

# Certificate in Accounting and Finance Stage Examination

## Corporate Reporting

10 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.

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## SECTION A

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### 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) An entity operates a manufacturing plant in Country X. Raw materials, labour and overhead costs are paid in the local currency (LC) of Country X while sales prices are denominated and settled in foreign currency (FC). The entity has obtained the financing in FC and the excess cash is remitted to the parent company in FC.

The functional currency of the entity is:

- (a) LC, because most operating costs are incurred locally
  - (b) LC, because the plant operates in Country X
  - (c) FC, because sales prices and financing are denominated in FC
  - (d) FC, because excess cash is remitted to the parent company
- (ii) When shall an entity identify additional reportable segments despite not meeting the 10% criteria?
- (a) When total revenue (both internal and external) reported by operating segments constitutes less than 75% of the entity's revenue
  - (b) When the total external revenue of operating segments constitutes less than 75% of the entity's revenue
  - (c) When total operating profit reported by operating segments constitutes less than 75% of the entity's operating profit
  - (d) When the total assets reported by operating segments constitute less than 75% of the entity's assets
- (iii) A Pakistani company whose functional currency is the Pakistani Rupee purchased inventory from an Australian supplier as follows:
- A\$ 10,000 on 1 December 2025
  - A\$ 7,000 on 10 December 2025

The payment will be made in March 2026. None of such inventory is sold before 31 December 2025. The exchange rates per A\$ at 1 December 2025, 10 December 2025 and 31 December 2025 were Rs. 175, Rs. 180 and Rs. 184 respectively.

At what amount should inventory be reported at 31 December 2025?

- (a) Rs. 3,010,000
- (b) Rs. 2,975,000
- (c) Rs. 3,060,000
- (d) Rs. 3,128,000

- (iv) Which of the following best describes the objective of IFRS S1 'General Requirements for Disclosure of Sustainability-related Financial Information'?
- To require disclosure of all sustainability initiatives undertaken by an entity
  - To require disclosure of sustainability-related risks and opportunities that could reasonably be expected to affect the entity's prospects
  - To require detailed disclosures limited to climate-related matters
  - To replace financial reporting standards with sustainability reporting standards
- (v) Which of the following is **NOT** required to be disclosed as a separate line item on the face of statement of financial position under the Fourth Schedule of the Companies Act, 2017?
- Revaluation surplus on property, plant and equipment
  - Capital work in progress
  - Unclaimed dividend
  - Long-term deposits and prepayments
- (vi) Which of the following situations represents a breach of the principle of objectivity?
- A members fails to update professional knowledge on recent changes in tax law
  - A member accepts gifts from a client that influence professional judgment
  - A member discloses confidential information without proper authority
  - A member fails to comply with applicable corporate regulations
- (vii) Under IFRS S1 'General Requirements for Disclosure of Sustainability-related Financial Information', sustainability-related information is considered material if omitting, misstating or obscuring it could reasonably be expected to:
- influence the decisions of regulators and environmental authorities
  - affect management's internal decision-making
  - influence the decisions of primary users of general purpose financial reports
  - impact the entity's reputation regardless of its effect on enterprise value
- (viii) During the year, Alpha Limited made total donations of Rs. 7.0 million, including Rs. 0.6 million to Beta Welfare Trust, where the Alpha's CEO serves as Chairman.
- Under the Companies Act, 2017, which of the following must be disclosed in the financial statements related to donation made to Beta Welfare Trust?
- Since the amount is below Rs. 1 million, no disclosure is required
  - Since the amount is below 10% of total donations to a single donee, no disclosure is required
  - Since the CEO is associated with the donee, the name of the donee and the amount donated shall be disclosed
  - Since the CEO is associated with the donee, the CEO's name and his interest shall be disclosed
- (ix) In which of the following situations should a Chartered Accountant refrain from disclosing confidential information of a client?
- When disclosure is required by law but not authorized by the client
  - When disclosure is not prohibited by law and there is a professional duty or right to disclose
  - When disclosure is permitted by law and authorized by the client
  - When disclosure is permitted by law but not authorized by the client
- (x) Gamma Limited reported basic earnings per share of Rs. 6 for the year 2024, based on a numerator of Rs. 12 million and a denominator of 2 million shares. During 2025, Gamma issued 20% bonus shares. In November 2025, it was discovered that an expense of Rs. 1 million relating to 2025 had been incorrectly expensed in 2024 upon payment.

What is the restated earnings per share for the year 2024?

- (a) Rs. 6.5                      (b) Rs. 5                      (c) Rs. 5.42                      (d) Rs. 6

**QUESTION 2**

On 1 January 2025, Holmium Limited (HL) entered into a lease agreement with Scandium Limited (SL), under which HL leased a specialised equipment to SL for a period of five years. The details are as follows:

- (i) Annual lease rentals of Rs. 25 million are payable at the end of each year.
- (ii) The estimated useful life of the equipment is 6 years.
- (iii) HL estimates that at the end of the lease term, the equipment will have a residual value of Rs. 10 million, of which Rs. 4 million is guaranteed by SL. SL expects that the equipment will have market value of Rs. 3 million at the end of the lease term.
- (iv) SL incurred initial direct costs of Rs. 1 million, while HL incurred initial direct costs of Rs. 1.5 million.
- (v) The interest rate implicit in the lease is 9% per annum, but this is not known to SL.
- (vi) SL's incremental borrowing rate is 11% per annum. This rate may be used where an explicit rate is not provided.
- (vii) Both HL and SL use straight line method of depreciation.

**Required:**

Prepare the extracts from the following statements of HL and SL:

- Statement of profit or loss for the year ended 31 December 2025
- Statement of financial position as on 31 December 2025 **(12 marks)**

**QUESTION 3**

The following information relates to Neodymium Limited (NL) for the purpose of calculating earnings per share (EPS) for the year ended 31 December 2025:

- (i) Profit after tax for the year ended 31 December 2025 amounted to Rs. 45 million.
- (ii) At 1 January 2025, 1 million ordinary shares (par value of Rs. 10 each) were outstanding.
- (iii) At 1 January 2025, 300,000 share warrants were outstanding, each giving its holder the right to buy one ordinary share of NL at an exercise price of Rs. 120. During 2025, the average market price of NL's ordinary shares was Rs. 180 per share.
- (iv) On 1 April 2025, 2 million 15% convertible bonds of Rs. 100 each were issued. Every 2 bonds are convertible into 1 ordinary share of NL after 5 years.
- (v) On 1 July 2025, a rights issue of 1 share for every 4 shares held was made at Rs. 120 per share, when the market price was Rs. 150 per share.
- (vi) On 1 November 2025, NL made a bonus issue of 1 share for every 5 shares held.
- (vii) The applicable income tax rate is 30%.

**Required:**

Compute the basic and diluted earnings per share to be disclosed in NL's financial statement for the year ended 31 December 2025, in accordance with the IFRSs. **(08 marks)**

**QUESTION 4**

Lutetium Electronics Limited (LEL) manufactures and sells home appliances. During the last financial year, LEL experienced a 30% decline in sales. To stimulate demand, the marketing department has proposed that the following sales incentives should be given to customers:

- (i) Retail customers would be offered appliances on interest-free credit for periods ranging from six months to twenty-four months, depending on customer's preference. Previously, LEL required payment on immediate basis or with a maximum credit period of thirty days.
- (ii) Wholesale customers would be granted a right to return unsold appliances within ninety days of purchase for a full refund, provided that full payment was made at the time of purchase.

**Required:**

Discuss the implications of the above sales incentives on the recognition and measurement of revenue in accordance with IFRSs. **(09 marks)**

**QUESTION 5**

You are the Finance Manager of Promethium Limited (PL). The CEO has informed you that the following decisions were approved at the recent board meeting and will be implemented in the next financial year:

- (i) PL will utilize its short-term bank deposits to acquire an investment in an associate. The expected return from the associate is higher than the current return earned on the bank deposits.
- (ii) PL will convert its existing short-term lease of office premises into a long-term lease arrangement. The total annual expense under the new arrangement, including depreciation and interest expense, is expected to be lower than the total annual expense under the existing short-term lease.
- (iii) PL will adopt the revaluation model for property, plant and equipment in order to reflect the increase in fair value in its financial statements.

**Required:**

Discuss the impact (if any) of the implementation of the above decisions on the following financial ratios of PL:

- Current ratio
- Net profit margin
- Return on capital employed
- Gearing ratio
- Asset turnover ratio
- Interest coverage ratio

**(06 marks)****QUESTION 6**

On 1 January 2024, Yttrium Limited (YL) purchased 5 million bonds with a face value of Rs. 50 each, for a total consideration of Rs. 215 million. Transaction costs of Rs. 4 million were also incurred on purchase of bonds. The bonds will mature on 31 December 2030.

The bonds are classified as subsequently measured at fair value through other comprehensive income. The bonds carry a coupon rate of 12% per annum, payable annually on 31 December. The effective interest rate is 15% per annum.

At initial recognition, YL determined that bonds were not credit impaired. On 31 December 2025, YL received the annual interest payment. However, due to deteriorating credit rating of the bonds, YL determined that there had been a significant increase in credit risk since their acquisition.

The information regarding the bonds' expected credit losses and fair value is as follows:

Date	Expected credit losses		Fair value
	12 months	Life time	
----- Rs in million -----			
31 December 2024	4.5	10.4	228.0
31 December 2025	7.5	17.2	220.0

**Required:**

Prepare the relevant extracts, **including comparative information**, from YL's statement of profit or loss and other comprehensive income for the year ended 31 December 2025 and statement of financial position as of that date.

**(08 marks)**

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**SECTION B**

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**QUESTION 7**

**Today's date is 10 March 2026.**

Cerium Limited (CL) is a listed company engaged in the manufacture of electrical appliances. CL's financial statements for the year ended 31 December 2025 are currently in the process of finalisation and are expected to be authorised for issue on 15 March 2026.

You are provided with the following independent situations.

- (i) In December 2025, a defect in a product manufactured by CL caused significant property damage at a customer's premises. Based on legal advice received in December 2025, CL offered the customer to settle the matter out of court for Rs. 28 million. In January 2026, the customer rejected the offer and filed a legal claim seeking compensation of Rs. 40 million.

Based on subsequent developments in the proceedings, CL's Legal counsel has now advised that CL would lose the case and the expected settlement by the court is now estimated at Rs. 22 million.

- (ii) In November 2025, an incident at CL's manufacturing facility resulted in environmental contamination of a nearby canal. As at 31 December 2025, no formal notice had been received from the environmental authority. Based on similar incidents within the industry, management believed that the likelihood of a penalty was possible but not probable, with a potential fine of approximately Rs. 12 million.

On 5 March 2026, the environmental authority issued a show-cause notice to CL requiring an explanation of the incident. Legal advisors have cautioned management that detailed disclosure of this matter in the financial statements may adversely affect CL's position in subsequent proceedings.

- (iii) CL sells one of its appliances with a one-year warranty under which it undertakes to repair or replace defective units free of charge. During the year 2025, CL sold 1,200,000 units. Based on past experience, 12% of units develop minor defects (costing an average of Rs. 300 per unit to repair) and 6% develop major defects (costing an average of Rs. 1,200 per unit to repair) in the first year after sales. During 2025, CL repaired 40,000 minor defects and 32,000 major defects relating to units sold during 2025.

In February 2026, CL announced that it would extend the warranty period for all units sold during 2025 from one year to two years in order to enhance customer's confidence. Management estimates that, in the second year after sales, a further 15% of units will require minor repairs and 8% will require major repairs, at the same repair costs per unit.

- (iv) At 31 December 2025, CL had a trade receivable of Rs. 30 million from a major customer. During the second half of 2025, the customer experienced financial difficulties, and CL recognised a loss allowance of 20% against the receivable.

On 25 January 2026, the customer was declared bankrupt. CL now expects to recover only 30% of the outstanding balance.

**Required:**

Discuss how each of the above issues should be dealt with in CL's financial statements for the year ended 31 December 2025. Support your answers with reference to the IFRSs. **(15 marks)**

**QUESTION 8**

The following balances have been extracted from the records of Gadolinium Limited (GL), Samarium Limited (SL) and Terbium Limited (TL) for the year ended 31 December 2025:

	GL	SL	TL
	----- Rs. in million -----		
Sales	1,400	750	650
Cost of sales	855	550	482
Operating expenses	350	150	86
Other income	82	54	44
Finance cost	80	64	25
Investment in SL – at cost	530	-	-
Investment in TL – at cost	55	-	-

**Additional information:**

- (i) On 1 January 2025, GL acquired 7 million shares representing 70% shareholding in SL. The cost of investment includes professional fees of Rs. 28 million incurred in connection with the acquisition.
- (ii) The following considerations relating to the acquisition have not yet been recorded in GL's books:
- Further cash payments of Rs. 100 million and Rs. 200 million are payable on 31 December 2026 and 31 December 2028, respectively.
  - The issuance of one share of GL for every 10 shares acquired in SL. These shares were issued three months after the date of acquisition. The market price of GL's shares at the acquisition date was Rs. 85 per share. However, the market price increased by Rs. 2 per share at the date the shares were actually issued.

On the dates of acquisition and the issuance of shares by GL, the market prices of each share of SL were Rs. 80 and Rs. 110, respectively.

- (iii) At the acquisition date, SL's net assets had a carrying value of Rs. 800 million, which was equal to their fair values, except for the following:
- Vehicles had a fair value of Rs. 220 million but were carried in SL's books at Rs. 180 million. The remaining useful life of vehicles were 4 years. These vehicles were sold to a third party on 31 December 2025 for Rs. 158 million. No adjustment for the disposal has yet been made in SL's books as the proceeds will be received in 2026.
  - A building had a fair value that exceeded its carrying amount by Rs. 80 million. The remaining useful life of the building on the acquisition date was 16 years; however, this was subsequently revised to 12 years at year-end.
- (iv) 30% of SL's sales were made to GL. These goods were sold at a mark-up of 14% on cost. At year-end, 60% of purchases made by GL from SL are still in GL's inventory.
- (v) On 1 July 2025, GL granted a loan of Rs. 300 million to SL at an interest rate of 14% per annum.
- (vi) On 1 August 2025, GL acquired 30% shareholding in TL for Rs. 55 million. This investment is carried at cost in GL's books. During the year, GL received a dividend of Rs. 4 million from TL, which was recorded as other income.
- (vii) The impairment test carried out at year-end indicated that SL's goodwill had been impaired by 15%.
- (viii) The income and expenses of all companies accrued evenly during the year, unless stated otherwise.
- (ix) GL measures non-controlling interest at the proportionate share of acquiree's identifiable net assets.
- (x) A discount rate of 12% per annum may be used where required.

**Required:**

Prepare GL's consolidated statement of profit or loss for the year ended 31 December 2025 in accordance with IFRSs.

**(17 marks)**

**QUESTION 9**

The following information has been gathered for the preparation of the tax-related disclosures of Lanthanum Limited (LL) for the year ended 31 December 2025:

- (i) LL's accounting loss before tax for the year ended 31 December 2025 amounted to Rs. 240 million. Management expects that Rs. 79 million of these losses will not be utilised for tax purposes in future years.
- (ii) During the year, LL acquired an investment property for Rs. 250 million, which had a fair value of Rs. 284 million as at 31 December 2025. The fair value model is applied for accounting purposes. Under tax laws, tax depreciation of Rs. 22 million is allowable on this property.
- (iii) On 1 July 2025, LL leased out an office space for five years under an operating lease for total rental income of Rs. 40 million, with no rent receivable during the first year. For tax purposes, rental income is taxable on receipt.
- (iv) During the year, LL made donations amounting to Rs. 25 million, of which Rs. 10 million is not allowable as a tax deduction because it was paid in cash.
- (v) Other income recognised during the year includes a government grant of Rs. 17 million, which is exempt from tax.
- (vi) Development costs amounting to Rs. 42 million were capitalised during the year, and Rs. 4 million was amortised. The expenditure is allowable for tax purposes when paid, and Rs. 10 million remained unpaid at year-end.
- (vii) Depreciation charged on property, plant and equipment for accounting purposes during the year amounted to Rs. 25 million, whereas related tax depreciation amounted to Rs. 41 million.
- (viii) As at 31 December 2024, LL had recognised a deferred tax liability of Rs. 42 million, arising entirely from temporary differences relating to property, plant and equipment.
- (ix) The applicable income tax rate is 30%. However, on 22 December 2025, legislation was substantively enacted to reduce the income tax rate to 25%, effective from 1 January 2026.

**Required:**

- (a) Prepare a taxation note for inclusion in LL's financial statements for the year ended 31 December 2025, including a reconciliation explaining the relationship between the tax expense and the accounting profit. **(10 marks)**
- (b) Compute the deferred tax liability or asset in respect of each temporary difference as at 31 December 2025. **(05 marks)**

**(THE END)**