Certificate in Accounting and Finance Stage Examination

Corporate Reporting

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

ICAP

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) A listed company has a component, 'Central Services', that provides IT and logistics support almost exclusively to the company's other operating segments. It operates solely as a cost centre, and any revenue earned from external customers is incidental to the company's activities.

Central Services has assets of Rs. 300 million, representing more than 10% of the combined assets of all operating segments of Rs. 1,900 million. Its results are also regularly reviewed by the chief operating decision maker.

Should 'Central Services' be identified as a reportable segment?

(a) No, because it earns only revenue that is incidental to the company's activities.
(b) Yes, because its results are regularly reviewed by the chief operating decision maker.
(c) No, because support functions must always be classified as corporate items.
(d) Yes, because its assets exceed the 10% quantitative threshold.

(ii) A private company has paid-up capital of Rs. 6 million, annual turnover of Rs. 90 million and 60 employees. The company is a subsidiary of an entity listed on the Pakistan Stock Exchange.

Which of the following applies to this private company's financial statements?

(a) The Fifth Schedule
(b) IFRS for SMEs under the Fifth Schedule
(c) The company is exempt from preparing financial statements because it qualifies as a small-sized company
(d) The Fourth Schedule

(iii) A large-sized company's turnover has, for the first time, fallen below the threshold prescribed for a large-sized company in the current financial year and now meets the criteria for a medium-sized company.

When may the classification of the company be changed to a medium-sized company?

(a) Never, because a company cannot be reclassified to a lower category.
(b) Only if it remains below the threshold for two consecutive years.
(c) In the next year, based on audited financial statements demonstrating compliance with the medium-sized company criteria.
(d) Immediately in the current financial year, based on draft financial statements.

(iv) At reporting date, a company has the following balances arising from foreign-currency transactions:

(I) An advance received from a customer for goods to be delivered in the next reporting period.
(II) An advance paid to a supplier for raw materials to be received in the next reporting period.

Which of the above balances should be retranslated using the closing exchange rate at the reporting date?

(a) Both (I) and (II)
(b) Only (I)
(c) Only (II)
(d) Neither (I) nor (II)

(v) The core content of sustainability-related financial disclosures comprises:

(a) Governance, Strategy, Risk management, Metrics and targets
(b) Scope 1, Scope 2, Scope 3, Carbon emissions
(c) Environmental, Social, Financial, Governance
(d) Materiality, Comparability, Verifiability, Timeliness

(vi) A chartered accountant encounters a situation in which compliance with one fundamental principle appears to conflict with compliance with another fundamental principle.

According to the Code of Ethics for Chartered Accountants, the accountant should:

(a) consider consulting with others to help resolve the matter.
(b) always give priority to the principle of confidentiality over the other fundamental principles.
(c) ignore the conflict if the Code does not expressly address such a situation.
(d) resolve the conflict by applying the fundamental principle that produces the lowest reported profit.

(vii) An accountant concludes that the financial statements approved by management are materially misleading, and management refuses to correct them.

Applying the Code of Ethics for Chartered Accountants, the next appropriate action is to:

(a) resign from the organisation.
(b) discuss the matter with higher levels of management or those charged with governance.
(c) report the matter directly to the external regulator.
(d) disclose the information anonymously to the press.

(viii) An entity must disclose information about sustainability-related risks and opportunities that:

(a) could reasonably be expected to affect the entity's prospects over the short, medium or long term.
(b) are required to be disclosed by local environmental legislation.
(c) have any environmental or social impact, regardless of whether they could reasonably be expected to affect the entity's prospects.
(d) affect the entity's reputation.

(ix) After applying the 10% quantitative tests, an entity identifies reportable segments that together generate external revenue of Rs. 620 million, out of the entity's total external revenue of Rs. 900 million. The two largest remaining operating segments, X and Y, generate external revenues of Rs. 75 million and Rs. 65 million, respectively, but neither satisfy any of the 10% quantitative thresholds.

Regarding segment reporting, what should the entity do?

(a) Aggregate segments X and Y into a single reportable segment, regardless of whether they have similar economic characteristics.
(b) Take no further action, because the 10% quantitative thresholds are the sole determinant of reportable segments.
(c) Designate additional operating segment(s) as reportable, even though they do not satisfy the 10% quantitative thresholds.
(d) Present only the entity's total external revenue without identifying any additional reportable segments.

(x) Zarghoon Extractors Limited is incorporated and headquartered in Pakistan, and listed on Pakistan Stock Exchange. Its sole operating asset is a copper mine in Zambia. All copper ore is sold to a Chinese customer under contracts denominated and settled in US dollars (USD), with prices determined by reference to the London Metal Exchange, which quotes copper prices in USD. Approximately 25% of mine's operating costs, comprising local labour and consumables, are incurred and paid in Zambian kwacha. Purchase of imported equipment and the debt financing used to fund the mine are denominated in USD. Surplus cash receipts are retained in Pakistan rupees.

Which of the following is the most appropriate functional currency of Zarghoon Extractors Limited?

(a) Chinese yuan
(b) Zambian kwacha
(c) US dollar
(d) Pakistan rupee

QUESTION 2

Riyadh Limited (RL) earned an accounting profit before tax of Rs. 380 million for the year ended 31 December 2025. The following information is relevant:

(i) Accounting depreciation for the year was Rs. 48 million, whereas tax depreciation amounted to Rs. 75 million. The taxable temporary difference relating to property, plant and equipment was Rs. 120 million at 1 January 2025.

(ii) On 31 December 2025, RL revalued its freehold land for the first time, resulting in a surplus of Rs. 60 million. Under tax laws, gain on land is taxable only upon its disposal.

(iii) Operating expenses include Rs. 14 million paid to a consultant, which is not deductible for tax purposes due to non-deduction of withholding tax.

(iv) Other income includes a government grant of Rs. 22 million that is exempt from tax in 2025 but similar grant will be taxable in 2026 and onward.

(v) RL provides warranty on products sold to its customers. The warranty provision stood at Rs. 40 million at 1 January 2025. During the year, a warranty expense of Rs. 17 million was recognised and warranty claims of Rs. 9 million were paid. Warranty costs are deductible for tax purposes when paid.

(vi) In December 2025, legislation was substantively enacted reducing the income tax rate from 30% to 27%, applicable to the year 2025 and subsequent years.

Required:
Prepare a note on taxation for inclusion in RL's financial statements for the year ended 31 December 2025, including a reconciliation explaining the relationship between tax expense and accounting profit. Also compute the deferred tax liability or asset arising from each temporary difference as at 31 December 2025.

(10 marks)

QUESTION 3

On 1 January 2024, Mali Limited (ML) purchased a debt instrument at its fair value of Rs. 186 million. ML also incurred transaction cost of Rs. 1.6 million. ML classified the resulting financial asset as subsequently measured at amortised cost. The instrument has a face value of Rs. 200 million, carries a coupon of 8% per annum, payable annually on 31 December and will mature on 31 December 2029. The effective interest rate is 9.4% per annum.

At 31 December 2024, ML assessed that the credit risk of the instrument had not increased significantly since initial recognition and measured the 12-month expected credit losses at Rs. 1.6 million and lifetime expected credit losses at Rs. 3.6 million.

At 31 December 2025, following a downgrade of the credit rating of the issuer, ML concluded that credit risk of the instrument had increased significantly since initial recognition, although the instrument was not credit-impaired. The 12-month expected credit losses were measured at Rs. 4.1 million, while the lifetime expected credit losses were measured at Rs. 9.5 million.

The coupon for each year was received on the due date.

Required:
Prepare journal entries in the books of ML for the years ended 31 December 2024 and 31 December 2025 in accordance with IFRSs. ***(Narrations are not required.)***

(06 marks)

QUESTION 4

Kabul Limited (KL), a listed company, is finalising its calculation of earnings per share (EPS) for the current year. The calculation of KL's EPS has remained straightforward in prior years because there had been no changes in the number of ordinary shares for several years and there were no potential ordinary shares outstanding. However, the following transactions may affect the calculation of EPS for the current year:

(i) Issuance of 12% cumulative preference shares (non-convertible), classified as equity, on which no dividend was declared during the year.

(ii) A rights issue of ordinary shares at the prevailing market price in the second quarter of the year.

(iii) Issuance of share options with an exercise price below the average market price of the ordinary shares during the year.

(iv) A bonus issue made after reporting date but before the financial statements were authorised for issue.

Required:
Considering each transaction independently, explain whether and how each of the above transactions would affect the numerator and denominator used in the calculation of KL's basic and diluted EPS for the current year, in accordance with IFRSs. ***(Calculations are not required)*** **(08 marks)**

QUESTION 5

The following information relates to intangible assets of Dhaka Systems Limited (DSL):

(i) DSL is internally developing "Project Halo", a proprietary e-commerce and order-fulfilment platform intended to replace its existing third-party software. The following expenditures were incurred:

Nature of expenditure	Period	Rs. in million
Research and evaluation of alternative technologies and system architectures	Jan-Mar 2024	12
Design, development and testing of a prototype	Apr-May 2024	14
Directly attributable development costs comprising staff salaries of Rs. 40 million, materials of Rs. 14 million, and overheads of Rs. 6 million	Jun-Dec 2024	60
Development expenditure comprising directly attributable staff salaries and materials of Rs. 30 million, allocated general administrative overhead of Rs. 5 million, and advertising costs of Rs. 3 million	Jan-Jun 2025	38
		124

Technical feasibility was demonstrated on 1 June 2024. All the other recognition criteria for capitalising development expenditure were met from 1 April 2024. The platform was completed and brought into use on 1 July 2025. It has an estimated useful life of five years and no residual value.

At 31 December 2025, the commercial success of the platform was reassessed by the management. It was estimated that the platform has a recoverable amount of Rs. 190 million and adjustment for impairment would not have been required even if total expenditures of Rs. 124 million would have been recognised as the cost of the platform.

(ii) On 1 January 2024, DSL acquired a broadcasting licence for Rs. 51 million, including Rs. 3 million of legal and professional fees. The licence had a fixed term of six years and was initially amortised on a straight-line basis. At acquisition, renewal was not permitted.

On 1 January 2025, the regulator introduced a renewal mechanism under which the licence may be renewed every three years on payment of a nominal fee. DSL now plans to renew the licence indefinitely. At 31 December 2025, the recoverable amount of the licence was estimated at Rs. 55 million.

Required:
Prepare the relevant extracts **(including comparative figures)** from DSL's statement of profit or loss for the year ended 31 December 2025 and statement of financial position as at that date, in accordance with IFRSs.
(Notes to the financial statements are not required) **(07 marks)**

QUESTION 6

For the purpose of this question, assume that the date today is 25 August 2026.

Jakarta Industries Limited (JIL) is a listed company engaged in industrial manufacturing. JIL's financial statements for the year ended 30 June 2026 are in the process of finalisation and are expected to be authorised for issue on 5 September 2026. The following independent matters are under consideration:

(i) JIL has a widely published environmental policy, consistently applied over many years, of rectifying any contamination JIL causes even where local law does not require to do so. In April 2026, a chemical leak from JIL's plant contaminated neighbouring land. There is no legal obligation to remediate the contamination in that jurisdiction, and the leak is not yet publicly known.

(ii) Legislation related to factory construction enacted during 2025 requires JIL to increase the height of fencing around its factories by 31 December 2026. In June 2026, JIL decided not to increase height of fencing on the basis that the penalty for non-compliance is minimal and substantially lower than the cost of increasing height of fencing.

(iii) On 25 June 2026, JIL's board resolved to close the Alpha division and prepared an outline plan. The plan was announced to the affected employees on 1 August 2026 and is expected to be publicly announced in October 2026. The amounts involved are material to JIL.

Required:
For each of the above matters, state whether JIL should:

- recognise a provision,
- provide a disclosure only or,
- neither recognise a provision nor provide a disclosure,

in the financial statements for the year ended 30 June 2026, and give reasons for your conclusion in accordance with IFRSs. **(08 marks)**

SECTION B

QUESTION 7

On 1 July 2024, Islamabad Manufacturing Limited (IML) entered into a lease of a specialised machine. The relevant details are as follows:

(i) The lease term is 3 years, with semi-annual rentals of Rs. 30 million payable in advance, the first payment being due on 1 July 2024.

(ii) It is reasonably certain that IML will exercise a purchase option for Rs. 50 million, exercisable on 30 June 2027.

(iii) IML's incremental borrowing rate is 5% per six-month period. The interest rate implicit in the lease is 4.5% per six-month period but is not known to IML.

(iv) IML incurred initial direct costs of Rs. 4 million on 1 July 2024.

(v) The machine has a useful life of 8 years from the commencement date and an estimated residual value of Rs. 10 million at the end of its useful life.

(vi) The fair value of the right-of-use asset was assessed at Rs. 170 million at 31 December 2024 and Rs. 180 million at 31 December 2025.

Additional information:
IML applies the revaluation model for the subsequent measurement of the class to which this right-of-use asset belongs and accounts for revaluations using the net replacement value method. Depreciation is charged using the straight-line method.

Required:

(a) Prepare the note on right-of-use assets for inclusion in IML's financial statements for the year ended 31 December 2025, together with the comparative figures for 2024. **(08 marks)**

(b) Prepare the workings showing the movement in the lease liability for the years ended 31 December 2025 and 2024, clearly identifying the current and non-current portions of the lease liability at each year-end. **(06 marks)**

QUESTION 8

The following are the summarised statements of financial position of Pristina Limited (PL), Cairo Limited (CL) and Tehran Limited (TL) as at 31 December 2025:

	PL	**CL**	**TL**
	----- Rs. in million -----		
Property, plant and equipment	2,850	2,450	1,100
Investments	3,000	-	-
Other assets	1,035	1,050	900
	6,885	**3,500**	**2,000**
Share capital (Rs. 10 per share)	3,500	1,100	1,000
Share premium	500	-	-
Retained earnings	1,230	2,065	520
Fair value reserve	163	-	-
Liabilities	1,492	335	480
	6,885	**3,500**	**2,000**

Additional information:

(i) On 1 January 2025, PL acquired 40% of the ordinary shares of TL for Rs. 580 million. At the date of acquisition, TL's retained earnings were Rs. 450 million. TL did not declare any dividend during 2025. In its separate financial statements, PL carries its investment in associate at cost.

(ii) On 1 July 2025, PL sold a machine to TL for Rs. 160 million, resulting in a gain of Rs. 20 million. The machine had a remaining useful life of 10 years. The entire amount remained receivable at year-end.

(iii) On 1 October 2025, PL acquired 70% shareholding in CL for an immediate cash payment of Rs. 1,413 million. In addition, contingent consideration of Rs. 980 million was agreed, for which no adjustment has been made in PL's books. The additional amount is payable if CL achieves a specified target profit over the next three consecutive years. At the acquisition date, achievement of the target was not considered probable. However, by 31 December 2025, based on recent progress, it became probable that the target would be achieved. The fair value of the contingent consideration was Rs. 470 million at acquisition date and Rs. 545 million at 31 December 2025.

(iv) At the acquisition date, the carrying amounts of CL's net assets were equal to their fair values except for an unrecognised internally generated brand, which had a fair value of Rs. 200 million and had an estimated remaining useful life of 5 years. CL's retained earnings at that date were Rs. 1,638 million.

(v) At the acquisition date, the fair value of each ordinary share of CL was Rs. 26.

(vi) PL has been purchasing one of its principal raw materials from CL for the past five years. During 2025, CL sold goods for Rs. 1,280 million to PL at a mark-up of 25% on cost. These sales were made evenly throughout the year. Of the goods sold before the acquisition date, 45% remained in PL's inventory at that date but were all sold to third parties before the year-end. Of the goods sold after the acquisition date, 55% remained unsold outside the group at year-end.

(vii) On 1 December 2025, CL sold a machine to PL at a loss of Rs. 24 million. The machine's carrying value at that date was Rs. 130 million and its remaining useful life was 2 years. The machine had a higher value in use and no impairment is required.

(viii) In December 2025, CL declared an interim cash dividend of Rs. 2.5 per share. PL has correctly recorded its share of the dividend in its separate financial statements. However, CL has not yet accounted for the dividend, as it remained unpaid at year-end.

(ix) PL measures non-controlling interest at the acquisition date at fair value.

(x) Unless stated otherwise, assume that the incomes and expenses of all three companies accrued evenly throughout the year.

(xi) PL's remaining investments are carried at fair value through other comprehensive income. Their fair value increased by 10% by the year end, but PL has not yet recorded this increase in its books.

Required:
Prepare PL's consolidated statement of financial position as at 31 December 2025 in accordance with IFRSs.

(19 marks)

QUESTION 9

Abu Dhabi Limited (ADL) is engaged in the manufacture and distribution of consumer and industrial products. During the year ended 31 December 2025, ADL entered into the following independent transactions:

(a) On 1 October 2025, ADL entered into two contracts, as a single package, with Baghdad Limited (BL):

- Contract A: Sale of 5,000 units of product Z for Rs. 32 million.
- Contract B: A two-year technical support service for Rs. 4 million.

ADL does not ordinarily bundle these products and services. The observable stand-alone selling prices are Rs. 30 million for the 5,000 units of product Z and Rs. 10 million for the two-year technical support service, the benefits of which are provided evenly over the service period. The support service price in Contract B was set below its stand-alone selling price because ADL priced product Z above its stand-alone price. BL made it clear that it would not have entered into either contract without the other.

On 1 November 2025, the control of product Z was transferred to BL and the support service was initiated for two years. BL paid the full contract consideration of Rs. 36 million on the same date.

(07 marks)

(b) ADL started selling goods to Muscat Retail Limited (MRL) during the year ended 31 December 2025. On 1 July 2025, ADL paid a non-refundable amount of Rs. 5 million to MRL for premium shelf-space positioning of ADL's products in MRL's stores for the next 12 months. The payment merely secures access to MRL's shelf space.

ADL's total sales to MRL during the six months ended 31 December 2025 amounted to Rs. 90 million, all of which were recognised as revenue during the year. ADL expects to make further sales of Rs. 110 million to MRL during the next 6 months. **(05 marks)**

(c) On 1 October 2025, ADL sold a specialised machine to a customer for Rs. 36 million in cash, with control of the machine transferring on the same date. Under the contract, the customer also received an option to purchase up to 1,000 service kits within the following 12 months at Rs. 12,000 per kit. The stand-alone selling price of each service kit is Rs. 20,000. ADL determined the stand-alone selling price of the machine to be Rs. 36 million and, based on past experience, initially expected the customer to exercise the option for 500 service kits.

In addition, ADL includes a voucher with every machine sold, entitling the customer to a 5% discount on any one future purchase. The voucher forms part of a general promotion available to all customers and is not specific to the above contract.

By 31 December 2025, the customer had exercised the option to purchase 125 service kits. The related cash receipts had been recorded as revenue. ADL continued to expect that the customer would purchase a total of 500 service kits under the option. **(06 marks)**

Required:
Explain how each of the above transactions should be accounted for in ADL's books for the year ended 31 December 2025 in accordance with IFRSs. Provide date-wise journal entries, supported by appropriate workings.

(THE END)