THE INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN

Certified Finance and Accounting Professional Stage Examination

Advanced Corporate Reporting

Examiners' Comments **Autumn 2026**

PASSING %

Question-wise					Overall
1	2	3	4	5	
56%	15%	42%	2%	54%	31%

GENERAL COMMENTS

The current passing rate is broadly consistent with the previous session's result. However, performance varied considerably across individual questions. Examinees performed better in the numerical Questions 1, 3 and 5, while performance in Questions 2 and 4, which required evaluation and discussion of accounting treatments, was significantly weaker. Question 4 was expected to prove challenging. The more manageable numerical questions helped offset its difficulty and maintain a balanced overall paper. Nevertheless, the disparity in results highlights the need for examinees to develop their ability to explain and apply accounting principles alongside their computational skills. Where discussion is required, answers should explain how the relevant principles apply to the specific facts of the scenario and support the resulting accounting treatment.

Examinees are reminded to present clear supporting workings and cross-references for the amounts included in their answers. Figures copied from the spreadsheet into the answer area do not display the underlying spreadsheet formulas. Calculations should therefore be presented in a form that allows the approach to be followed and the relevant method marks to be considered. All workings intended for marking must be included in the designated answer area.

QUESTION-WISE COMMON MISTAKES OBSERVED

Question 1

- Examinees presented calculations or journal entries without preparing the required financial statement extracts. Comparative figures for 2024 were also omitted or were inconsistent with the supporting workings.

- In respect of the lease agreement for office premises:
  - ✓ Examinees failed to identify that the addition of Floor B qualified as a separate lease. Consequently, they remeasured the existing lease instead of separately recognising the right-of-use asset and lease liability relating to the additional floor.

- ✓ Examinees failed to distinguish between the rates applicable to the original and additional leases, applying either 10% or 12% to both floors. The appropriate rates were 10% for Floor A and 12% for Floor B.

- In respect of the sale and leaseback arrangement for the head office building:
  - ✓ Examinees treated the entire present value of the contractual payments as a lease liability, overlooking the financing arising from the above-market sale price. A financial liability of Rs. 80 million and a lease liability of Rs. 142.02 million should have been recognised separately, with the annual payments allocated consistently between them.

  - ✓ Examinees failed to apply the specific measurement requirements for a right-of-use asset arising from a sale and leaseback. They used the discounted payments or the building's fair value instead of the proportionate previous carrying amount, resulting in an incorrect asset balance.

- In respect of the employees' share option scheme:
  - ✓ Examinees remeasured the original equity-settled award using subsequent fair values of Rs. 58, Rs. 70, or Rs. 78 per option. The original award should have remained based on the grant-date fair value of Rs. 50 per option, with adjustments made for changes in the number of employees expected to satisfy the service condition.

  - ✓ The incremental fair value arising from the modification was incorrectly based on the Rs. 20 reductions in exercise price or the difference between the revised and original grant-date fair values. It should have been Rs. 12 per option, being the difference between the fair values immediately after and before the modification.

Question 2

- Examinees reproduced general definitions of fair value and impairment without evaluating the measurement bases adopted or the explanations provided by Faraz. Responses needed to identify the deficiencies in each treatment and explain why the supporting reasoning was inappropriate.

- In respect of matter (i), examinees accepted the ten-year lease term without considering PIL's right to terminate the arrangement on six months' notice. Consequently, they assumed that a purchaser would remain bound by the below-market rental throughout that period. The use of PIL's incremental borrowing rate of 14% was also accepted without assessing whether it reflected market participants' required returns.

- In respect of matter (ii), examinees failed to challenge the blockage discount applied because of the size of the holding. They also failed to recognise that the investment should have remained a Level 1 measurement.

- In respect of matter (iii), the conditions permitting reliance on the previous detailed impairment calculation were not applied to the scenario. Examinees overlooked the significant plant disposal, limited headroom and deterioration in gross margin. An updated calculation was therefore necessary before concluding whether an impairment loss should be recognised and determining its amount.

- In respect of matter (iv), examinees did not challenge the deduction of the Rs. 260 million provision from the CGU's carrying amount while leaving its corresponding effect out of value in use. The provision should either have been added back to the carrying amount or deducted consistently from both amounts.

Question 3

- In respect of the acquisition of TCL:

  - ✓ Examinees failed to derecognise the land transferred as acquisition consideration from group property, plant and equipment and recognise the resulting gain of Rs. 110 million in the parent's retained earnings.
  - ✓ The loan assumed as part of the acquisition was not correctly measured at its fair value of Rs. 215.67 million. Examinees used the principal amount of Rs. 250 million or discounted the payments at 10% instead of the market rate of 14%. Subsequent measurement required an additional interest expense of Rs. 5.19 million, after allowing for the Rs. 25 million already expensed and a closing liability of Rs. 220.86 million.
  - ✓ Examinees incorrectly treated the Rs. 210 million payment to Sarfaraz as acquisition consideration or contingent consideration. As the payment was forfeited upon cessation of employment, it represented remuneration for post-acquisition services. An expense and liability of Rs. 140 million should have been recognised for 12 months of the 18-month service period. Retaining the full payable or removing it without recognising the remuneration expense was inappropriate.
  - ✓ Examinees omitted the product liability claims or recognised them at the estimated settlement amount of Rs. 80 million instead of their acquisition-date fair value of Rs. 55 million. The related indemnification asset of Rs. 44 million also required separate recognition. At year-end, examinees incorrectly increased the liability to Rs. 70 million and the indemnification asset to Rs. 56 million based on the revised fair value of the claims. On the facts provided, the balances should have remained at Rs. 55 million and Rs. 44 million respectively.

- The equity-accounting workings for AL did not reflect the additional depreciation on the plant's acquisition-date fair value uplift. The group's share of this depreciation for the 18-month post-acquisition period amounted to Rs. 6.75 million and should have been deducted from the investment and group reserves.

- In respect of BL, examinees restricted recognition of the associate's losses to the Rs. 100 million cost of the equity investment and left the Rs. 170 million loan unaffected. As settlement of the loan was neither planned nor likely in the foreseeable future, it formed part of the net investment. The cumulative share of losses of Rs. 150 million first exhausted the equity investment and then reduced the loan by Rs. 50 million, leaving a net interest in BL at Rs. 120 million.

Question 4

- Performance in this question was very weak, with only 2% of examinees securing passing marks. The requirement combined discussion of the accounting treatments with dated journal entries and supporting workings. Although the question was challenging, poor time management further affected performance. Most examinees left it until the end and had

insufficient time to provide complete answers. Responses were consequently brief or incomplete, and even the straightforward marks available were not secured.

- In respect of the interest rate swap:
  - ✓ The basic accounting for the loan offered an opportunity to secure marks even where examinees experienced difficulty with the swap. However, this part was often left entirely unattempted, with neither the loan entries nor the related explanations provided.

  - ✓ Attempted answers reflected significant weaknesses in the understanding of hedge accounting. The treatments proposed were largely speculative and did not demonstrate an appropriate application of the relevant requirements.

- In respect of the software licence and related services:
  - ✓ Examinees identified separate performance obligations but did not explain the basis for that conclusion. The reasons why the software licence, cloud access and support services were distinct needed to be linked to the facts provided.

  - ✓ Examinees spread licence revenue over the one-year contract period because the licence was time-limited or did not transfer ownership of the intellectual property. The software was fully functional and supplied on an as-is basis without updates or upgrades, giving the customer a right to use the intellectual property as it existed when made available. Revenue of Rs. 50 million should therefore have been recognised on 1 April 2025.
  - ✓ The performance bonus was ignored until receipt, recognised in full immediately or allocated across all three obligations. The facts supported inclusion of the most likely amount of Rs. 8 million within the variable consideration constraint. As it related specifically to support availability, it was allocated entirely to support services. The resulting support revenue was Rs. 17.25 million for the nine months, including only the proportion of the bonus attributable to performance to date.

Question 5

- Incorrect tax rates were used in the calculations. The applicable rates were 29% for current tax under the normal regime, 32% for closing deferred tax balances, and 15% for dividend income and the investment's fair value gain.

- Examinees deducted the full revaluation increase of Rs. 40 million or the original revaluation loss of Rs. 27 million when calculating taxable income. The appropriate deduction was Rs. 24 million, representing the gain credited to profit or loss after allowing for intervening depreciation. The remaining Rs. 16 million was recognised in other comprehensive income.

- Examinees incorrectly recognised deferred tax on the Rs. 28 million fair value gain, despite the gain being taxable in the current year.

- Examinees overlooked the financing element in the customer's advance payment, received two years before delivery. Financing expense of Rs. 12.60 million should have been recognised for the nine-month period, increasing the closing contract liability to Rs. 132.60 million. The related tax adjustments were also overlooked: the financing expense required

an add-back in calculating taxable income, while the closing contract liability gave rise to a deferred tax asset of Rs. 42.43 million.

- Current tax was not appropriately allocated between profit or loss and other comprehensive income. Of the total Rs. 84.66 million, Rs. 4.20 million related to the investment's fair value gain recognised in other comprehensive income. Only the remaining Rs. 80.46 million was attributable to profit or loss.

(THE END)