

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN

Certificate in Accounting and Finance Stage Examination

Financial Accounting and Reporting-II

Examiners' Comments

Autumn 2025

PASSING %

Question-wise									Overall
1	2	3	4	5	6	7	8	9	
21%	34%	15%	48%	47%	62%	24%	67%	55%	42%

GENERAL COMMENTS

The overall pass rate of 42% remained broadly consistent with both the previous session's result of 43% and the five-attempt average of 43%. A lack of adequate practice was evident across many scripts as a considerable number of examinees struggled to secure even the straightforward marks available on the paper. Workings were often disorganized or incomplete, making it difficult to trace the basis of calculations and thereby limiting the scope for awarding partial marks. Many borderline examinees who narrowly missed the passing mark might have secured a pass had their answers been better structured, with a clear trail of workings and calculations.

QUESTION-WISE COMMON MISTAKES OBSERVED

Question 1

- Approximately 36% of the examinees scored zero or just one mark in this question, even though a similar question had been examined in the previous session, indicating that examinees did not adequately revisit or reinforce their understanding of this topic.
- A common error observed was the mixing of measurement models for bearer plants and agricultural produce. Examinees fairly valued the bearer plants at year-end despite the question clearly requiring presentation under the cost model, while others measured harvested produce at selling price at year-end instead of at fair value less costs to sell at the point of harvest.
- Examinees failed to identify that the grant related to the cold storage facility was required to be accounted for in accordance with IAS 20 rather than under IAS 41. Examinees recognised the entire grant as income immediately, while others amortized it on a straight-line basis without aligning the recognition pattern to the asset's useful life and period of use (May–December), resulting in overstated income for the year.

Question 2

- Examinees provided only numerical extracts or journal entries without offering the required explanations or reasoning. Even where such extracts were technically correct, they were not sufficient to earn full marks as the question explicitly required examinees to explain the accounting treatment regarding the classification of the investment.
- A significant number of examinees only discussed the two alternative accounting treatments without presenting the corresponding figures to be reported in the financial statements, thereby failing to address the computational aspect of the requirement.

Question 3

- Approximately 41% of the examinees did not secure any marks in this question, while a further 21% obtained only one mark. Many appeared unfamiliar with the conceptual requirements and seemed surprised that the accounting for investments in associates was being examined for the first time in a discussion-based format rather than through purely computational application.
- Examinees were unaware that three alternative approaches are available for accounting for an investment in an associate in the separate financial statements of the investor. However, even if examinees had focused solely on explaining the equity method with reasonable clarity, they could have secured more than passing marks on this question.
- Among those who attempted to apply the equity method, examinees presented only the computations with brief or no accompanying discussion. In several cases, the share of profit was also calculated incorrectly, as examinees did not apportion the associate's annual profit for the 10-month holding period, resulting in overstated amounts.

Question 4

- Although examinees correctly applied the special tax rate of 20% to the unearned commission, they often used a rate of 28% for the remaining temporary differences instead of the correct rate of 30%.
- Examinees calculated deferred tax on the revaluation surplus separately, even though the carrying amount of the property, plant and equipment already included this surplus and therefore no separate computation was required.
- Examinees incorrectly treated the deferred tax arising on the government grant as a deferred tax asset, whereas it should have been recognised as a deferred tax liability since the grant results in taxable temporary differences in future periods.
- The journal entry for deferred tax recognition was often omitted, and when presented, examinees recorded only a debit to deferred tax expense and a credit to deferred tax liability, thereby ignoring the portion relating to other comprehensive income that should also have been recognised.

Question 5

- Examinees stated their conclusions without explaining the underlying reasoning, resulting in the loss of easy and high-value marks.
- In part (a), examinees failed to identify that the events described in point (ii) occurred in August 2025 and were therefore not relevant to the first part of the question, which required analysis based on the authorization date of 31 July 2025.
- In part (b), examinees incorrectly concluded that a provision was required for the termination of employees in the financial statements for 2025, even though the termination plan was initiated after the reporting date, and therefore did not meet the recognition criteria. Furthermore, the possible implications for the valuation of Volt3 inventory were not discussed

Question 6

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

Question 7

- Although only 24% of the examinees secured passing marks in this question, a similar proportion of examinees were near-pass cases, primarily due to their brief or non-existent explanations. They presented accurate numerical workings but failed to provide the required reasoning and narrative support, which cost them crucial marks.
- In respect of Contract (i), the journal entry for 14 June 2025 was either omitted or incorrectly recorded with revenue of Rs. 4 million instead of the correct amount of Rs. 3.67 million.
- In respect of Contract (ii), examinees recorded the first journal entry for revenue recognition using the transaction price of Rs. 24.2 million instead of Rs. 20 million.

Question 8

- For the lessor's accounting, the lease terms were borderline, allowing the arrangement to be treated as either a finance lease or an operating lease, and both approaches were acceptable for full marks if applied consistently. However, examinees mixed elements of both classifications, for example, derecognising the leased asset as in a finance lease while still depreciating it or recognising both interest income and rental income simultaneously.
- For the lessor's accounting under the operating lease approach, examinees incorrectly depreciated the machine over a five-year life instead of the correct seven-year useful life. In addition, the rental income for 2023 was not recognised, while the rental income for 2024 was frequently recorded at Rs. 44 million, rather than at the correct amount of Rs. 40 million.
- For the lessor's accounting under the finance lease approach, examinees did not recognise the net investment in the lease at the correct amount of Rs. 183 million. The interest income for 2023 was also omitted in most cases, and examinees used a discount rate of 17% instead of 14%, leading to misstated interest income.

- For the lessee's accounting, many examinees did not include the initial direct costs in the measurement of the right-of-use asset, resulting in an understated carrying amount. In addition, the interest expense for 2023 was frequently not accrued.

Question 9

- The investment property of the subsidiary was required to be included at Rs. 870 million at year-end; however, examinees used varying amounts, with some even computing a depreciated value contrary to the specified measurement model.
- The deferred consideration was frequently omitted from liabilities, and among those who included it, many failed to unwind the related interest. Even where the adjustment was attempted, several examinees calculated the unwinding for 12 months instead of the correct period of 8 months.
- The shares issued as part of the purchase consideration were frequently measured at Rs. 80 per share instead of the correct fair value of Rs. 70 per share. Furthermore, examinees did not reflect the effect of the share issuance in the share capital and share premium balances in the consolidated statement of financial position.
- The impairment of goodwill was often recognised entirely against consolidated retained earnings, while the portion attributable to the non-controlling interest was not adjusted.
- The adjustment for unrealised profit on inventory was recorded against the post-acquisition profits of the subsidiary rather than being fully adjusted in consolidated retained earnings.

(THE END)