



Certified Finance and Accounting Professional Stage Examination

3 December 2025
3 hours and 30 minutes – 100 marks

Advanced Accounting and Financial Reporting

CRN:

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Name:

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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 **five** 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 MS Excel for rough working. However, please remember that any work performed in this application 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 The following are the draft statements of financial position of Duck Limited (DL), Swan Limited (SL) and Crane Limited (CL) as at 31 December 2024:

	DL	SL	CL
	----- Rs. in million -----		FC\$ in million
Assets			
Property, plant and equipment	8,878	4,230	410
Intangible assets	-	900	-
Investment in SL	2,640	-	-
Investment in CL	8,900	-	-
Current assets	3,100	3,740	190
Assets held for sale	-	650	-
	23,518	9,520	600
Equity & Liabilities			
Share capital (10 each)	6,000	2,000	200
Retained earnings	6,913	3,730	265
Long-term loans	7,390	1,375	-
Current liabilities	3,215	2,415	135
	23,518	9,520	600

Additional information:

- (i) On 1 January 2023, DL acquired 30% shareholdings in SL for a cash consideration of Rs. 1,700 million. DL accounted for this investment using the equity method in the separate financial statements.

As at 31 December 2023, the investment was carried at Rs. 1,740 million. The net increase in carrying amount of investment as per equity method for the first 6 months of 2024 was Rs. 50 million which has not been accounted for. The fair value of this investment as on 1 July 2024 was Rs. 1,870 million.

- (ii) On 1 July 2024, DL acquired further 35% shareholdings in SL. The purchase consideration comprised of the following:

- One debenture (having par value of Rs. 100 each) issued by DL for every five shares in SL.
- A cash payment of Rs. 900 million.

The fair value of each share of SL was Rs. 30 on that date. The debentures carry annual interest of 12%, payable on 30 June each year, and will be redeemed at par value after 6 years. The market interest rate for similar debentures was 15% per annum. DL has not yet recorded the entries related to debentures.

- (iii) SL's retained earnings as on 1 July 2024 amounted to Rs. 3,280 million and the fair value of SL's net assets was equal to their carrying values except for the following:

- The assets held for sale had a fair value of Rs. 750 million, while carried in books at fair value less cost to sell of Rs. 600 million.
- Raw materials carried at Rs. 300 million had become obsolete due to cancellation of the related sales order. The material is not sellable due to its hazardous properties and would require specialised disposal at an estimated cost of Rs. 50 million. These were disposed of in September 2024 at an actual cost of Rs. 60 million.
- 'Mask works' software, a legally protected intangible asset, had a fair value of Rs. 1,800 million against its carrying value of Rs. 1,000 million. The software has a remaining useful life of 5 years.

- (iv) On 1 January 2023, DL acquired 55% shareholdings in CL (a foreign company) for a cash consideration of FC\$ 300 million. On that date, CL's retained earnings were FC\$ 195 million. The fair value of CL's net assets was equal to their carrying values except for a legal claim with a fair value of FC\$ 7 million, disclosed as a contingent liability of FC\$ 12 million. The claim was settled on 30 December 2023 for FC\$ 10 million.

- (v) On 1 January 2024, DL acquired further 15% shareholdings in CL against cash consideration of FC\$ 80 million. On that date, the fair value per share of CL was FC\$ 26, and retained earnings amounted to FC\$ 225 million.
- (vi) The exchange rates per FC\$ are as follows:

1 Jan 2023	31 Dec 2023 / 1 Jan 2024	31 Dec 2024	Average rate for year	
			2023	2024
Rs. 23	Rs. 25	Rs. 28	Rs. 24.5	Rs. 26

- (vii) DL values non-controlling interest on the acquisition date at its proportionate share of the fair value of the subsidiary's identifiable net assets.

Required:

Prepare DL's consolidated statement of financial position as at 31 December 2024 in accordance with IFRS. (25)

- Q.2 (a) On 1 January 2023, Guillemot Limited (GL) purchased 1 million debentures, having a face value of Rs. 100 each, issued by Heron Limited (HL) at Rs. 98 each. On this date, GL also incurred transaction costs amounting to Rs. 2 million.

The debentures carry a coupon interest rate of 13% per annum, payable annually on 31 December. The debentures are redeemable at face value on 31 December 2027.

At initial recognition, GL classified the investment in debentures at fair value through other comprehensive income. GL also assessed that the debentures were not credit-impaired at the acquisition date.

On 31 December 2024, HL did not pay the annual interest to GL. In addition, GL now determined that there had been a significant increase in the credit risk since initial recognition due to the deterioration in HL's credit rating.

Additional information related to expected credit losses and the fair value of the 1 million debentures at various dates is presented below:

Date	Expected credit losses		Fair value
	Life time	12 months	
	----- Rs. in million -----		
31 December 2023	7.0	1.2	115.0
31 December 2024	18.9	4.8	105.0

Required:

Prepare journal entries to be recorded in the books of GL for the years ended 31 December 2023 and 2024 in respect of the above information. (09)

- (b) Assume that, in addition to the information in (a) above, the holder of the debentures has an option to convert each debenture into 3 ordinary shares of HL at any time up to the redemption date. At the issue date of 1 January 2023, the fair value of each share of HL was Rs. 24. At that date, the prevailing market rate for comparable non-convertible debentures was 17% per annum. However, after taking into account the transaction cost of Rs. 2 million incurred by HL on issuance of debentures, the effective interest rate for HL increased to 17.6% per annum.

Required:

Prepare journal entries to be recorded in the books of HL for the years ended 31 December 2023 and 2024. (07)

- Q.3 You are a chartered accountant working as the finance manager at Penguin Limited (PL), a long-established company recently listed on the Pakistan Stock Exchange. You have prepared PL's first interim financial statements for the quarter ended 31 October 2025 and sent them to the CEO for his review. The CEO is also a chartered accountant and with whom you have worked closely for the last 5 years.

The CEO has emailed you the following instructions:

- (i) Remove the summary of accounting policies entirely from the interim financial statements as the accounting policy section occupies many pages. There have been no policy changes since the last published annual financial statements for the year ended 31 July 2025.
- (ii) Replace the comparative figures in the statement of profit or loss for the quarter ended 31 October 2024 with the figures for the quarter ended 31 July 2025. It would be more useful to compare the current quarter (i.e., ended on 31 October 2025) with the immediately preceding quarter (i.e., ended on 31 July 2025).
- (iii) Reverse the foreign-currency translation loss on trade payables, because, based on the advice from a friend, the recent unfavourable change in exchange rate is highly likely to reverse in next month and would result in a gain when payment would be due.
- (iv) Accrue a part of advertisement costs for a major marketing campaign (to be incurred in December 2025) in the quarter ended 31 October 2025 so that advertisement expense for both quarters reflects PL's historical ratio of 10% of sales and smoothens quarterly results.
- (v) Recognize revenue from sales to Alpha Limited (AL) at the full price instead of the discounted price. As per contract, AL becomes entitled to a 5% cash-back on all purchases made during the calendar year only when its annual purchases reach Rs. 100 million. Sales to AL has reached Rs. 85 million by 31 October 2025 and are expected to meet target of Rs. 100 million by year-end. However, the adjustment for cash-back should only be considered when the annual threshold is actually met.

He closes his email by reminding you that the Board expects a strong first quarter performance and that adjusting the numbers accordingly will reflect well on both of you during performance evaluation. He requests that you should promptly submit the revised interim financial statements that support the strategic objectives and the bonus criteria.

Required:

- (a) Analyse whether the changes instructed by the CEO should be incorporated into the quarterly financial statements in accordance with the requirements of IFRS. (10)
- (b) Briefly explain how the CEO is in breach of the fundamental principles of ICAP's Code of Ethics for Chartered Accountants. Also, state the professional actions or safeguard you should consider to address this situation. (10)

- Q.4 You are the finance manager of Egret Limited (EL). The accountant has prepared the following draft consolidated statement of financial position of EL as at 31 December 2024:

	Rs. in million		Rs. in million
Assets		Equity and liabilities	
Property, plant and equipment	211	Share capital	350
Right-of-use assets	314	Fair value reserve	64
Investment in debentures	205	Retained earnings	568
Investment in shares	520	Non-controlling interest	156
Current assets	489	Lease liabilities	360
		Trade and other payables	241
	1,739		1,739

After reviewing the draft, you observed that the accountant has not taken into account certain critical aspects of the following transactions:

	Information considered by the accountant	Aspects ignored
(i)	On 1 January 2024, EL entered into a four-year lease agreement for a building, with annual rentals of Rs. 50 million, payable in arrears. The incremental borrowing rate at that date was 14% per annum. The lease agreement contained an option to extend the lease for a further two years at an annual rental of Rs. 60 million, payable in arrears. At the lease commencement date, EL was not reasonably certain to exercise this option.	By 31 December 2024, due to rising market rentals, EL has become reasonably certain that it would exercise the extension option. At that date, EL's incremental borrowing rate was 15% per annum.
(ii)	On 1 July 2024, EL acquired 5 million ordinary shares of Alpha Limited (AL), representing 15% of AL's equity, for Rs. 36 million. The investment was accounted for as a financial asset measured at fair value through other comprehensive income. At 31 December 2024, the fair value of AL's shares had decreased to Rs. 20 million.	EL has significant influence over AL; therefore, the investment should have been accounted for as an associate. AL incurred losses of Rs. 300 million for the six-months period ended 31 December 2024. The current assets in the draft consolidated statement of financial position include a trade receivable of Rs. 2 million due from AL; no settlement of this receivable is planned or expected in the foreseeable future.
(iii)	On 1 July 2024, EL launched gift cards for selected customers. Each card was sold for Rs. 25,000 and entitles the customer to a 30% discount on purchases totalling Rs. 120,000 i.e. allowing discounts of Rs. 36,000. The cards are non-refundable and are valid for one year from the date of sale. During 2024, EL sold 5,000 cards, and the accountant recognised the receipts of Rs. 125 million as revenue in the statement of profit or loss.	During the period from 1 July 2024 to 31 December 2024, customers purchased goods priced at Rs. 180 million using the gift cards and availed discounts of Rs. 54 million. These sales were recorded at the discounted amount. Based on experience with comparable schemes, discounts totalling Rs. 30 million (equivalent to full-price sales of Rs. 100 million) are expected to remain unclaimed by customers.
(iv)	On 1 October 2024, EL sold one of its portfolio of debentures having carrying amount of Rs. 107 million, to Bank Beta Limited (BBL) for Rs. 105 million. The accountant derecognized the debentures and recorded a loss of Rs. 2 million in the statement of profit or loss.	On the date of sale, EL simultaneously entered into a contract to repurchase the same debentures from BBL on 30 September 2026 for Rs. 138.86 million. The debentures carry no periodic interest payments and are redeemable on 30 September 2028 for Rs. 168.37 million, representing effective yield of 12% per annum.

Required:

Prepare EL's revised consolidated statement of financial position as at 31 December 2024, incorporating the effects of aspects ignored by the accountant.

Q.5 Seagull Limited (SL) was incorporated on 1 January 2023. The following information has been gathered for preparing the disclosures related to taxation for the financial statements:

- (i) Profit before tax for the year 2024, after making all necessary adjustments, was Rs. 213 million (2023: loss before tax of Rs. 50 million). The loss in 2023 related to first-year operations, and SL expected to be profitable from 2024 and onwards.
- (ii) The movement of property, plant and equipment (other than land) for 2023 and 2024 is as follows:

	Carrying value	Tax base
	----- Rs. in million -----	
Opening balance at 1 January 2023	-	-
Additions	1,500	*1,400
Depreciation for the year	(280)	(460)
Revaluation	**160	-
Carrying value at 31 December 2023	1,380	940
Depreciation for the year	(310)	(350)
Revaluation	** (220)	-
Carrying value at 31 December 2024	850	590
* Assets of Rs. 100 million were allowed as expense on immediate basis and not capitalised.		
** In 2023, Rs. 160 million was taken to revaluation surplus. In 2024, Rs. 80 million was taken to revaluation surplus while remaining Rs. 140 million was taken to profit or loss.		

- (iii) On 1 July 2023, SL granted 50,000 share options each to its 80 employees, conditional upon the employees remain in SL's employment until 30 June 2026. The exercise price is Rs. 5 per option. The relevant details are as under:

	1 Jul 2023	31 Dec 2023	31 Dec 2024
Fair value of each share (Rs.)	40	56	74
Fair value of each share option (Rs.)	60	70	78
Intrinsic value of each share option (Rs.)	35	51	69
Number of employees expected to remain till vesting date	70	74	66

As per tax laws, the intrinsic value of the share options at the exercise date is an admissible expense.

- (iv) On 1 January 2024, SL introduced a funded gratuity scheme for its employees with gratuity entitlement effective from 1 January 2023. The following relevant information has been extracted from the actuarial report:

	Rs. in million
Contribution to the fund made on 1 January 2024	52
Service cost for 2023	36
Service cost for 2024	48
Present value of defined benefit obligations on 31 December 2024	85
Fair value of plan assets on 31 December 2024	64
Yield on high quality corporate bonds (per annum)	15%

Under tax laws, only contribution paid to the fund is allowed as an expense.

- (v) The tax rate for the year 2024 and onwards is 25% which was enacted before 31 December 2023. The tax rate for the year 2023 was 30%.

Required:

Prepare relevant notes **(including comparative figures)** on taxation and deferred tax liability/asset for inclusion in SL's financial statements for the year ended 31 December 2024 in accordance with IFRS.

(22)

(The End)

