INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN EXAMINERS’ COMMENTS	
SUBJECT Financial Accounting and Reporting-II	**SESSION** Certificate in Accounting and Finance (CAF) Examination - Spring 2025

Passing %

Question-wise									Overall
1	2	3	4	5	6	7	8	9	
46%	32%	49%	35%	17%	90%	52%	31%	47%	43%

General

The current pass rate of 43% is consistent with the previous session’s 45% and the five-attempt average of 42%. The relatively higher performance in FAR-2 compared to FAR-1 is largely attributed to the eligibility policy, which requires examinees to pass FAR-1 before attempting FAR-2, which effectively results in a more prepared cohort.

There was considerable disparity in the quality of responses. While several examinees performed exceptionally, achieving marks in the 80s and 90s, a notable proportion failed to secure any marks in certain questions, specifically, 42% in Q2 and 26% in Q5 scored zero, despite hundreds achieving full marks on the same questions. These outcomes reflect the risks of selective study and an over-reliance on past papers. Examinees are strongly encouraged to adopt a more holistic preparation approach, ensuring full syllabus coverage.

Question-wise common mistakes observed

Question 1

- In the case of broadcasting rights, amortization for 2023 was often calculated using an incorrect useful life of 8 years instead of the legally enforceable period of 5 years. Additionally, the renewal cost of Rs. 80 million, incurred in 2024, was prematurely added to the asset's carrying amount in 2023.
- Regarding the trademark, examinees used incorrect residual values of Rs. 50 million and Rs. 60 million for 2023 and 2024, respectively, instead of the correct amounts of Rs. 60 million and Rs. 53 million for 2023 and 2024, respectively, leading to misstated amortization.

Question 2

- The question was either well-attempted or poorly addressed, with little middle ground. A number of examinees misunderstood the requirement and reproduced the disclosure requirements instead of presenting a formal disclosure note.

- Among those who did prepare a note, responses were often incomplete, typically limited to issued, subscribed, and paid-up capital, with insufficient or no disclosure of accompanying notes on authorized capital and reserves.

Question 3

- In part (ii), conclusions were often incorrect, with many examinees inappropriately linking the disclosure of additional operating segments to the 75% external revenue test.
- Part (iv) was frequently either left un-attempted or answered incorrectly, as many examinees were unaware of the requirement to disclose information about major customers under IFRS 8.

Question 4

- Many examinees provided correct journal entries rather than correcting the originally recorded ones, as required by the question. Errors also arose from combining multiple adjustments into a single compound entry instead of addressing each step individually.
- A critical oversight was the failure to recognize that the discount rate of 16% applied in the original lease accounting was incorrect. The correct rate of 11% should have been used, and adjusting the right-of-use asset and lease liability on the initial date accordingly was a necessary correction.
- Examinees also could not pick that, due to the purchase option, the appropriate useful life for depreciation was 7 years, and depreciation had been previously calculated on a 4-year lease term, necessitating restatement of both the depreciation expense and carrying amount of the right-of-use asset.

Question 5

- This question proved to be surprisingly challenging for many examinees, despite its conceptual simplicity. It was often attempted at the end of the exam, with brief and incomplete responses that reflected a lack of preparation.
- A number of technical errors were noted in examinee responses: saplings were wrongly treated as biological assets under IAS 41, rather than as bearer plants under IAS 16; wheat inventory was measured using its fair value at the reporting date, rather than its fair value at the time of harvest as required; no line item was presented for the corn crop; and part of the government grant was incorrectly taken to profit or loss, even though conditions for recognition had not been satisfied.

Question 6

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

Question 7

- In part (ii), many examinees incorrectly concluded that a provision was required, even though the matter constituted a contingent liability requiring disclosure only.

- In part (v), the need to test the machinery for impairment was often overlooked.
- A significant number of examinees demonstrated familiarity with the underlying principles in this question but failed to communicate their understanding in a structured and comprehensive manner. Responses often lacked sufficient explanation, failed to apply concepts to the given facts, or omitted references to applicable standards, all of which are essential for scoring well. This highlights a common issue about the gap between knowing the correct treatment and presenting it clearly under exam conditions. Examinees are encouraged to engage in more written practice to strengthen their ability to express technically accurate and complete responses.

Question 8

- In the reconciliation item, the effect of the change in tax rate was often applied to Rs. 79 million instead of the correct figure of Rs. 84 million.
- For the lease transaction, examinees often failed to capitalize initial direct costs as part of the right-of-use asset, citing tax rules on deductibility, without recognizing their inclusion in the accounting base. In addition, guaranteed residual values were either excluded or included incorrectly, with some using Rs. 62 million instead of Rs. 15 million.
- In the case of the customer contract, examinees did not identify the financing component as a source of temporary difference and failed to compute deferred tax accordingly.
- In respect of bond, the amount of carrying value and/or tax base was often incorrect.

Question 9

- Although the fair value adjustment on SL's inventory at the acquisition date was generally included, the corresponding adjustment to cost of sales at year-end was often overlooked.
- Unrealized profits on intra-group sales were frequently miscalculated using the gross profit margin on third-party sales, rather than the correct margin on intra-group transactions.
- Finally, profit attributable to the parent and non-controlling interest was either omitted or incorrectly calculated based on unadjusted profits rather than the consolidated, post-adjustment figures. Further, profit attributable to NCI was calculated based on 40% instead of 55%.

(THE END)