ICAP

Certified Finance and Accounting Professional Stage Examination

14 June 2025
3 hours and 30 minutes – 100 marks

Advanced Accounting and Financial Reporting

CRN:						

Name: ____

INSTRUCTIONS

Please carefully read the following instructions:

1. You are required to access your answer working area by using your Student ID and Password as mentioned on your Admit Card.
2. The overall duration of the exam is 3 hours and 30 minutes, which includes the 15-minute reading time and an extra 15 minutes of time that has been allocated due to the introduction of computer-based examinations.
3. All questions are compulsory.
4. Questions can be attempted in any sequence.
5. There is no specific time allocated for individual questions.
6. An auto-save function runs every minute. Further, your answers are saved automatically when you navigate between questions or click on the > **(NEXT)** or < **(BACK)** symbols.
7. Each question provides an answer area with a Rich Text Format (RTF) editor for writing your answers. Additionally, below the RTF editor, a spreadsheet is provided, where necessary, to facilitate examinees in doing rough calculations or other workings. **However, please note that any work performed in the spreadsheet will not be considered for marking. To ensure your work is considered, you must copy and paste it from the spreadsheet to the RTF editor.**
8. Work done in the spreadsheet of one question can also be copied into the RTF editor of the same or another question.
9. You may use Microsoft Office applications such as MS Word or MS Excel for rough working. However, please remember that any work performed in these applications cannot be copied into the examination software, and vice versa. Furthermore, any such work will not be uploaded with your exam for marking.
10. You may use pen and paper for rough work, but please note that pen and paper work should only be done on the last page of the question paper that is specifically allocated for this purpose. Remember that any rough work done on the last page will not be uploaded with your exam for marking.
11. In accordance with the open book policy of this paper, you are allowed to use hard copies of the permissible books. Keeping a book or notes that are not permissible will be considered a violation under the policy on the use of unfair means.
12. An external calculator can be used, provided it is included in the list of permissible calculators issued by ICAP.
13. During the exam, access to any website other than exam software website and the digital copies of permissible books is strictly prohibited. Engaging in such activities will be considered a violation under the policy on the use of unfair means.

Q.1 Following are the draft statements of financial position of Bed Limited (BL), Chair Limited (CL) and Sofa Limited (SL) as at 31 December 2024:

	BL	CL	SL
	--------- Rs. in million ---------		
Assets			
Property, plant and equipment	825	349	240
Investment in CL – at cost	95		-
Investment in SL – at cost	125		
Current assets	200	215	70
	1,245	**564**	**310**
Equity and liabilities			
Share capital (Rs. 10 each)	450	220	180
Retained earnings:			
Opening balance	460	130	26
Profit for the year	130	60	24
	590	190	50
Liabilities	205	154	80
	1,245	**564**	**310**

Additional information:

(i) On 1 January 2023, BL acquired 5.5 million shares of CL representing a 25% shareholding, for Rs. 95 million. On that date, the fair value of each share of CL was Rs. 16, and the carrying value of CL's net assets was Rs. 260 million.

(ii) On 1 April 2024, BL obtained control of CL by acquiring a further 55% shareholding. The following considerations, which have not yet been recorded in BL's books as of the year-end, are given:

- Debentures having par value and fair value of Rs. 200 million were issued by BL. These debentures are convertible into 5 million BL's shares after 4 years, at the option of the bond holders. Any debentures not converted will be redeemed at that time at par value. The debentures carry interest at 5% per annum, payable in arrears on 31 March each year. The market interest rate for a similar non-convertible debt is 9% per annum.
- BL transferred a piece of land with a carrying value of Rs. 38 million and a fair value of Rs. 49 million.
- A further cash payment of Rs. 75 million is to be paid after 2 years, contingent on CL achieving a minimum profitability of Rs. 50 million per annum in both years. The fair value of this contingent consideration at the acquisition date was estimated at Rs. 40 million. As of 31 December 2024, the fair value of this consideration has been re-estimated at Rs. 55 million.

(iii) On the acquisition date, the fair value of BL's existing 25% holding in CL was Rs. 130 million. The carrying value of CL's net assets was equal to their fair value except for the following:

- The fair value of a right-of-use asset was Rs. 30 million higher than its carrying value due to below-market lease terms. The remaining lease term was 5 years.
- A contingent liability of Rs. 20 million was disclosed in CL's financial statements. At the acquisition date, BL's legal adviser estimated the settlement amount at Rs. 12 million. However, the claim was actually settled on 15 August 2024 for Rs. 16 million.

(iv) On 1 July 2023, BL acquired a 60% shareholding in SL for Rs. 125 million. On the acquisition date, the fair value of SL's net assets was equal to their carrying value of Rs. 175 million.

(v) On 31 October 2024, BL disposed of its 50% shareholding in SL leaving a 10% shareholding, for Rs. 150 million. The entire proceeds from the disposal were credited to retained earnings. The fair value of remaining shareholding as at 31 October 2024 and 31 December 2024 was Rs. 28 million and Rs. 36 million, respectively.

(vi) The non-controlling interest are measured at their proportionate share of the subsidiary's identifiable net assets.

(vii) The income and expenses of all companies may be assumed to have accrued evenly during the year except stated otherwise.

Required:
Prepare BL's consolidated statement of financial position as at 31 December 2024 in accordance with the requirements of IFRSs. **(25)**

Q.2 You are the Finance Manager at Table Limited (TL). TL is planning a significant expansion of its operations in 2026, which will be funded through external financing. The management team has shortlisted several financing options to be presented to the board of directors. These options deviate from traditional bank loans and include more complex financing arrangements, which have not been used by TL before.

Given the nature of these arrangements, the CEO has asked you to assess the appropriate accounting treatment under the relevant IFRS for each financing option under consideration. The details of each arrangement are as under:

For each arrangement, assume that it will commence on 1 January 2026. Interest or lease payments will be made on 31 December each year, and the principal (except for lease arrangement) would be repaid after 8 years.

(i) **Foreign currency loan**
TL can borrow USD 2 million at a fixed annual interest rate of 4%. The exchange rate is expected to be Rs. 290 per USD on 1 January 2026 and Rs. 305 per USD on 31 December 2026. **(04)**

(ii) **Restructuring of an existing loan**
TL has the option to restructure an existing Rs. 350 million loan by entering into a new 8-year facility. The remaining tenure of the original loan would be 3 years with an interest rate of 13% per annum. As a result of renegotiation, the new loan will carry an interest rate of 14% per annum. TL will incur restructuring costs of Rs. 5 million. **(08)**

(iii) **Subsidised loan**
TL can obtain a Rs. 250 million loan at an interest rate of 5% per annum under a government-sponsored concessional lending program. The market interest rate for a similar loan is 15% per annum. The funds will be disbursed directly to TL by the lending bank. **(05)**

(iv) **Sale and leaseback**
TL can sell one of its buildings to a bank for Rs. 400 million and lease it back under an 8-year agreement. Immediately before the transaction, the building would be carried in the books at Rs. 250 million and would have remaining useful life of 10 years. Annual lease payments of Rs. 80 million will be made. The fair value of the building on the sale date is expected to be Rs. 480 million.

The interest rate implicit in the lease would be 15% per annum. The terms and conditions of the transfer of the building by TL would satisfy the requirements of IFRS 15 to be accounted for as a sale of the asset. **(08)**

Required:
Discuss how each option should be accounted for in TL's financial statements in accordance with IFRSs. Your answer should include the **journal entries** to be recorded during the year ending 31 December 2026 for each option.

Q.3 Following information is available regarding certain transactions of Workstation Limited (WL):

(i) On 1 January 2021, WL acquired a manufacturing plant for Rs. 1,200 million, with an estimated useful life of 12 years. On the same date, WL received a government grant of Rs. 360 million in relation to this acquisition, which was presented as deferred income and recognised in profit or loss on a straight-line basis. Under the terms of the grant, repayment would be required if the plant is sold before 31 December 2027.

On 1 January 2023, WL elected to adopt the revaluation model for all items of property, plant and equipment. An independent valuer determined the fair value of the plant to be Rs. 1,100 million on that date. WL planned to revalue its property, plant and equipment every two years.

On 1 July 2023, due to a strategic realignment, WL's board approved a formal plan to sell the plant immediately. The criteria under IFRS 5 was met on this date, and the plant was classified as held for sale. The fair value and costs to sell were estimated at Rs. 925 million and Rs. 15 million, respectively at that date.

As at 31 December 2023, the plant remained unsold. The fair value and costs to sell on that date were reassessed at Rs. 892 million and Rs. 17 million, respectively.

On 1 October 2024, the board decided to withdraw the sale plan after being unable to secure a buyer, and resolved to reintegrate the plant for use in a new product line with strong future prospects. Consequently, the plant was immediately reclassified to property, plant and equipment. As at that date, the fair value, costs to sell and value in use of the plant were estimated at Rs. 875 million, Rs. 15 million and Rs. 891 million, respectively.

WL has a policy to transfer revaluation surplus to retained earnings upon the de-recognition of the related asset.

(ii) On 1 May 2023, WL entered into a two-year contract with Futon Limited (FL) to provide an integrated solution comprising the following deliverables:

- A license to WL's proprietary business intelligence software, including all associated intellectual property rights. The license is valid for two years and provided on 'as-is' basis with no subsequent updates during the contract period;
- Access to WL's data analytics software hosted at WL's cloud based server for two years; and
- Ongoing customer support services and on–site training for both software, as required, over the two-year period.

The total contract price was Rs. 190 million, payable in instalments of 50%, 30% and 20% on 1 May 2023, 31 March 2024 and 30 April 2025. The contract also contains the following performance-related clauses:

- For each contract year (1 May to 30 April), WL is entitled to a bonus of Rs. 8 million on 30 April 2025 if WL's customer support uptime exceeds 95% in any contract year.
- Conversely, for each contract year, WL must refund Rs. 6 million on 30 April 2025 if FL reports more than three critical faults in the data analytics software.

WL typically sells the licence for its business intelligence software for Rs. 60 million per year. The standalone selling price of the data analytics software via cloud access is Rs. 36 million per year, while customer support services (including on-site training) are typically sold at Rs. 18 million per year. Each of the three deliverables is distinct and is also provided separately to customers in other arrangements.

As at 31 December 2023, WL assessed that it was likely to exceed the 95% support uptime target for the first contract year ending 30 April 2024. However, by that same date, FL had reported four critical faults in the data analytics software.

On 30 April 2024, WL achieved the support uptime target of 95%.

As at 31 December 2024, WL estimated that support uptime for the second contract year (1 May 2024 to 30 April 2025) was unlikely to exceed the 95% threshold. However, FL had not reported any critical faults in the data analytics software during the 8 months of the second contract year.

Required:
Prepare the relevant extracts ***(including comparative figures)*** from WL's statement of financial position and statement of profit or loss and other comprehensive income for the year ended 31 December 2024, in accordance with the IFRSs. **(20)**

Q.4 You are currently working as the CFO of Drawer Limited, which is in the process of hiring a Finance Manager. You were scheduled to interview Mr. Rehan, however, due to an emergency, you were unable to conduct the interview. At your request, the interview was conducted by the CEO.

The following day, you received a message from the CEO:

> "The guy seems to be smart in his work; however I have highlighted certain points in his resume and noted some of the statements he made during the interview, which I believe you should review."

Points highlighted by CEO in Rehan's resume

Professional summary:

Dynamic fellow chartered accountant with 15+ years of experience in financial leadership, known for delivering results under pressure and building loyal teams. Trusted by executive leadership to get things done quietly.

Experience highlights:

Introduced flexible financial reporting adjustments for strategic transactions to align with Board expectations.

Certifications & trainings:

- Chartered Accountant – ICAP (2009)
- Training on Ethics (2010)

Rehan's statements noted by CEO

- Built a vendor network where relationships matter more than the written contracts.
- Personally reviewed and finalized reports from other departments before audit teams received them.
- Handled multiple off-record negotiations with tax authorities to resolve assessments favourably.
- Do not believe in bookish knowledge as practical experience is my real guide.

Required:
In light of the ICAP's Code of Ethics for Chartered Accountants, identify and explain the possible ethical concerns with respect to Rehan arising from the above information. Also, provide a conclusion on whether Rehan should be hired. **(10)**

Q.5 Following is the draft statement of financial position of Recliner Limited (RL) as at 31 December 2024, before incorporating the effects of the outstanding issues:

	Rs. in million		Rs. in million
Property, plant and equipment	611	Share capital	450
Intangible assets	114	Fair value reserve	116
Pension fund	66	Revaluation surplus	82
Investment in shares	520	Retained earnings	778
Current assets	456	Current liabilities	341
	1,767		**1,767**

Outstanding issues:

(i) There has been a significant decline in the budgeted net cash flows of one of RL's cash generating units (CGU). As at 31 December 2024, the value in use and fair value less costs of disposal of the CGU were estimated at Rs. 185 million and Rs. 190 million, respectively.

Details regarding the individual assets of the CGU (included in the draft financial statements) before impairment are as follows:

	Carrying value	Fair value less cost of disposal	Value in use
	-------------- Rs. in million	--------------	
Building (revaluation model)*	48	47	44
Equipment (cost model)	32	23	Not measurable
Machinery (cost model)	77	66	69
License (cost model)	23	Not measurable	
Goodwill	18	Not measurable	
Inventory	32	35	Not relevant

**The balance of surplus on the revaluation of the building as at 31 December 2024 was Rs. 4 million.*

RL has no intention to sell this CGU in the near future.

(ii) The following information has been received from actuary in respect of RL's pension fund for the year ended 31 December 2024:

	Rs. in million
Contribution paid	26
Benefits paid	48
Current service cost	68
Re-measurement losses	27

The applicable annual discount rate is 15%, and the net pension asset as at 1 January 2024 was Rs. 40 million. During the year, payments made by RL were debited to the pension asset. No other adjustments have been made related to the pension.

(iii) On 1 April 2024, RL received 2 million shares of Alpha Limited as consideration for the disposal of land. This investment, classified as fair value through other comprehensive income, was initially recognised at the quoted price of Rs. 90 per share and subsequently revalued to Rs. 108 per share (quoted price as at 31 December 2024).

However, the shares are subject to a two-year lock-in restriction from the date of acquisition, and cannot be sold before 1 April 2026. The presence of this restriction results in fair values that differ from quoted prices by approximately 15% at the transaction date and 10% at year-end.

(iv) On 1 January 2024, RL granted 1.2 million share options to CEO, conditional on his continued employment until 31 December 2025. These were not recorded in the books.

The exercise price per option is Rs. 30. However, the exercise price reduces to Rs. 20 if RL's revenues increase by at least 15% in each year. The estimated fair values of share option are as under:

	1-Jan-2024	**31-Dec-2024**
	--------- Rs. per option ---------	
Exercise price of Rs. 30	50	65
Exercise price of Rs. 20	57	73

At the grant date, the revenue target was not expected to be met. However, RL's revenues increased by 18% in 2024, and at 31 December 2024, it is expected that the revenue target for 2025 will be met as well.

Required:
Prepare RL's revised statement of financial position as at 31 December 2024, incorporating the effects of all outstanding issues. **(20)**

(The End)

Rough Sheet