

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN

Certificate in Accounting and Finance Stage Examination

Corporate Reporting

Examiners' Comments

Spring 2026

PASSING %

Question-wise									Overall
1	2	3	4	5	6	7	8	9	
78%	73%	73%	3%	24%	27%	35%	42%	38%	42%

GENERAL COMMENTS

The overall pass rate for Corporate Reporting remained broadly stable, compared with 42% in the previous session and the five-session average of 43%. However, this overall stability masks considerable variation in question-wise performance. Examinees appeared more comfortable with familiar and structured areas, while performance declined materially in questions requiring applied discussion, interpretation, or linkage of accounting treatments with their financial reporting effects.

The quality of presentation continued to affect performance. In numerical questions, examinees often presented final figures without adequate workings, which limited the award of partial marks. In discussion questions, many responses were generic and did not connect the IFRS requirement to the specific facts of the scenario. A brief conclusion without supporting reasoning is usually insufficient, particularly in discussion-based requirements.

QUESTION-WISE COMMON MISTAKES OBSERVED

Question 1

- MCQs (iv) and (viii) presented comparatively more difficulty and were the least well-answered items in this question.

Question 2

- Several examinees classified the lease as an operating lease from the lessor's perspective. This was incorrect because the lease covered five years out of the equipment's six-year useful life, indicating that substantially all risks and rewards had been transferred.
- The computation of the lessor's net investment in the lease was often incorrect due to errors in the residual value component. Examinees commonly omitted either the guaranteed or unguaranteed residual value, and some used the lessee's expected market value instead of the residual values relevant to the lessor's accounting.
- In the lessee's books, a frequent error was the inclusion of the entire guaranteed residual value of Rs. 4 million in the lease liability. The lessee expected the residual value of the equipment to be Rs. 3 million; therefore, only the expected shortfall of Rs. 1 million was relevant for measurement of the lease liability.

**Question 3**

- In respect of share warrants, examinees included all 300,000 potential shares in the computation of diluted earnings per share instead of including only the bonus element represented by the free shares.
- In respect of the convertible bonds, examinees often included a full year's interest savings, although the bonds were issued on 1 April 2025. Further, the tax effect on the convertible bond interest was frequently omitted.

**Question 4**

- The most concerning performance was in Q4, where only 3% of examinees secured passing marks, while 51% did not secure any mark. The question tested applied understanding of IFRS 15 through two common commercial incentives: extended interest-free credit and a right of return. Most answers were either very brief or consisted of general statements about revenue recognition, without addressing the specific implications of a significant financing component and variable consideration.
- Even where examinees identified the possibility of a financing component, they did not differentiate between shorter credit periods and credit periods exceeding one year. The practical expedient in IFRS 15 for arrangements where the period between transfer and payment is one year or less was also omitted.
- In respect of the right of return, examinees did not identify that the arrangement gives rise to variable consideration. The wholesale customers had a right to return unsold appliances within ninety days for a full refund, which required estimation of expected returns. Examinees often incorrectly concluded that no revenue should be recognised until the ninety-day return period expires.

**Question 5**

- The passing rate of 24% and the fact that 22% of examinees did not secure any marks indicate weak performance in ratio analysis and interpretation of accounting decisions. The requirement of the question was to “discuss”; therefore, merely identifying whether a ratio would increase or decrease was not sufficient to secure full marks.
- Examinees usually correctly identified the profit or loss impact of the decisions. Therefore, the effects on net profit margin, return on capital employed, and interest coverage were relatively better identified. However, only a few examinees identified the impact of higher depreciation following revaluation.
- Identification of the impact of the decisions on the statement of financial position was generally a weaker area. Consequently, the effects on current ratio, gearing ratio, and asset turnover were not explained well by the examinees.

**Question 6**

- The passing rate of 27% and the fact that 27% of examinees did not secure any marks indicate that examinees found this question challenging.
- Although examinees reported the bond at fair value, the fair value adjustment was often not shown in other comprehensive income, and the related fair value reserve was not shown in the statement of financial position.

- The expected credit loss treatment was frequently incorrect. A common error was to charge the full lifetime ECL of Rs. 17.2 million in 2025 instead of recognising only the increase in loss allowance from Rs. 4.5 million to Rs. 17.2 million. The credit impact of impairment was also not reported in other comprehensive income.

### Question 7

- Examinees appeared to know the broad conclusion but did not explain the basis for it. In a discussion-based question, the conclusion must be supported by reasoning from the facts.
- In part (i), the provision amount was often incorrect. Examinees used either the original offer of Rs. 28 million or the legal claim of Rs. 40 million, instead of the revised best estimate of Rs. 22 million available before the financial statements were authorised. Others incorrectly concluded that no provision was required because the case had not yet been finally decided.
- In part (ii), examinees did not address the issue of prejudicial disclosure. IAS 37 permits limited disclosure in rare cases where full disclosure would seriously prejudice the entity's position, but the general nature of the dispute and the fact that further information has not been disclosed should still be stated.
- In part (iii), examinees calculated the full expected warranty cost but did not deduct the warranty costs already incurred during the year, resulting in an overstatement of the closing provision. Further, the warranty extension announced in February 2026 was often treated as an adjusting event, although it was a non-adjusting event, and only a disclosure of it may be required if it was material.

### Question 8

- Examinees adjusted the cost of investment in SL for professional fees, but the corresponding expense was often not included in the consolidated statement of profit or loss.
- The disposal of vehicles to a third party was not dealt with correctly. Examinees retained the gain recorded in SL's books without considering the group's carrying amount after fair value adjustment. In the consolidated financial statements, the disposal resulted in a loss rather than a gain as shown in SL's books.
- Unrealised profit on closing inventory was frequently calculated incorrectly and was often deducted from the cost of sales instead of being added.
- Examinees did not accrue finance cost on the deferred consideration, which was required to be included in finance cost.
- Examinees often took TL's full-year profit and failed to time-apportion the associate's profit from the acquisition date.
- Profit attributable to non-controlling interest was frequently not presented. Where it was calculated, it was usually based on SL's unadjusted profit, and several consolidation adjustments affecting NCI were omitted.

**Question 9**

- In computing taxable loss, examinees frequently treated the fair value gain on investment property incorrectly. Since the fair value gain was included in accounting loss but was not taxable, it had to be adjusted in the tax computation. Further, tax depreciation on investment property was omitted.
- Examinees did not distinguish between accounting recognition and taxability of rental income. Since rental income was taxable on a receipt basis and no rent was receivable during the first year, the accounting income required adjustment, and the rent receivable created a temporary difference.
- In respect of property, plant, and equipment, examinees often did not adjust for the difference between accounting depreciation of Rs. 25 million and tax depreciation of Rs. 41 million.
- Examinees could not identify that deferred tax balances at 31 December 2025 had to be measured using 25%, not 30%. Since the tax rate of 25% was substantively enacted before year-end and was effective from 1 January 2026.
- Examinees calculated deferred tax on the entire accounting/tax loss of Rs. 351 million without considering management's expectation that Rs. 79 million of losses would not be utilised. Deferred tax assets should be recognised only to the extent losses are expected to be utilised.
- Examinees did not recognise deferred tax on rent receivable, development cost, and payable for development cost. These balances created temporary differences between carrying amounts and tax bases. Development costs were often mishandled because accounting recognition was based on capitalisation and amortisation, whereas tax deduction was available on a payment basis. This created temporary differences both in respect of the development asset and the unpaid liability.

**(THE END)**