THE INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN

Certificate in Accounting and Finance Stage Examination

Corporate Reporting

Examiners' Comments **Autumn 2026**

PASSING %

Question-wise									Overall
1	2	3	4	5	6	7	8	9	
71%	76%	65%	63%	42%	42%	38%	42%	8%	44%

GENERAL COMMENTS

The current Corporate Reporting pass rate is modestly above the previous attempt pass rate.

The stronger results in the opening three questions helped offset the exceptionally weak performance in Q.9 and supported the overall pass rate. The poor performance in Question 9 emphasises the importance of understanding principles and applying them to different scenarios. Examinees should practise analysing the substance of transactions, explaining the resulting accounting treatment and preparing the required journal entries. Answers should address all components of the requirement and include clear, properly referenced workings.

QUESTION-WISE COMMON MISTAKES OBSERVED

Question 1

- The weakest performance in this question was observed in MCQs (iii) and (viii).

Question 2

- Errors arose from the inconsistent application of the reduction in the tax rate from 30% to 27%. The revised rate applied to current tax and closing deferred tax, while the remeasurement of opening deferred tax resulted in a benefit of Rs. 2.40 million that required separate disclosure in the tax reconciliation.

- The fact that the land revaluation gain was taxable only on disposal was incorrectly used as a basis for omitting deferred tax. Where deferred tax was recognised, the charge was sometimes included in profit or loss instead of other comprehensive income. The required deferred tax liability was Rs. 16.20 million.

Question 3

- Examinees continued to apply 12-month expected credit losses in 2025, assuming that lifetime expected credit losses were required only when the instrument became credit-impaired. The significant increase in credit risk required a lifetime loss allowance of Rs. 9.50 million, despite the instrument not being credit-impaired.

- Even where lifetime expected credit losses were correctly selected, examinees charged the full closing allowance of Rs. 9.50 million to profit or loss. The existing allowance of Rs. 1.60 million should have been deducted, resulting in an impairment expense of Rs. 7.90 million.

Question 4

- Responses did not consistently explain the effects on the numerator and denominator of both basic and diluted EPS. Merely stating that EPS would increase or decrease, without identifying the adjustments to earnings or the number of shares, did not fully address the requirement.

- Examinees treated the rights issue as having a bonus element merely because it was described as a rights issue. Since the issue was at market price, only time-weighting of the additional shares from the issue date was required.

- Share options were incorrectly included in the denominator of basic EPS before exercise. Their issuance did not affect either the numerator or denominator of basic EPS. For diluted EPS, examinees included all shares issuable under the options instead of only the incremental shares deemed issued for no consideration.

- The timing of the bonus issue was incorrectly used to justify leaving it out of the EPS calculation. Although issued after the reporting date, the bonus shares required retrospective inclusion in the denominators of both basic and diluted EPS because the issue preceded authorisation of the financial statements.

Question 5

- For Project Halo, examinees commenced capitalisation from 1 April 2024, although technical feasibility was demonstrated only on 1 June 2024. Capitalisation required all recognition criteria to be satisfied. The research expenditure of Rs. 12 million and prototype expenditure of Rs. 14 million were therefore required to be expensed in 2024.

- Examinees confused the commencement of capitalisation with the commencement of amortisation. Although qualifying development costs were capitalised earlier, amortisation was required only from 1 July 2025, when Project Halo was available for use.

- The change in the broadcasting licence's useful life was not appropriately reflected in the amortisation charge. The renewal mechanism and management's intention to renew indefinitely supported an indefinite useful life from 1 January 2025; consequently, no amortisation was required for 2025.

Question 6

- In matter (i), examinees treated the absence of a legal requirement to remediate the contamination as sufficient reason not to recognise a provision. They overlooked the constructive obligation arising from the published environmental policy and consistent past practice.

- For the fencing requirement in matter (ii), the enactment of legislation was incorrectly regarded as creating an immediate obligation to incur the expenditure. As the cost could be avoided by changing future operations, no provision was required.

- For the closure in matter (iii), the absence of a provision was incorrectly taken to mean that no disclosure was necessary. Although no constructive obligation existed at year-end, the subsequent communication to employees required disclosure as a material non-adjusting event.

Question 7

In respect of part (a):

- Examinees used the implicit rate of 4.5% per six-month period even though it was not known to the lessee. The incremental borrowing rate of 5% per six-month period was required. Errors also arose from treating the rentals as annual payments or as payable in arrears, despite the semi-annual payments being due in advance.

- The downward revaluation at 31 December 2024 was calculated before charging depreciation or incorrectly recognised in other comprehensive income despite there being no existing revaluation surplus. The upward revaluation in 2025 was recognised wholly in other comprehensive income or profit or loss, without distinguishing the reversal of the earlier loss from the amount recognised as revaluation surplus.

In respect of part (b):

- The closing lease liability for 2024 was understated because interest for the six months to 31 December was not accrued. The required balance was Rs. 175.55 million, as the next rental was payable on 1 January 2025 and had not been paid by year-end.

- The current portion was incorrectly measured using either the full amount of the next two instalments, without excluding future interest, or only their scheduled principal components, without including interest already accrued. The correct current portions were Rs. 52.72 million and Rs. 55.05 million at the end of 2024 and 2025, respectively.

Question 8

- Contingent consideration was omitted at acquisition because achievement of the target was not considered probable. Its acquisition-date fair value of Rs. 470 million should have been recognised. The subsequent increase to Rs. 545 million was incorrectly added to acquisition consideration or ignored, instead of charging the Rs. 75 million increase to profit or loss and reducing consolidated retained earnings.

- Examinees presented the bargain purchase gain of Rs. 197 million as negative goodwill within assets or omitted it from consolidated retained earnings. The gain should have been recognised in profit or loss and included in consolidated retained earnings.

- The unrealised profit on inventory was calculated using all of CL's annual sales to PL or by applying 25% directly to the selling price. Only the three months of post-acquisition sales were relevant.

- CL's declared dividend was ignored because it remained unpaid, or PL's share was recorded again despite already being correctly recognised. CL's closing retained earnings and liabilities required adjustment for Rs. 275 million. Of this liability, Rs. 192.50 million was eliminated against PL's dividend receivable, leaving Rs. 82.50 million payable to non-controlling shareholders.

- The unrealised gain on the machine sold to the associate was eliminated in full or adjusted against consolidated property, plant and equipment. Only PL's 40% share of the remaining unrealised gain, after allowing for depreciation, required elimination. The adjustment of Rs. 7.60 million reduced the investment in associate and consolidated retained earnings.

Question 9

- Examinees focused on journal entries and workings, while explanations were either omitted or too brief. Responses did not adequately explain the accounting principles applied and their relevance to the contractual arrangements.

- In part (a), examinees confused contract inception or receipt of cash with satisfaction of the performance obligations. Only Rs. 27 million was recognisable as product revenue on 1 November 2025. The support allocation of Rs. 9 million was initially a contract liability, with revenue recognised subsequently as the service was provided.

- In part (b), examinees failed to identify the shelf-space payment as a reduction of the transaction price, treating it instead as an expense or purchase of a service. Those who correctly classified it as a revenue reduction sometimes recognised the full amount upon payment. Only the proportion attributable to sales recognised during 2025, amounting to Rs. 2.25 million, should have reduced that year's revenue.

- In part (c), the service-kit option and the general discount voucher were not appropriately distinguished. The option provided a material right requiring allocation of part of the machine contract's consideration, even before exercise. The voucher was a general promotion available to all customers and did not create a separate performance obligation to which consideration should be allocated. Treating the two arrangements alike led to altogether incorrect accounting.

(THE END)