terms to distributors. However, most answers failed to make these correlations.

Question 8

- Approximately 24% of the examinees did not secure any marks in this question. Examinees attempted this question towards the end of the paper, often with limited time and effort, resulting in incomplete, unstructured, and poorly presented answers.
- In respect of the borrowing cost matter, examinees failed to identify that it represented a prior-period error requiring retrospective restatement under IAS 8, and instead treated it as a change in accounting policy. Furthermore, the consequential adjustment to depreciation arising from the capitalisation of prior-period borrowing costs was frequently ignored, resulting in incomplete restatement of comparative figures.
- Similarly, the change in estimate for slow-moving inventory was often incorrectly treated as a change in accounting policy.
- While presenting the effect of the change in inventory valuation method, only the decrease in closing inventory for 2022 was required to be adjusted against opening retained earnings. However, examinees also included the effect of the change in opening inventory, thereby adjusting retained earnings by Rs. 15 million instead of Rs. 30 million.
- Examinees did not deduct the transaction costs incurred on the issuance of right shares from the share premium account, as required by IAS 32. In addition, the final dividend for 2022 was often taken at the board’s recommended amount of Rs. 20 per share instead of the shareholders’ approved amount of Rs. 16 per share.

Question 9

- It appeared from the answer scripts that examinees attempted to build the cash flow statement in the order of presentation, rather than by systematically reconciling underlying balances. A more effective approach would have been to prepare ledger-style accounts for each balance sheet item, post the relevant movements, and then extract the cash flow effects from those reconciliations. The adopted sequential approach often led to the omission of simple and high-scoring adjustments, resulting in the loss of otherwise easy marks in this question.
- The profit for the year was required to be derived as the balancing figure in the retained earnings account. However, examinees calculated this amount incorrectly because they failed to transfer the revaluation surplus related to disposed assets to retained earnings. The corresponding figure should have been computed as the balancing amount in the revaluation surplus account, representing the realisation of revaluation surplus upon the disposal of the related asset.
- Examinees did not bifurcate the items presented under operating activities between the headings “Adjustments for” and “Changes in working capital.”
- Examinees did not show a decrease in the provision for doubtful debts as an adjustment in the operating activities section of the cash flow statement.
- The proceeds from the disposal of property, plant and equipment sold at carrying value with no gain or loss were often omitted from investing activities, even though such transactions still represent cash inflows.

(THE END)