

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN
Certified Finance and Accounting Professional Stage Examination
Advanced Accounting and Financial Reporting

Examiners' Comments

Winter 2025

PASSING %

Question-wise					Overall
1	2	3	4	5	
40%	42%	52%	7%	13%	30%

GENERAL COMMENTS

The overall passing rate of 30% represents a slight decline compared with the previous session's result of 33% and the five-session average of 31%. Overall performance in this examination was mixed and broadly consistent with recent sittings in aggregate; however, there was significant variation in performance across individual questions.

A substantial number of examinees experienced difficulty in dealing with integrated, multi-topic requirements, particularly where careful sequencing of accounting treatments and sound professional judgement were required.

Review of examinees' scripts suggests that time management remained a persistent concern. A considerable number of examinees devoted disproportionate time to Questions 1 and 3, often at the expense of Questions 4 and 5, which were either attempted superficially or left incomplete. Examinees are reminded that all questions are compulsory and that an appropriate and balanced allocation of time across the paper is critical to achieving an optimal overall outcome.

It was observed that examinees made unnecessary use of the spreadsheet functionality even for theoretical and narrative responses like Question 3. Examinees are reminded that the spreadsheet should be used exclusively for numerical workings and supporting calculations. Furthermore, when using the spreadsheet, examinees are advised to integrate relevant workings into the main answer body, preferably in manageable sections or on a step-by-step basis, rather than pasting large blocks of spreadsheet content all at once.

QUESTION-WISE COMMON MISTAKES OBSERVED

Question 1

- In respect of Swan Limited
 - Examinees failed to re-measure the previously held 30% interest in Swan Limited to fair value at the acquisition date. Examinees failed to recognise that the equity-accounted profit for the first six months of 2024 (Rs. 50 million) should be adjusted before the calculation of goodwill, resulting in inconsistent pre- and post-acquisition profit figures.
 - Examinees ignored the requirement to measure the debentures issued as part of the purchase consideration at fair value, often using nominal or par values instead of discounting future cash flows at the prevailing market rate.

- Assets held for sale were measured at fair value instead of being measured at fair value less costs to sell at the acquisition date.
- Examinees demonstrated incorrect treatment of obsolete raw materials, which were required to be written down from Rs. 300 million to nil and adjusted further for the associated disposal cost of Rs. 50 million at the acquisition date. Examinees either adjusted only the carrying amount of Rs. 300 million without recognising the disposal cost or treated the entire Rs. 350 million adjustments as a post-acquisition adjustment instead of recognising it as an acquisition-date fair value adjustment affecting goodwill.
- In respect of Crane Limited:
 - Examinees translated the results and net assets of Crane Limited for both years in a single step, instead of performing the translation separately for each year, despite the change in the group's shareholding in Crane Limited. This resulted in incorrect attribution of post-acquisition profits and translation differences.
 - Examinees did not make any adjustment arising from the further acquisition in Crane Limited, with the required impact neither recognised in group reserves nor reflected in non-controlling interest.

Question 2(a)

- Examinees recorded the investment initially at Rs. 98 million instead of Rs. 100 million.
- Examinees computed interest income using a rate of 17% instead of the contractual coupon rate of 13%.
- Examinees did not recognise the impairment adjustment through other comprehensive income, as required for FVOCI debt instruments.

Question 2(b)

- Examinees treated the convertible bond as an investment, rather than accounting for it from the issuer's perspective.
- Examinees frequently omitted the journal entry relating to the transaction costs.
- Examinees recognised impairment losses on the liability.
- Interest expense for the year 2024 was not accrued.

Question 3(a)

- Examinees provided generic explanations of IAS 34 and merely stated that the CEO's instructions should be complied with, without explicitly analysing each instruction individually and assessing whether it was permitted under IFRS.
- Examinees agreed to the removal of accounting policies in their entirety without acknowledging the requirement to include a confirmation that the accounting policies remain unchanged.

- Examinees failed to treat volume rebates and cash-back incentives as variable consideration under IFRS 15 at the interim reporting date, leading to inappropriate revenue recognition in the interim financial statements.

Question 3(b)

- Examinees often identified breaches of integrity and objectivity only, with responses frequently limited to listing ethical principles without linking them to the specific facts and circumstances of the given scenario.
- Safeguards were largely limited to reporting the matter to higher management or resigning from the position, without sufficient consideration of a structured and proportionate response.
- Safeguards were often stated briefly, with examinees merely writing phrases such as “seek advice” or “discuss with management”, without further explanation.

Question 4

- This was the most poorly attempted question on the paper. A number of scripts showed fragmented attempts, indicating that examinees ran out of time and addressed this question only superficially. Examinees also appeared confused between adjustments already reflected in the draft statement of financial position and those that were required, and frequently performed calculations without incorporating the resulting corrections into the revised statement of financial position.
- Examinees failed to re-assess lease liability and right-of-use asset when the lease extension option became reasonably certain to be exercised. In many cases, no adjustment was made for the lease re-assessment. Where adjustments were attempted, examinees often incorrectly treated the re-assessment as a lease modification. In addition, the original discount rate was frequently applied when re-measuring the lease liability, despite explicit information that a new incremental borrowing rate was available at the reassessment date.
- In respect of the investment in Alpha Limited, examinees generally correctly identified that the equity method was applicable. However, examinees failed to reverse the fair value adjustment already recognised and did not restrict the share of loss to the carrying amount of the investment. As a result, losses of the associate were often recognised beyond the carrying amount of the investment.
- In relation to gift cards, examinees frequently did not make any adjustment at all, indicating a lack of understanding of the accounting treatment. Where adjustments were attempted, examinees calculated an incorrect amount of unearned revenue arising from the gift card scheme.

Question 5

- Several scripts showed fragmented attempts, indicating that examinees ran out of time and addressed this question only superficially, having devoted excessive time to earlier questions, particularly Questions 1 and 3.
- Examinees computed only the closing deferred tax asset or liability despite similar requirements having been examined frequently in prior sessions. The movement in deferred tax was not presented, and consequently, the impact of deferred tax on other comprehensive income and equity was not reflected.

- Deferred tax balances as at 31 December 2023 were calculated using a tax rate of 30% instead of applying the enacted rate of 25%, which was already effective at the reporting date.
- Examinees failed to treat the service cost relating to 2023 as a past service cost recognised in 2024, despite the gratuity scheme being introduced on 1 January 2024.
- The deferred tax implications of employee share-based payment arrangements were ignored, resulting in incomplete recognition and presentation of deferred tax balances.

(THE END)