

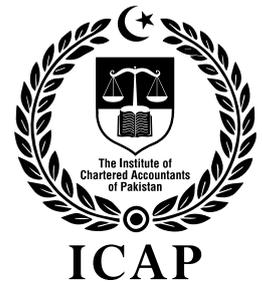
Certificate in Accounting and Finance Stage Examination

Financial Accounting and Reporting

2 March 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). Each MCQ carries **ONE** mark.

- (i) Under the concept of physical capital maintenance, profit is earned when:
 - (a) the monetary value of net assets at the end of the period exceeds the monetary value of net assets at the beginning of the period
 - (b) the operating capability of the entity at the end of the period exceeds its operating capability at the beginning of the period
 - (c) both the monetary value and operating capability of net assets increase during the period
 - (d) there is an increase in nominal money capital during the period
- (ii) Under the Conceptual Framework for Financial Reporting, which measurement basis has the following characteristics?
 - The value uses information reflecting conditions as at the measurement date;
 - The value is determined at the date of entry; and
 - The transaction costs at the disposal date are irrelevant.
 - (a) Historical cost
 - (b) Fair value
 - (c) Value in use
 - (d) Current cost
- (iii) The following information relates to Alpha Trader:

Description	2025	2024
	----- Rupees -----	
Total assets at year-end	904,000	780,000
Total liabilities at year-end	266,000	236,000
Drawings during the year	124,000	-
Additional investment during the year	60,000	-

Which of the following represents the profit for the year 2025?

- (a) Rs. 604,000
 - (b) Rs. 480,000
 - (c) Rs. 158,000
 - (d) Rs. 638,000
- (iv) Beta Limited (BL) made sales of Rs. 27 million, of which 5% were returned by customers. BL sells goods at markup of 35% on cost. Opening inventory was Rs. 12 million and purchases during the year amounted to Rs. 20 million. At the year-end, a fire destroyed a part of the inventory. The physical undamaged inventory remaining after the fire was determined at Rs. 9 million.

Which of the following represents the cost of inventory destroyed in the fire?

- (a) Rs. 2.65 million
- (b) Rs. 5.65 million
- (c) Rs. 3 million
- (d) Rs. 4 million

- (v) On 1 January 2022, an asset was purchased for Rs. 500 million. It had an estimated useful life of 10 years and a residual value of Rs. 50 million. In 2025, the residual value was revised to Rs. 80 million.

What is the depreciation expense for the year ended 31 December 2025?

- (a) Rs. 45 million (b) Rs. 40.7 million (c) Rs. 50 million (d) Rs. 38.5 million

- (vi) An entity purchased an aircraft having two significant components:

- Engines represent 60% of the total cost with a useful life of 5 years.
- Aircraft body represents 40% of the total cost with a useful life of 20 years.

How should depreciation be calculated?

- (a) Based on weighted average useful life of 11 years
 (b) Based on the aircraft body's useful life of 20 years as it has the longest useful life
 (c) Based on the engines' useful life of 5 years only as it is the most significant component
 (d) Based on the useful life of each significant component, calculated separately

- (vii) If a government grant previously recognized becomes repayable, it should be accounted for as:

- (a) a correction of current period error (b) a correction of prior period error
 (c) a change in accounting estimate (d) a change in accounting policy

- (viii) An entity owns 50 trees that are used in the production of agricultural produce. The trees have an expected useful life of 5 years and will not be sold as agricultural produce themselves at the end of their life.

How should these trees be accounted for?

- (a) At fair value less cost to sell under IAS 41 'Agriculture'
 (b) At lower of cost or net realizable value under IAS 2 'Inventories'
 (c) At cost less accumulated depreciation under IAS 16 'Property, Plant and Equipment'
 (d) At cost under IAS 41 'Agriculture'

- (ix) How should redeemable preference shares issued by an entity be reported in the financial statements?

- (a) As a liability
 (b) As equity
 (c) As an asset
 (d) As a liability, equity, or a combination of both depending on the situation

- (x) A company reports strong profitability in its financial statements but is experiencing a shortage of cash. Which of the following is the most likely reason?

- (a) A significant increase in credit sales leading to higher trade receivables
 (b) A reduction in operating expenses during the period
 (c) An increase in non-cash expenses such as depreciation
 (d) The sale of fixed assets for cash at a gain

QUESTION 2

The following information pertains to non-current assets of Petrol Limited (PL):

- (i) A warehouse owned by PL was leased out on 1 July 2025. Prior to this date, the warehouse was used in PL's operations. The warehouse was acquired on 1 January 2022 at a cost of Rs. 400 million and is depreciated using the straight line method over a useful life of 10 years. The fair values of the warehouse on various dates were as follows:

	Rs. in million
31 December 2024	310
1 July 2025	299
31 December 2025	250

- (ii) On 1 April 2025, PL acquired a property comprising of three similar showrooms at a total cost of Rs. 2,700 million. Each showroom can be leased separately and has a useful life of 15 years. From 1 April 2025, PL is using one showroom for its own operations, while the other two showrooms were immediately leased out. On 1 October 2025, one of the leased showrooms was taken back by PL and put to own use. The fair values of each showroom on various dates are as follows:

	Rs. in million
1 October 2025	960
31 December 2025	990

Other information:

- The cost model is used for subsequent measurement of all property, plant and equipment, except for plant and machinery that are measured using the revaluation model.
- The maximum possible amount is transferred annually from revaluation surplus to retained earnings.
- The fair value model is used for subsequent measurement of all investment properties.
- It may be assumed that 40% of the cost / fair value of each showroom is attributable to land.

Required:

Prepare the journal entries in the books of PL for the year ended 31 December 2025 in accordance with IFRSs. *(Narrations are not required)* **(10 marks)**

QUESTION 3

Kerosene Limited (KL) acquired a plant on 1 January 2022 for Rs. 1,262 million. KL applies the cost model for subsequent measurement and depreciates the plant on a straight-line basis over its estimated useful life of 7 years. The plant has a residual value of Rs. 100 million.

At 31 December 2023, the plant was tested for impairment and an impairment loss of Rs. 90 million was recognized.

At 31 December 2025, the plant was tested for impairment again and the following estimates were made:

- (i) Inflows from sale of products to be manufactured by the plant for the year 2026 are estimated at Rs. 320 million. These inflows are expected to decrease by 5% in each subsequent year due to declining demand.
- (ii) Outflows relating to operational costs for the year 2026 are estimated at Rs. 160 million. Despite the decline in demand, these outflows are expected to increase by 10% in each subsequent year due to inflation and increased wear and tear of the plant.
- (iii) The loan obtained by KL for the acquisition of the plant is repayable at the end of year 2028, amounting to Rs. 465 million, together with cumulative interest from 1 January 2022 to 31 December 2028 at the rate of 15%.
- (iv) KL's net profit is subject to income tax at a rate of 30%.
- (v) The plant's estimated net disposal proceeds at the end of the useful life are Rs. 100 million.
- (vi) The pre-tax and post-tax discount rates are 12% and 9.6% per annum, respectively.
- (vii) An offer has been received to buy the plant immediately for Rs. 350 million. However, KL has to incur the following costs on disposal:

	Rs. in million
Broker's commission	8
Stamp duty and transfer taxes	6
Losses from underutilization of remaining assets	25

Required:

Compute the impairment loss, if any, in the value of the plant to be recognized on 31 December 2025 in accordance with IFRSs. *(Show all necessary workings)* **(08 marks)**

QUESTION 4

On 1 January 2025, Gas Limited commenced the construction of a warehouse building. Below is a breakdown of the payments made to the contractor:

Date of payment	Rs. in million
1 February 2025	600
1 May 2025	900
1 October 2025	580
1 February 2026	420
	2,500

Additional information:

- (i) These payments were financed in the following order:
 - A long-term loan of Rs. 1,000 million was obtained on 1 January 2025 at an interest rate of 16% per annum. Surplus funds from the loan were invested in a savings account at 10% per annum.
 - Withdrawals were made from short-term investments amounting to Rs. 140 million, which were earning a return of 12% per annum.
 - The remaining funding requirements were met through a running finance facility from Bank Alpha, carrying interest at 14% per annum. The facility is also used for general working capital purposes.
- (ii) A government grant related to the warehouse amounting to Rs. 300 million was received on 1 November 2025. The proceeds was used to reduce the outstanding balance of the running finance facility from Bank Alpha.
- (iii) The construction work was put on hold from 1 June 2025 to 15 July 2025 due to management's reassessment of the design of the warehouse.
- (iv) The construction of the warehouse was completed on 31 December 2025.

Required:

Calculate the borrowing costs to be capitalized as part of the cost of the warehouse building in accordance with IFRSs. **(08 marks)**

QUESTION 5

Hydro Community Welfare (HCW) is a not-for-profit organisation registered under the Companies Act, 2017. HCW prepares its financial statements in accordance with the Accounting Standard for Not-for-Profit Organisations (ASNPO) issued by ICAP and applies the deferral method of fund accounting.

The following independent transactions relate to the year ended 31 December 2025:

- (i) HCW received Rs. 6 million subject to donor-imposed restrictions that the principal must be invested permanently. During the year, investment income of Rs. 0.5 million was earned. In accordance with the donor's restrictions, 25% of the investment income must be added to the principal. The remaining investment income may be used for general operations.
- (ii) HCW received Rs. 4 million specifically to purchase medical equipment. The equipment was subsequently purchased and is being depreciated at 20% per annum on a straight-line basis.
- (iii) HCW received Rs. 0.9 million to repay a short-term loan that was originally taken to finance operating expenses of the current year and did not relate to capital assets or expenses of future periods.
- (iv) HCW received medicines free of cost having a fair value of Rs. 0.8 million. The medicines are used in the normal course of operations, and their fair value can be reasonably estimated.

Required:

In accordance with ASNPO, discuss how each of the above transactions would be accounted for in HCW's financial statements for the year ended 31 December 2025. *(Accounting entries are not required)* **(08 marks)**

QUESTION 6

You are the finance manager of Ethanol Limited (EL), a newly incorporated start-up. EL's first annual financial statements will be prepared for the year ending 31 March 2026.

You have received the following email from the CEO:

As we would be finalizing our first set of financial statements in the coming months, I would appreciate your guidance on certain matters relating to the preparation of the statement of cash flows under IAS 7.

Firstly, I understand that operating cash flows can be presented using different methods. Could you please explain how these methods differ from each other?

Secondly, I have heard that IAS 7 allows alternative classifications for certain cash flows between operating, investing and financing activities. Kindly provide a complete list of such cash flows and advise which classification should be chosen by EL to maximize the amount of cash flows from operating activities.

Finally, going forward, kindly confirm with me each year how we should apply the available presentation and classification alternatives before preparing the statement of cash flows, as I would prefer to retain flexibility from year to year if circumstances change.

Required:

Draft a reply to CEO's email in accordance with IAS 7 'Statement of Cash Flows'.

(06 marks)

SECTION B

QUESTION 7

The following information pertains to various intangible assets of Biodiesel Limited (BL).

- (i) BL started a project to build a mobile application in May 2024. The following costs were incurred:

Description	*Incurred during	Rs. in million
Conceptualisation and brainstorming of application's features and functionality	May 2024 – October 2024	14
Designing system architecture	October 2024 – April 2025	28
Core application coding	March 2025 – May 2025	19
Testing and quality assurance	May 2025	7
Post go-live enhancements	July 2025	2
Directly attributable salaries and overheads	May 2024 – June 2025	56

**All costs were incurred evenly over the respective period.*

The recognition criteria for development expenditure under IAS 38 'Intangible Assets' were met on 1 February 2025. The application was ready for use on 31 May 2025, but was put into use on 1 July 2025. The expected useful life of the application is 3 years.

- (ii) BL acquired ERP software on 1 January 2025. The following costs were incurred.

Description	Rs. in million
Payment to ERP software vendor	49
Irrecoverable sales tax on purchase of software	7
IT equipment and servers to run the software	9
Custom workflows coded into ERP software	16
Training of employees on ERP software	6
Post configuration monitoring and patching	12
Annual cloud hosting fees	3

The configuration of the ERP software was completed on 1 April 2025. The software has perpetual validity. However, BL estimates that the software is unlikely to deliver meaningful value beyond six-year horizon due to expected obsolescence.

- (iii) On 1 January 2025, BL acquired a licence for Rs. 120 million for a period of 5 years. BL made an initial payment of Rs. 20 million, and the remaining amount is payable in two equal instalments of Rs. 50 million each on 1 January 2026 and 1 January 2027. The equivalent cash price of the license is Rs. 104 million.

Upon expiry of the initial five-year term, the license is renewable for a further five years at an insignificant cost of Rs. 3 million. BL intends to renew the license and sell it at the end of eighth year.

In the absence of an active market, BL has estimated the residual value of the licence to be Rs. 18 million, Rs. 16 million, and Rs. 12 million at the end of fifth year, eighth year and tenth year, respectively.

BL follows the straight-line method of amortization for its intangible assets.

Required:

Prepare a note on 'Intangible assets' for inclusion in BL's financial statements for the year ended 31 December 2025, in accordance with IFRSs. **(15 marks)**

QUESTION 8

The following is the summarized trial balance of Coal Limited (CL) for the year ended 31 December 2025:

Description	Debit	Description	Credit
	Rs. in million		Rs. in million
Property, plant and equipment	600.0	Accumulated depreciation as on 31 December 2025	140.5
Inventory	179.8	Provision for doubtful debtors	9.0
Trade debtors	184.0	Share capital	200.0
Prepayments	18.0	Retained earnings	410.0
Bank deposit	80.0	Trade creditors	133.4
Cash and bank balances	30.0	Accruals	18.8
Cost of sales	645.0	Sales	1,097.6
Operating expenses	263.7		
Financial charges	8.8		
	2,009.3		2,009.3

Additional information:

- (i) During the physical inventory count, it was discovered that goods purchased on credit during the year, costing Rs. 7 million, had been returned to the supplier on 31 December 2025; however, the return had not been recorded.
- (ii) Prepayments include an amount of Rs. 14.4 million paid in respect of a warehouse rent. This amount represents 40% of the annual rent for the warehouse, with the remaining rent payable upon completion of the contract year, i.e. on 31 March 2026.
- (iii) The bank deposit was placed on 1 April 2025 for a period of 1.5 years at an interest rate of 12% per annum. Interest is received every 6 months. The interest received on 30 September 2025 was credited to sales.
- (iv) On 31 December 2025, a fully depreciated asset with an original cost of Rs. 16.4 million and a residual value of Rs. 4.2 million was sold on credit for Rs. 5.2 million. The disposal has not been recorded in the books.
- (v) Property, plant and equipment includes a building with a carrying value of Rs. 225 million on 31 December 2025. On this date, the building requires to be revalued to Rs. 260 million. The building was previously revalued on 31 December 2023 and is being depreciated over its remaining useful life of 12 years. The previous revaluation resulted in a revaluation loss of Rs. 24 million, which was charged to statement of profit or loss. CL applies the revaluation model for subsequent measurement of its buildings and revalues using the net replacement value method.
- (vi) In addition to a specific provision of Rs. 7.8 million against trade debtors of Rs. 26 million, CL is required to maintain a general provision for doubtful debtors at 5% of the remaining trade debtors.

Required:

Prepare CL's statement of profit or loss and other comprehensive income for the year ended 31 December 2025 and CL's statement of financial position as at that date. **(20 marks)**

QUESTION 9

The following information is available for preparing the statement of changes in equity of Thorium Limited (TL) for the year ended 31 December 2025:

- (i) Share capital and reserves as at 1 January were as follows:

	2024	2023
	----- Rs. in million -----	
Share capital (Rs. 10 each)	1,500	1,500
Share premium	500	500
Retained earnings	880	720

- (ii) TL reported profits of Rs. 220 million and Rs. 160 million for the years 2024 and 2023, respectively, while profit as per the draft financial statements for the year 2025 amounted to Rs. 280 million.
- (iii) In April 2024, TL's board of directors recommended a final dividend of Rs. 2 per share for the year 2023. However, shareholders only approved Rs. 1.5 per share.
- (iv) In December 2024, TL declared an interim cash dividend of 10%. 60% of the dividend was paid in the last week of December 2024 and the remaining was paid in the first week of January 2025.
- (v) In March 2025, a bonus issue of 20% was made as a final dividend for 2024. The allocation for bonus shares was made from the share premium account.
- (vi) In November 2025, TL issued 20% rights shares at Rs. 15 per share when the prevailing market price of TL's share was Rs. 24. Transaction costs of Rs. 8 million were incurred.
- (vii) The effects of following matters have not been incorporated in TL's draft financial statements:
- Due to a significant change in the expected pattern of economic benefits from TL's IT equipment, management decided to change the depreciation method from the straight line method to reducing balance method. An annual rate of 15% was determined for the reducing balance method.
The equipment was purchased on 1 February 2023. The equipment had a total cost of Rs. 160 million, useful life of 6 years and residual value of Rs. 16 million. The depreciation on straight line method is included in the financial statements for the year ended 31 December 2025.
It was further discovered that although the equipment was available for use from 1 May 2023, depreciation had been charged from 1 September 2023, i.e., the date of commencement of use.
 - It was identified that inventory items costing Rs. 21 million that had been sold in the year 2024 were erroneously included in the closing inventory as at 31 December 2024. Similarly, other inventory items costing Rs. 35 million that had been sold in the year 2023 were erroneously included in the closing inventory as at 31 December 2023. TL uses periodic inventory method.

Required:

Prepare TL's statement of changes in equity for the year ended 31 December 2025 including comparative figures. *(A column for the total is not required)* **(15 marks)**

(THE END)