Certificate in Accounting and Finance Stage Examination

Financial Accounting and Reporting

ICAP

17 August 2026
100 marks
3 hours and 15 minutes (including 15 minutes' reading time)

Instructions to examinees:
(i) Answer all **NINE** questions.
(ii) Answer in **black** pen only.
(iii) Use the first page of the answer script to answer the Multiple-Choice Questions.

SECTION A

QUESTION 1

Select the most appropriate answer from the options provided for each of the following Multiple-Choice Questions (MCQs).

(i) A club has the following information relating to subscription income:

- Subscriptions in arrears at 1 January: Rs. 40,000
- Subscriptions received in advance at 1 January: Rs. 25,000
- Cash received for subscriptions during the year: Rs. 900,000 (including Rs. 40,000 relating to prior-year arrears and Rs. 30,000 received in advance for the next year)
- Subscriptions in arrears at 31 December (all considered recoverable): Rs. 35,000

The amount of subscription income to be credited to the income and expenditure account for the year is:

(a) Rs. 890,000 (b) Rs. 865,000
(c) Rs. 900,000 (d) Rs. 840,000 **(02 marks)**

(ii) A company has issued redeemable, non-convertible preference shares carrying a fixed dividend of 8% per annum. The preference shares are classified as a financial liability.

Which of the following options regarding the reporting of issuance of preference shares and the related dividend in the statement of changes in equity (SOCE) is correct?

	Issuance of preference shares	Dividend on preference shares
(a)	Reported in SOCE	Reported in SOCE
(b)	Reported in SOCE	Not reported in SOCE
(c)	Not reported in SOCE	Reported in SOCE
(d)	Not reported in SOCE	Not reported in SOCE

(01 mark)

(iii) Grapes are harvested from an entity's vineyard. At the point of harvest, their fair value less costs to sell is Rs. 500,000. The grapes are subsequently sold as inventory.

Which of the following statements is correct?

(a) The grapes remain within the scope of IAS 41 'Agriculture' until they are sold.
(b) Any change in the grapes' value after harvest is recognised under IAS 41 'Agriculture'.
(c) At the point of harvest, the grapes are measured under IAS 41 'Agriculture' and thereafter under IAS 2 'Inventories'.
(d) The grapes are measured under IAS 2 'Inventories' throughout. **(01 mark)**

(iv) A company reported operating profit (before interest cost) of Rs. 6 million and recognised interest cost of Rs. 1 million in the statement of profit or loss. During the year, a further Rs. 0.5 million of interest cost was capitalised as part of cost of a qualifying asset.

A lender assessing the company's ability to pay its total interest costs would calculate the interest cover as:

(a) 6 times (b) 4 times
(c) 12 times (d) 3 times **(01 mark)**

(v) Which of the following is **NOT**, by itself, an indicator of impairment under IAS 36 'Impairment of Assets'?

(a) An increase in market interest rate affecting value in use of the asset.
(b) Evidence of obsolescence or physical damage to the asset.
(c) An asset becoming old.
(d) Significant adverse changes in the technological or market environment. **(01 mark)**

(vi) An interim dividend duly declared and authorised by the directors before the reporting date, but to be paid after the reporting date, shall be:

(a) recognised as a liability in the current year.
(b) recognised in the statement of profit or loss in the current year.
(c) disclosed only in the current year and recognised in the following year when paid.
(d) disclosed only when paid. **(01 mark)**

(vii) Which body is primarily responsible for providing timely interpretative guidance on newly emerging accounting issues arising from the application of an existing IFRS, where divergent practices are emerging?

(a) IFRS Advisory Council
(b) International Accounting Standards Board (IASB)
(c) IFRS Interpretations Committee
(d) International Sustainability Standards Board (ISSB) **(01 mark)**

(viii) For the following assets, determine whether they will be accounted for under IAS 16 'Property, Plant and Equipment' or IAS 41 'Agriculture':

(i) Apple trees cultivated solely to bear fruit over many seasons,
(ii) The apples growing on those trees, and
(iii) Dairy cattle held to produce milk.

Which of the following is the most appropriate option?

	(i)	**(ii)**	**(iii)**
(a)	IAS 41	IAS 41	IAS 41
(b)	IAS 16	IAS 41	IAS 41
(c)	IAS 16	IAS 41	IAS 16
(d)	IAS 16	IAS 16	IAS 16

(01 mark)

(ix) Which of the following is correct regarding the effect of issuance of bonus shares and right shares on the gearing ratio of the issuing entity?

	Effect of bonus shares	**Effect of right shares**
(a)	Decrease	Decrease
(b)	No effect	Increase
(c)	Increase	No effect
(d)	No effect	Decrease

(01 mark)

QUESTION 2

During the year ended 31 December 2025, Chassis Limited (CL) was engaged in the construction of a large production facility, which is a qualifying asset. The payments made to the contractor in respect of the construction were as follows:

Date of payment	Rs. in million
1 February 2025	300
1 April 2025	200
1 July 2025	250
1 October 2025	170
	920

Additional information:

(i) The construction was financed through both specific and general borrowings, as follows:

- A specific loan of Rs. 600 million was obtained on 1 February 2025 at an interest rate of 10% per annum. Any unutilized portion of the loan was temporarily invested, earning interest income of Rs. 4 million during 2025.
- General borrowings remained outstanding throughout the year, comprising a 10% bank loan of Rs. 500 million and another 12% bank loan of Rs. 400 million.

(ii) Preliminary site preparation and design work commenced on 1 January 2025 and the physical construction of the facility commenced on 1 February 2025.

(iii) Construction work was completely halted from 16 July 2025 to 31 August 2025 due to a labour strike and no construction or technical work was performed during this period.

(iv) The facility became substantially complete on 30 November 2025, except for some decorative work that was completed on 31 December 2025.

Required:
Calculate the borrowing costs to be capitalised as part of the cost of production facility in accordance with IFRSs. **(07 marks)**

QUESTION 3

On 1 January 2023, Bumper Limited (BL) acquired a specialised production plant at a cost of Rs. 480 million. The plant has an estimated residual value of Rs. 80 million and a useful life of 6 years. The plant is to be depreciated using the straight-line method. On the same date, BL received a government grant of Rs. 120 million related to the acquisition of the plant. At inception, there was reasonable assurance that BL would comply with the conditions attached to the grant. The government grant is recorded as deferred income and a part of it is recognised in the statement of profit or loss systematically.

The plant's installation was completed on 1 February 2023, but due to regulatory inspections, it became available for use on 1 April 2023.

On 1 January 2024, BL modified the plant by adding another component at a cost of Rs. 70 million as a result of which the expected remaining useful life of the whole plant was increased by one year. However, the residual value remained unchanged.

The government notified BL in January 2025 that Rs. 45 million of the grant had become repayable due to partial non-compliance with operational conditions. The amount was repaid immediately.

Required:
Prepare the journal entries in BL's books for the years ended 31 December 2023, 2024 and 2025 in respect of the above information in accordance with IFRSs. ***(Show all necessary workings. Narrations are not required.)*** **(08 marks)**

QUESTION 4

Briefly describe how assets and liabilities are measured under different measurement bases in accordance with the Conceptual Framework for Financial Reporting. **(08 marks)**

QUESTION 5

The financial statements of Clutch Limited (CL) for the year ended 31 December 2025 are under preparation. The profit for the year ended 31 December 2024, as previously reported, was Rs. 560 million, while the profit as per draft financial statements for the year ended 31 December 2025 is Rs. 680 million.

The following two matters have not been incorporated in the draft financial statements:

(i) CL has reassessed the pattern in which the future economic benefits of a warehouse are expected to be consumed and concluded that the reducing balance method at 10% per annum more appropriately reflects that pattern.

CL had acquired the warehouse on 1 January 2023 at a cost of Rs. 540 million (including a land component of Rs. 200 million). The warehouse was initially depreciated using the straight-line method at 5% per annum, with an estimated residual value of Rs. 40 million. The financial statements for the year ended 31 December 2025 already include depreciation calculated using the straight-line method.

(ii) CL has decided to change its inventory cost formula from 'first-in, first-out' (FIFO) method to the weighted average method, as management believes that the new policy provides reliable and more relevant information. The value of closing inventory under each method is as follows:

	FIFO	**Weighted average**
	------- Rs. in million -------	
As at 31 December 2023	440	400
As at 31 December 2024	480	510
As at 31 December 2025	520	500

Required:
Prepare the disclosure notes required by IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' for inclusion in CL's financial statements for the year ended 31 December 2025 in respect of the above matters. **(08 marks)**

QUESTION 6

Steering Rack Limited (SRL) usually allows its customers a credit period of 45 days, while SRL's suppliers allow it a credit period of 75 days. However, management usually settles amounts due to suppliers within the credit period if sufficient cash is available. In 2024, SRL's cash operating cycle was 72 days.

During 2025, SRL made total sales of Rs. 600 million, of which 15% were cash sales, while all purchases were made on credit. Sales are made at a 25% mark-up on cost. The following balances are also available:

	2025	**2024**
	--- Rs. in million ---	
Inventory	110	90
Trade receivables	108	84
Trade payables	90	78

Required:

(a) Compute SRL's cash operating cycle days for 2025. ***(Assume a 365-day year)*** **(04 marks)**

(b) Suggest **four** measures that SRL's management can take during the last one or two weeks of a year to temporarily improve its cash operating cycle days. **(04 marks)**

SECTION B

QUESTION 7

The following is the statement of financial position of Radiator Limited (RL) as at 31 December 2025:

	2025	2024
Equity & liabilities	**--- Rs. in million ---**	
Share capital (Rs. 10 each)	1,500	1,200
Share premium	240	160
Retained earnings	1,260	900
Long-term borrowings	1,010	1,120
Trade and other payables	740	660
Accrued expenses	124	98
Income tax payable	66	84
	4,940	**4,222**
Assets		
Property, plant and equipment	2,280	2,140
Capital work-in-progress	340	260
Investment properties	640	420
Inventories	880	760
Trade receivables	688	628
Cash and bank balances	112	14
	4,940	**4,222**

Additional information:

(i) Property, plant and equipment costing Rs. 520 million was purchased.

(ii) An item of plant having a carrying value of Rs. 110 million was disposed of for Rs. 144 million.

(iii) An impairment loss of Rs. 90 million was recognised on property, plant and equipment.

(iv) Trade and other payables as at 31 December 2024 included an amount of Rs. 58 million in respect of the purchase of property, plant and equipment. This amount was paid during 2025.

(v) Capital work-in-progress amounting to Rs. 137 million was transferred to property, plant and equipment.

(vi) Depreciation of Rs. 40 million was charged on investment properties.

(vii) Dividends of Rs. 135 million were declared and paid.

(viii) Interest expense for the year amounted to Rs. 140 million, while interest paid during the year amounted to Rs. 146 million.

(ix) Income tax expense for the year amounted to Rs. 220 million.

(x) RL classifies interest and dividend paid as financing activities.

Required:

Prepare RL's statement of cash flows for the year ended 31 December 2025 using the indirect method in accordance with IFRSs. **(16 marks)**

QUESTION 8

The following is the summarised trial balance of Piston Limited (PL) for the year ended 31 December 2025:

	Debit	Credit
	----- Rs. in million -----	
Property, plant and equipment	2,370	-
Accumulated depreciation as at 31 December 2024	-	780
Capital work-in-progress	260	-
Inventory	670	-
Trade receivables	375	-
Allowance for doubtful receivables	-	10
Cash and bank balances	335	-
Trade payables	-	373
Accrued expenses	-	55
Long-term borrowing	-	800
Share capital (Rs. 10 each)	-	1,000
Share premium	-	200
Retained earnings	-	392
Suspense account	-	130
Revenue	-	2,500
Cost of sales	1,520	-
Distribution costs	260	-
Administrative expenses	340	-
Interest costs on long-term borrowing	110	-
	6,240	**6,240**

Additional information:

(i) Included in inventory are damaged goods recorded at cost of Rs. 120 million. These goods can be sold for Rs. 100 million after incurring repair and repacking cost of Rs. 16 million.

(ii) The long-term borrowing of Rs. 800 million was obtained on 1 January 2025 and includes an amount of Rs. 200 million that is repayable on 30 September 2026. Interest on the long-term borrowing is payable monthly on the first day of the following month. Interest to be paid on 1 January 2026 has not been accrued.

(iii) A part of the long-term borrowing was used to finance a qualifying asset included in capital work-in-progress. The related interest costs amounting to Rs. 63 million are eligible for capitalisation but has not been capitalised.

(iv) In December 2025, a supplier delivered goods directly to a customer on PL's instructions. The goods had a cost of Rs. 80 million and were sold for Rs. 100 million. Owing to the absence of warehouse documentation and pending settlement with the parties, the entire transaction remained unrecorded. Delivery charges of Rs. 5 million, payable by PL, are also outstanding and unrecorded.

(v) During the year, PL issued 10 million rights shares for cash at Rs. 15 per share. The full proceeds were credited to the suspense account.

(vi) Purchases of supplies during the year were also recorded in the suspense account. At year-end, it was estimated that 60% and 30% of these supplies were used by sales department and in the construction of capital work-in-progress asset, respectively, while the remaining supplies were unused.

(vii) Property, plant and equipment includes a new machine purchased on 1 March 2025 for Rs. 400 million. Installation of the machine was completed on 1 April 2025, and the installation cost of Rs. 40 million is included in administrative expenses.

(viii) Depreciation is charged at 10% per annum using straight-line method. 70% of the depreciation is allocated to distribution costs and the remaining to administrative expenses.

(ix) PL maintains the allowance for doubtful receivables at 4% of the trade receivables.

Required:
Prepare PL's statement of profit or loss for the year ended 31 December 2025 and PL's statement of financial position as at that date in accordance with IFRSs. **(20 marks)**

QUESTION 9

The following information relates to the non-current assets of Engine Manufacturing Limited (EML):

(i) On 1 April 2023, EML purchased a production facility for Rs. 484 million. At that date, the estimated useful life was 15 years and the residual value was estimated at Rs. 64 million. Depreciation is charged using the straight-line method. The revalued amounts and revised residual values of the facility were determined as follows:

	Revalued amount	Residual value
	----------- Rs. in million -----------	
31 December 2024	472	64
31 December 2025	385	48

No revaluation was performed as at 31 December 2023, as the directors concluded that the carrying amount did not differ materially from the fair value at that date.

(ii) On 1 September 2025, EML acquired a commercial complex building comprising four identical units at a total cost of Rs. 800 million. 25% of the total cost is attributable to the land component. Each building unit has a useful life of 20 years with no residual value.

Since each unit can be sold or leased separately, EML occupied two units for administrative purposes from the date of acquisition, while the remaining two units were held for rental to third parties. On 1 October 2025, the two units were given on monthly rent of Rs. 2.5 million per unit. The fair value of each unit increased by Rs. 2 million per month from the date of acquisition.

Other information:

- EML applies the cost model to all items of property, plant and equipment except for the production facility, which is measured using the revaluation model.
- EML eliminates accumulated depreciation against the asset's gross carrying amount at each revaluation and transfers the revaluation surplus directly to retained earnings only upon disposal.
- EML applies the fair value model to investment properties.

Required:
Based on the information provided, prepare the notes on 'Property, Plant and Equipment' and 'Investment Property' for inclusion in EML's financial statements for the year ended 31 December 2025 in accordance with IFRSs. ***(Comparative figures and the column for total amount are not required.)*** **(15 marks)**

(THE END)