



Certificate in Accounting and Finance Stage Examination

9 September 2025

3 hours – 100 marks

Additional reading time – 15 minutes

Financial Accounting and Reporting-I

Instructions to examinees:

- (i) Answer all **NINE** questions.
- (ii) Answer in **black** pen only.
- (iii) Multiple Choice Questions must be answered in answer script only.

Section A

Q.1 The following information pertains to four similar machines acquired by Cotton Limited (CL) on 1 January 2022 at a total cost of Rs. 1,000 million:

- (i) CL applies the revaluation model for the subsequent measurement of its machines, using the net replacement method. CL transfers the maximum possible amount from the revaluation surplus to retained earnings on an annual basis.
- (ii) The revalued amounts of the machines as at 1 January 2023 and 2024 were determined as Rs. 810 million and Rs. 896 million respectively.
- (iii) CL depreciates its machines on the straight-line method over their estimated useful life of 10 years. There was no change in the useful life of the machines on the revaluation dates.
- (iv) On 31 August 2024, one machine was sold for Rs. 210 million.

Required:

Prepare the journal entries in the books of CL for the year ended 31 December 2024.

(Show all necessary workings. Narrations are not required)

(10)

Q.2 The accountant of Khadi Enterprises (KE) prepared a statement of comprehensive income for the year ended 31 December 2024, which showed gross profit of Rs. 8,790,000 and net profit of Rs. 5,270,000. A detailed review of the draft financial statements revealed the following errors:

- (i) A purchase of Rs. 334,000 was recorded in the purchases day book as Rs. 343,000.
- (ii) The payment of an annual insurance premium amounting to Rs. 492,000, covering the period up to 30 September 2025, was recorded as an expense.
- (iii) A credit note amounting to Rs. 40,000 issued to a customer for goods returned was recorded as a credit note received from a supplier for goods returned.
- (iv) A machine costing Rs. 2,400,000 with accumulated depreciation of Rs. 1,270,000 as on 31 December 2024, had already been sold on 1 October 2024. The sale proceeds of Rs. 1,400,000 were credited to the 'gain on disposal' account. KE depreciates machine at 10% per annum on a straight-line basis.
- (v) A recovery of Rs. 200,000 against previously written-off trade receivable was erroneously credited to the trade receivables account. As per KE's policy, a general provision of 5% on the year-end trade receivables balance has been recorded as doubtful receivables. However, trade receivables include a balance of Rs. 370,000 on which a specific provision of 45% should have been made.

Required:

Compute the corrected gross profit and net profit of KE for the year 2024.

(08)

- Q.3 On 1 July 2022, Polyester Limited (PL) acquired and installed a plant at its factory located in a rural area of Sindh at a cost of Rs. 1,200 million. The plant has an estimated residual value of Rs. 100 million and a useful life of 5 years. The plant is to be depreciated at the rate of 40% using the reducing balance method.

On 1 July 2022, PL received a government grant of Rs. 300 million for this plant on the condition that PL would continue to operate the plant at that location for the next 4 years. At inception, there was reasonable assurance that PL would comply with the conditions attached to the grant. Government grant is recorded as deferred income and a part of it is transferred to income each year.

On 1 January 2024, PL disposed of the plant for Rs. 320 million. As a result of the disposal, the grant became repayable, and PL repaid 80% of the grant (i.e. Rs. 240 million) to the government in full and final settlement.

Required:

Prepare the journal entries in PL's books for the years ended on 31 December 2022, 2023 and 2024 in respect of the above information.

(Show all necessary workings. Narrations are not required)

(08)

- Q.4 The following information pertains to the properties of Nylon Limited (NL):

- (i) NL owns four properties that were acquired in previous years (2023 and earlier). The fair values of these properties at different dates are as follows:

| | 1 January 2024 | 31 May 2024 | 31 December 2024 |
|------------|----------------------------|-------------|------------------|
| | ----- Rs. in million ----- | | |
| Property A | 740 | 715 | 760 |
| Property B | 810 | 790 | 750 |
| Property C | 450 | 510 | 480 |
| Property D | 800 | 850 | 890 |

- (ii) Property A was acquired for its investment potential.
- (iii) On 31 May 2024, NL obtained possession of property C from tenants and shifted its head office from property B to property C. Property B was rented out immediately. The carrying value of property B was Rs. 650 million as on 31 May 2024.
- (iv) Property D was acquired for the purpose of constructing another factory for NL, which is scheduled for construction in 2026.
- (v) NL applies the fair value model for the subsequent measurement of all investment properties.
- (vi) NL charges depreciation on depreciable assets at 10% per annum using the straight-line method. 50% of the value of property A and property B relates to the land element.

Required:

Prepare a note on 'Investment property' to be included in NL's financial statements for the year ended 31 December 2024. *(Comparative figures are not required)*

(08)

Q.5 Briefly discuss the external and internal sources of information that an entity should, at a minimum, consider when assessing whether an asset may be impaired in accordance with IAS 36 “Impairment of Assets”. (06)

Q.6 Select the most appropriate answer(s) from the options available for each of the following Multiple Choice Questions.

- (i) A professional body of accountants (the NPO) establishes a fund for providing financial support to deserving students. For this purpose, Rs. 100 million is allocated to the fund. The amount will be invested, and 80% of the investment income will be used for student support while 20% will be reinvested. The fund’s principal amount in investments shall not be available for use by the NPO for its operations.

This fund should be considered as:

- (a) Endowment fund
- (b) General fund
- (c) Restricted fund
- (d) Unrestricted fund (01)

- (ii) According to the Conceptual Framework for Financial Reporting, the total amount of equity in general purpose financial statements is:

- (a) aggregate market value of equity claims on the entity
- (b) carrying amount of all recognized assets less carrying amount of all recognized liabilities
- (c) aggregate amount raised by selling all assets less amount used to settle all liabilities
- (d) amount that could be raised by selling the entity as a whole on a going concern (01)

- (iii) Under IAS 33 “Earnings per Share”, which of the following is a valid reason for adjusting EPS of prior-periods when a bonus issue of shares is made?

- (a) Bonus shares represent profits earned in prior years
- (b) Bonus shares decrease the fair value of shares
- (c) Issuance of bonus shares is a change in accounting policies applied retrospectively under IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors”
- (d) Bonus shares increase number of shares without changing the entity’s resources (01)

- (iv) Which of the following would be included when calculating diluted EPS?

- (a) All potential ordinary shares
- (b) Share options or warrants are always included, while other potential ordinary shares are included when they are dilutive
- (c) Potential ordinary shares that are dilutive
- (d) Potential ordinary shares that were dilutive in both the prior and current years (01)

- (v) Under IAS 16 “Property, Plant and Equipment”, when an asset is acquired in exchange for another asset, the new asset is measured using fair value:

- (a) only when the exchange transaction has commercial substance
- (b) when the exchange transaction has commercial substance as well as the fair value of either asset acquired or given up is reliably measurable
- (c) when the exchange transaction has commercial substance or when the fair value of either assets acquired or given up is reliably measurable
- (d) only when the fair value of either asset is reliably measurable (01)

- (vi) Under IAS 23 “Borrowing Costs”, expenditures on a qualifying asset for capitalisation purposes do **NOT** include the effect of:
- (a) expenditures on the asset incurred in prior year
 - (b) progress payments received
 - (c) government grants received in connection with the asset
 - (d) expenditures not yet paid
- (01)
- (vii) Under the Conceptual Framework for Financial Reporting, historical cost for an asset and a liability is generally determined as follows:
- (a) **Asset:** Consideration paid/payable plus transaction costs
Liability: Consideration received minus transaction costs
 - (b) **Asset:** Consideration paid/payable plus transaction costs
Liability: Consideration received
 - (c) **Asset:** Consideration paid/payable
Liability: Consideration received
 - (d) **Asset:** Consideration paid/payable minus transaction costs
Liability: Consideration received plus transaction costs
- (01)
- (viii) Which of the following statements is/are correct as per IAS 23 “Borrowing Costs”?
- (I) An entity should cease capitalising borrowing costs only when the asset is available for use.
 - (II) The amount of borrowing costs capitalised during a period is always equal to the amount of borrowing costs incurred during that period.
- (a) Both are correct
 - (b) Only I is correct
 - (c) Only II is correct
 - (d) None is correct
- (01)
- (ix) Alpha Limited (AL) earned profit after tax of Rs. 165 million for the year ended 31 December 2024. AL has 50 million ordinary shares of Rs. 10 each and 2 million irredeemable 12% cumulative preference shares of Rs. 100 each. Each preference share is convertible into 4 ordinary shares of AL at any time. There was no change in share capital during 2024. AL paid dividends of 24% on preference shares and 10% on ordinary shares in 2024.
- What is the basic EPS of AL for 2024?
- (a) Rs. 2.34 per share
 - (b) Rs. 2.82 per share
 - (c) Rs. 2.43 per share
 - (d) Rs. 3.36 per share
- (02)

Section B

- Q.7 You have recently joined Chiffon Limited (CL) as a Finance Manager. The CFO asked you to perform a ratio analysis of CL's financial statements for 2024 and compare the results with those of the last year. In this respect, you have gathered the following information:

Statement of financial position as on 31 December 2024

| Assets | Rs. in million | Equity and liabilities | Rs. in million |
|-------------------------------|-----------------------|-------------------------------|-----------------------|
| Property, plant and equipment | 1,450 | Share capital | 650 |
| Inventory | 590 | Retained earnings | 925 |
| Trade receivables | 280 | Long-term borrowings | 300 |
| Bank | 45 | Trade payable | 210 |
| | | Accrued expenses | 100 |
| | | Short-term borrowings | 180 |
| | 2,365 | | 2,365 |

Statement of profit or loss for the year ended 31 December 2024

| | Rs. in million |
|------------------------------------|-----------------------|
| Sales revenue | 2,600 |
| Cost of sales | (1,950) |
| Gross profit | 650 |
| Selling and administrative expense | (410) |
| Other income | 50 |
| Finance cost | (40) |
| Taxation | (60) |
| Net profit | 190 |

Key ratios for the year 2023

| | | | |
|---------------------|----------|------------------|------------|
| Receivable turnover | 23 times | Interest cover | 12.5 times |
| Inventory turnover | 6 times | Current ratio | 1.32 |
| Gross profit ratio | 30% | Gearing ratio | 5:95 |
| Net profit ratio | 18.9% | Return on assets | 17% |

An annual employees' gathering was held the same day in which the CEO delivered the following speech which gave you an idea of operations of CL during 2024.

The year 2024 has been about building a foundation for long-term dominance. We have recently launched three flagship stores in major cities. We also partnered with a leading e-commerce platform, offering lower-than-usual prices to attract new customers. These initiatives required significant spending on promotions and store setups, but we view them as investment rather than costs.

To ensure our products never go out of stock, we instructed our production team to maintain higher inventories and extended more flexible payment terms to our top distributors, enabling them to carry larger volumes. Of course, we relied on combination of short-term and long-term financing to support these initiatives, but such calculated risks help us to capture market share ahead of competitors.

I encourage each of you to see 2024 as a year of laying bricks for a much larger house. We may be sacrificing short-term comfort, but we are securing sustainable growth.

Required:

- (a) Compute CL's ratios for 2024 in comparison with 2023. (06)
- (b) Keeping in view the CEO's speech, provide possible reasons for the variation(s) in the ratios computed in (a) above. (10)

Q.8 The following information is available for preparing the statement of changes in equity for Velvet Limited (VL) for the year ended 31 December 2024:

(i) Share capital and reserves as at 1 January 2023:

| | Rs. in million |
|------------------------------|----------------|
| Share capital (Rs. 100 each) | 1,000 |
| Share premium | 250 |
| Retained earnings | 600 |

- (ii) In February 2023, VL issued 60% right shares at Rs. 220 per share, although the prevailing market price of VL's share was Rs. 290. Transaction costs of Rs. 24 million were also incurred.
- (iii) In April 2023, VL's board of directors recommended a final dividend of Rs. 20 per share for 2022; however, shareholders only approved Rs. 16 per share.
- (iv) A bonus issue of 20% was made in April 2024 as the final dividend for 2023. The allocation was made from retained earnings.
- (v) In December 2024, VL declared an interim cash dividend of 10%, which was paid in January 2025.
- (vi) VL reported a profit of Rs. 450 million for 2023 while profit as per the draft financial statements for 2024 amounted to Rs. 550 million.
- (vii) The following changes have not been incorporated in VL's draft financial statements:
- VL has decided to change the method of inventory valuation from 'first-in, first-out' (FIFO) to the weighted average method, in order to align with competitors' financial statements. The value of inventory under each method has been determined as follows:

| | FIFO | Weighted Average |
|------------------------|----------------------------|------------------|
| | ----- Rs. in million ----- | |
| As at 31 December 2021 | 225 | 210 |
| As at 31 December 2022 | 270 | 240 |
| As at 31 December 2023 | 310 | 350 |
| As at 31 December 2024 | 395 | 380 |

- VL has decided to change its previous practice of recognizing all borrowing costs as an expense when incurred. Going forward, borrowing costs related to qualifying assets will be included in the cost of those assets. Previously, VL did not capitalize any borrowing cost on a building constructed between 1 April 2022 and 30 September 2023. The building has a useful life of 10 years and is being depreciated using straight-line method. The relevant details are as follows:

| | 2022 | 2023 |
|---|------------------------|------|
| | --- Rs. in million --- | |
| Total borrowing cost incurred | 130 | 150 |
| Borrowing cost directly attributable to that building | 50 | 72 |
| Investment income from surplus funds of specific loan | 2 | - |

- VL has revised its internal guidelines for assessing slow-moving and obsolete inventory. Under the previous approach, items that remained unsold for more than six months were considered for provisioning. Under the revised approach, items unsold for more than four months will be subject to provision. The provisions under both approaches are as follows:

| Years | 2021 | 2022 | 2023 | 2024 |
|--------------|----------------------------|------|------|------|
| | ----- Rs. in million ----- | | | |
| Old approach | 15 | 20 | 16 | 22 |
| New approach | 18 | 26 | 21 | 25 |

Required:

Prepare VL's statement of changes in equity (with comparatives figures) for the year ended 31 December 2024. *(A column for the total is not required)*

(16)

Q.9 The following is the statement of financial position of Denim Limited (DL) as at 31 December 2024:

| Equity & liabilities | 2024 | 2023 | Assets | 2024 | 2023 |
|-----------------------------|----------------|--------------|-------------------------------|----------------|--------------|
| | Rs. in million | | | Rs. in million | |
| Share capital (Rs. 10 each) | 3,000 | 2,200 | Property, plant and equipment | 2,500 | 1,950 |
| Share premium | 340 | 325 | Investment property | 1,520 | 1,550 |
| Retained earnings | 1,215 | 900 | Inventories | 1,285 | 1,215 |
| Revaluation surplus | 410 | 300 | Trade receivables | 1,760 | 1,554 |
| 12% Long-term loan | 750 | 1,350 | Allowance for doubtful debts | (262) | (364) |
| Trade and other payables | 1,077 | 882 | Advance tax | - | 35 |
| Accrued interest | 16 | 25 | Cash and bank balances | 110 | 50 |
| Dividend payable | 13 | 8 | | | |
| Tax payable | 92 | - | | | |
| | 6,913 | 5,990 | | 6,913 | 5,990 |

Additional information:

- (i) Shares issued during the year were as follows:
 - A 10% bonus issue was made out of the share premium in February 2024.
 - A right issue was made in July 2024.
- (ii) Movement in property, plant and equipment includes the following:
 - Depreciation amounting to Rs. 450 million.
 - An office building, which had previously been revalued, was sold at its carrying amount of Rs. 341 million.
 - Machinery having a carrying amount of Rs. 360 million was sold for Rs. 419 million.
 - A factory building was revalued for the first time from Rs. 660 million to Rs. 900 million.
- (iii) An investment property was acquired during the year for Rs. 150 million. DL applies cost model for subsequent measurement of its investment property.
- (iv) Tax expense for the year amounted to Rs. 259 million.
- (v) During the year, an interim cash dividend of Rs. 400 million was declared by the board.
- (vi) DL transfers the amount of revaluation surplus to retained earnings only upon disposal of the related asset.
- (vii) Partial repayment of long-term loan was made on 1 July 2024.

Required:

Prepare DL's statement of cash flows for the year ended 31 December 2024.

(18)**(THE END)**