

**THE INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN**

**Certificate in Accounting and Finance Stage Examination**

**Financial Accounting and Reporting**

**Examiners' Comments**

**Spring 2026**

**PASSING %**

Question-wise									Overall
1	2	3	4	5	6	7	8	9	
72%	50%	77%	31%	29%	20%	46%	9%	22%	32%

**GENERAL COMMENTS**

The overall pass rate for this session was 32%, reflecting a decline of 5% from the previous session's 37%. This follows the 7% increase recorded in the previous attempt and places the current result close to the five-session average of 30%. The most significant reason for the decline was Q8, in which only 9% of examinees passed. Had performance in this question been closer to normal expectations, the overall result would likely have been higher.

The performance pattern suggests that examinees were more comfortable with short and focused computational questions, particularly where the testing approach was similar to past papers. However, the same level of preparation was not visible in other questions.

Presentation and exam technique remained another significant weakness. In several computational questions, examinees wrote final amounts directly in the statements without supporting workings. This was particularly noticeable in long questions, where the absence of a clear trail made it difficult to award partial marks even where some adjustments may have been partially understood. The scripts also reflected weaknesses in time allocation. Several examinees appeared to devote disproportionate time to earlier questions and then attempted later questions with insufficient time. This was particularly evident in longer questions, where answers were incomplete, unbalanced, or lacked workings.

**QUESTION-WISE COMMON MISTAKES OBSERVED**

**Question 1**

- The weakest performance in this question was observed in MCQs (ii) and (x).

**Question 2**

- Examinees generally identified that the warehouse changed classification from owner-occupied property to investment property when it was leased out. However, they failed to record depreciation up to 30 June 2025 before making the transfer.
- Once the warehouse had become investment property under the fair value model, the reduction in fair value should have been recognised in profit or loss. However, examinees recognised the decrease against revaluation surplus or continued to depreciate the warehouse after transfer, which was inconsistent with the fair value model.

- Examinees did not split the owner-occupied showrooms between land and building, despite the question stating that 40% of the cost/fair value was attributable to land. Consequently, depreciation was also charged on the land component. Further, the depreciation on the showroom taken back for own use was often calculated using a useful life of 15 years instead of the remaining useful life of 14.5 years.

### Question 3

- A common error was to ignore the impact of the earlier impairment on future depreciation. The carrying amount after impairment should have formed the basis for depreciation in 2024 and 2025, but examinees continued using the original cost or original useful life.
- In calculating value in use, examinees frequently included financing cash flows, such as repayment of loan principal and interest. Examinees used the post-tax discount rate, while others prepared cash flows for five years even though the remaining useful life was only three years.

### Question 4

- Performance in this question was weak, as reflected by the 31% passing rate and the fact that 28% of examinees did not secure any marks. The question was not limited to a simple borrowing cost computation; it required a structured analysis of the order of financing, surplus funds, use of running finance, government grant proceeds, and suspension of capitalisation.
- The short-term investments of Rs. 140 million were frequently ignored. As these funds were used before drawing from running finance, failure to consider them overstated the amount of general borrowing used.
- The government grant received on 1 November 2025 was also frequently ignored. Since the proceeds were used to reduce the outstanding running finance facility, the running finance balance reduced from that date, and borrowing costs should have been calculated accordingly.

### Question 5

- The fact that 36% of examinees scored zero in this question suggests that not-for-profit accounting was either not prepared or was prepared very superficially.
- In part (i), examinees treated the entire Rs. 6 million endowment contribution as income, despite the donor-imposed restriction requiring the principal to be maintained permanently. In addition, the investment income was not properly split between the 25% to be added to the endowment fund and the 75% available for operations.
- In part (ii), although examinees recognised that the contribution for medical equipment should be deferred, they did not discuss how it would subsequently be transferred to income in line with depreciation.
- In part (iii), examinees generally had no clear understanding of the required treatment and usually stated only that the amount should be used to pay the relevant loan.
- Examinees gave one-line answers without explaining the reason for each treatment. Since the requirement was to discuss the accounting treatment, unsupported conclusions could not earn full marks.

**Question 6**

- Performance in this question was weak, with 36% of examinees scoring no marks. This reflects insufficient preparation of the statement of cash flows concepts beyond mechanical statement preparation.
- In explaining the direct and indirect methods, examinees often stated only that there are two methods without explaining the difference between them.
- The list of cash flows with classification alternatives was often incomplete. Examinees commonly mentioned interest paid and dividends paid, but omitted interest received and dividends received.
- Examinees did not address the CEO's request to maximise operating cash flows, and also skipped the discussion on the consistency of presentation.

**Question 7**

- In respect of the mobile application, designing system architecture and salaries and overheads were commonly capitalised in full, although only the portion incurred after 1 February 2025 was eligible. Examinees also capitalised conceptualisation and brainstorming costs.
- Examinees amortised the mobile application from 1 July 2025, the date it was put into use, instead of 31 May 2025, the date it was ready for use.
- In respect of ERP software, examinees included IT equipment and servers as part of the intangible asset. Custom workflows coded into the ERP software were sometimes omitted, although they were directly attributable to bringing the software to its intended condition. Examinees treated the ERP software as having an indefinite useful life because the software had perpetual validity and therefore did not amortise it.
- In respect of the licence, examinees used a useful life of five years and ignored the renewal option available at insignificant cost.

**Question 8**

- This was the weakest area of the paper, with a passing rate of only 9%. The scripts suggested that many examinees attempted it in the final part of the examination and were unable to prepare complete, balanced financial statements with adequate workings.
- Examinees prepared only working or partial extracts instead of complete financial statements. Examinees lacked the basic concept of double entry as they adjusted items in the statement of profit or loss but did not reflect the corresponding impact in assets, liabilities, or equity, and vice versa.
- The rent adjustment was frequently mishandled. Examinees treated the prepaid amount as the total expense and failed to recognise the accrued portion.
- The adjustment for bank deposit interest was often incomplete. Examinees did not always remove the interest already included in sales, and many also failed to accrue the additional interest receivable for the final three months of the year.
- The disposal of the asset was frequently omitted or recorded incompletely. Even though the asset was largely depreciated, its cost and accumulated depreciation still had to be eliminated from the books, with the receivable and gain on disposal recognised appropriately.

- The building revaluation adjustment caused significant difficulty. Examinees frequently credited the entire increase to revaluation surplus and ignored the portion required to reverse the earlier revaluation loss recognised in profit or loss.
- Examinees charged the entire closing provision for doubtful debtors to profit or loss instead of recognising only the movement from the existing provision.

### Question 9

- A common error was to present opening balances without restatement. Prior-period errors had to be adjusted retrospectively, and the comparative information had to be restated.
- Examinees frequently confused the correction of errors with a change in estimate. Depreciation should have commenced when the equipment was available for use on 1 May 2023. Failure to do so was an error requiring retrospective correction. The change from straight-line depreciation to reducing balance depreciation was a change in accounting estimate and should have been applied prospectively. Examinees incorrectly recalculated prior-year depreciation using the new method.
- Inventory errors relating to goods sold but included in the closing inventory were often adjusted in the wrong period. Examinees did not always appreciate the effect of inventory errors on both current-year profit and the following year.
- In calculating the right issue, examinees frequently used the market price instead of the issue price. Transaction costs were also not deducted from the share premium.

**(THE END)**