Certified Finance and Accounting Professional Stage Examination

Advanced Corporate Reporting

1 September 2026
100 marks

ICAP

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 **five** questions are compulsory. There is no specific time allocated for individual questions.
4. 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.
5. Each question provides a designated answer area with a Rich Text Format (RTF) editor for writing your answers. You must answer each question within its respective RTF editor only. **Answers written in another RTF editor instead of the designated RTF editor for the question or more than one question answered in a single RTF editor shall not be considered for marking.**
6. Below the RTF editor, a spreadsheet is provided 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.**
7. 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.
8. 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 this page will not be uploaded with your exam for marking.
9. 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.
10. An external calculator can be used, provided it is included in the list of permissible calculators issued by ICAP.
11. 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.

QUESTION 1

The following information relates to certain transactions entered into by Virgo Limited (VL):

(i) On 1 January 2024, VL entered into a lease agreement for its office premises (Floor A) for a non-cancellable period of 6 years with annual lease rentals of Rs. 48 million, payable at the end of each year. VL's incremental borrowing rate at the commencement date was 10% per annum.

On 1 January 2025, the lease was modified to add the right to use an additional floor (Floor B) in the same building. Under the modified agreement, VL was required to pay annual rental of Rs. 88 million for the remaining 5 years at the end of each year. The additional rental of Rs. 40 million represents the standalone market price for the additional floor. VL's incremental borrowing rate at the modification date was 12% per annum.

(ii) On 31 December 2024, VL sold its head office building to Delta Leasing (DL) for USD 1 million. Immediately before the transaction, the building had a carrying amount of Rs. 108 million and a remaining useful life of 9 years. At the same time, VL entered into a contract with DL for the right to use the building for 6 years, with an annual payment of USD 0.2 million payable in arrears. The fair value of the building at the date of sale was Rs. 190 million. The applicable discount rate is 12% per annum.

The terms and conditions of the transfer of the building by VL satisfy the requirements of IFRS 15 to be accounted for as a sale of the asset. The exchange rates per USD on various dates are as follows:

31 Dec 2024	31 Dec 2025	Average for 2025
Rs. 270	Rs. 280	Rs. 276

(iii) On 1 January 2024, VL granted 20,000 share options to each of its 100 employees. Each option entitled the employee to acquire one ordinary share of VL at an exercise price of Rs. 60 per share. The options would vest only if the employees remained in VL's employment for three years from the grant date i.e. until 31 December 2026.

On 1 January 2025, VL modified the terms of the share option scheme by reducing the exercise price from Rs. 60 to Rs. 40 per share. All other terms and conditions of the original arrangement remained unchanged. The fair value of each option immediately after the modification was Rs. 70.

Relevant details on various dates are as follows:

	1 Jan 2024	31 Dec 2024	31 Dec 2025
Fair value of each share option **(Rs.)**	50	58	78
No. of employees already left till date	-	2	7
Further no. of employees expected to leave	8	10	8

Required:
Prepare the relevant extracts, including comparative figures, from VL's statement of profit or loss and other comprehensive income for the year ended 31 December 2025 and VL's statement of financial position as at that date in accordance with IFRSs. **(25 marks)**

(Notes to the financial statements and classification of items as current and non-current in the statement of financial position are not required.)

QUESTION 2

You are the CFO of Pisces Industries Limited (PIL), a listed company and the parent of a group with operations in various sectors. The draft consolidated financial statements for the year ended 30 June 2026 have been prepared by the Group Finance Manager, Faraz, and submitted to you for review.

In the course of your review, you have extracted the following matters relating to fair value measurements and impairment. In each case, Faraz has appended a note setting out the basis he has adopted and his reasons for adopting it.

(i) Property given on lease:

The property is carried at Rs. 1,240 million, determined by discounting the contractual rentals receivable under a lease granted in July 2025 to a not-for-profit organisation at Rs. 95 per sq. ft. (prevailing market rent: Rs. 150 per sq. ft.), using PIL's incremental borrowing rate of 14% per annum. The lease duration is 10 years but can be cancelled by PIL by giving a six-month notice. The locality was re-zoned for mixed-use high-rise developments in March 2026. Two adjacent plots were sold to developers in May 2026 at prices which, after allowing for demolition costs, indicate a significantly higher fair value for PIL's property as a site for high-rise development.

Faraz's note:

The property is subject to a 10-year lease, so any buyer stepping into that lease would receive only the contracted rent. Further, PIL intends to continue earning rental income under the existing lease and has neither the intention nor the funding to re-develop this site. PIL's intention as to the use of an asset is the most reliable evidence available, and it would be speculative to value the property on a basis we do not intend to pursue.

(ii) Investment in equity instrument carried at FVOCI:

PIL holds 22.5 million shares representing a shareholding of 7.5% in a company, whose shares are actively traded on the PSX. At 30 June 2026, the closing quoted price was Rs. 84 and the 30-day volume-weighted-average quoted price was Rs. 79. Faraz has measured the holding at Rs. 79 per share less a discount of 10% and has classified it as Level 2 of the fair value hierarchy.

Faraz's note:

The 30-day average removes short-term volatility and is more representative of the fair value. PIL's holding also equates to about 30 days of average traded volume; no rational buyer would absorb a block of this size without demanding a discount. Accordingly, a 10% adjustment is necessary to arrive at a realistically obtainable price. Because the quoted price has been adjusted, the measurement is Level 2.

(iii) Impairment testing for goodwill:

Goodwill of Rs. 780 million arose on the acquisition of Omega Limited (OL). No impairment test has been performed for OL for the year ended 30 June 2026. The most recent detailed calculation, performed at 30 June 2025, produced a recoverable amount of Rs. 1,900 million against a carrying amount of Rs. 1,840 million. During the year, an item of plant representing 15% of OL's total carrying amount was disposed of and gross margin of OL fell from 18% to 11%.

Faraz's note:

An impairment test is required only when an indicator exists. Management has identified no indicators for OL. The decline in margin is a temporary consequence of input price inflation. In addition, IAS 36 permits the most recent detailed calculation to be carried forward, and as the recoverable amount exceeded the carrying amount last year, so impairment has not been recorded in the financial statements for the year ended 30 June 2026.

(iv) Corporate assets and composition of the carrying amount:

A head office building carried at Rs. 620 million and a central ERP platform carried at Rs. 180 million, both supporting all divisions, have been excluded from every impairment test. In addition, in determining the carrying amount of the chemicals CGU, Faraz has deducted a decommissioning provision of Rs. 260 million, while the recoverable amount based on value in use of that unit excludes any corresponding outflows in respect of those liabilities.

Faraz's note:

The head office and the ERP platform do not generate cash flows of their own and cannot be attributed to any single CGU, so IAS 36 requires them not to form part of any CGU test. The decommissioning provision is adjusted in the carrying amount because a purchaser would assume it, but the related outflows are excluded from value in use because IAS 36 expressly requires outflows relating to recognised liabilities to be excluded.

Required:

In accordance with IFRSs, evaluate each of the above matters and identify the deficiencies in the bases of measurement adopted and the flaws in the reasoning advanced by Faraz in support of them. **(11 marks)**
(Calculations are not required)

QUESTION 3

Following are the draft statements of financial position of Capricorn Holdings Limited (CHL) and Taurus Ceramics Limited (TCL) as at 31 December 2025:

	CHL	TCL
	---- Rs. in million ----	
Assets		
Property, plant and equipment	9,800	4,200
Investment in TCL – at cost	1,700	-
Investment in associates – at cost	300	-
Long-term loan to Beta Limited	170	-
Current assets	1,570	900
	13,540	**5,100**
Equity and liabilities		
Share capital	5,000	1,000
Share premium	1,200	260
Retained earnings	3,400	1,340
Long-term borrowings	2,100	1,780
Payable to Sarfaraz	210	-
Other liabilities	1,630	720
	13,540	**5,100**

Additional information:

(i) CHL acquired a 30% equity interest in each of its two associates, Alpha Limited (AL) and Beta Limited (BL), on 1 July 2024. At that date, AL's identifiable net assets had a fair value of Rs. 600 million. These net assets included plant with a carrying amount of Rs. 220 million and a fair value of Rs. 310 million. The plant had a remaining useful life of six years at that date. Further relevant details are as under:

	AL	BL
	----- Rs. in million ----	
Cost of investment at 1 July 2024	200	100
Retained earnings at 1 July 2024	420	20
Retained earnings at 31 December 2024	600	(80)
Retained earnings at 31 December 2025	740	(480)

(ii) During 2025, AL also recognised a revaluation gain of Rs. 68 million on land in other comprehensive income.

(iii) During 2025, CHL received a dividend of Rs. 40 million from AL and recognised it as other income.

(iv) The loan to BL was given during 2025, and settlement of it is neither planned nor likely to occur in the foreseeable future. No expected credit loss allowance is required in respect of the loan.

(v) On 1 January 2025, CHL acquired 75% of the ordinary shares of TCL from Sigma Investments Limited (SIL). The arrangements entered into in connection with the acquisition were as follows:

- A cash payment of Rs. 1,490 million.
- The transfer to SIL of freehold land owned by CHL, which had a carrying amount of Rs. 360 million and a fair value of Rs. 470 million at that date.
- The assumption by CHL of SIL's obligations under a bank loan. The principal amount of Rs. 250 million is repayable on 31 December 2029 and the loan carries interest at 10% per annum payable annually in arrears on 31 December. The market rate of interest for a similar loan at the date of acquisition was 14% per annum.
- A payment of Rs. 210 million to Sarfaraz, a significant shareholder of SIL, on 30 June 2026, provided that he continues to serve as chief executive of TCL until that date. The amount is forfeited in full if he ceases to hold that office for any reason before that date.

CHL has included Rs. 210 million in the cost of the investment in TCL while the transfer of the land and the assumption of the bank loan have not been recorded by CHL. However, CHL paid the interest due on the bank loan on the due date and recorded it as expense.

(vi) At the date of acquisition, TCL's retained earnings amounted to Rs. 900 million and the acquisition-date fair value of TCL's net assets was equal to their carrying amounts except for product liability claims which TCL had disclosed as contingent liability in TCL's financial statements with an estimated amount of Rs. 80 million. The acquisition-date fair value of these claims was estimated at Rs. 55 million. SIL has agreed to indemnify TCL in respect of 80% of any amount ultimately payable in respect of these claims.

At 31 December 2025, the claims were still outstanding and continued to be disclosed as contingent liability in TCL's financial statements. The fair value of these claims was estimated at Rs. 70 million at that date. The amount recoverable from SIL was considered fully collectible at both the acquisition date and 31 December 2025.

(vii) CHL elected to measure the non-controlling interest in TCL at its acquisition-date fair value, which amounted to Rs. 640 million.

(viii) During the year ended 31 December 2025, the following intra-group sales took place:

	Sales	**Included in the buyer's closing inventory**	**Unsettled balance at 31 December 2025**	**Mark-up**
	---------------------- Rs. in million	**----------------------**		
CHL to AL	600	180	126	25% on cost
TCL to CHL	900	225	175	25% on cost

Required:
Prepare CHL's consolidated statement of financial position as at 31 December 2025 in accordance with IFRSs. **(25 marks)**

QUESTION 4

The following transactions were entered into by Leo Tech Limited (LTL) during the year ended 31 December 2025:

(i) On 1 January 2025, LTL obtained a five-year loan of Rs. 200 million from a commercial bank, repayable in full on 31 December 2029. The loan carries interest at KIBOR plus 2% per annum. The interest rate is reset semi-annually in advance on 1 January and 1 July, and interest is payable semi-annually in arrears on 30 June and 31 December. The loan is measured at amortised cost.

Anticipating a rise in market interest rates, LTL also entered into an interest rate swap with a bank on 1 January 2025. Under the swap, LTL pays a fixed rate of 10% per annum and receives KIBOR on a notional amount of Rs. 200 million. The swap also matures on 31 December 2029 and has reset dates and settlement dates identical to those of the loan. Amounts are settled net on each settlement date. The swap is fully collateralised and its fair value on 1 January 2025 was nil.

On 1 January 2025, LTL also formally designated and documented the swap as the hedging instrument in a hedge of the variability in the loan's cash flows attributable to changes in the KIBOR benchmark component. The qualifying criteria in IFRS 9 for hedge accounting were met at inception and continued to be met at 31 December 2025.

The actual KIBOR at various dates was as follows:

Reset dates	1 January 2025	1 July 2025	1 January 2026
KIBOR (per annum)	10%	11%	12%

At 31 December 2025, LTL determined on the basis of a hypothetical derivative that the cumulative gain on the swap since inception (including net amounts already settled) amounted to Rs. 13.42 million and the cumulative change in the fair value (present value) of the hedged item since inception of the hedge amounted to Rs. 12.94 million.

(ii) LTL develops and licenses business intelligence and data analytics software. On 1 April 2025, LTL entered into a contract with Gamma Limited (GL) to provide an integrated solution comprising the following deliverables for one-year i.e. from 1 April 2025 to 31 March 2026:

- Licence to use LTL's proprietary business intelligence software. The licence does not transfer ownership of the underlying intellectual property and is provided on an 'as-is' basis, with no updates or upgrades during the contract period. The licence was made available to GL on 1 April 2025;
- Access to LTL's data analytics software hosted on LTL's cloud-based server; and
- Ongoing customer support services, including on-site training for both software applications, as required, over the contract period.

The total contract price is Rs. 95 million, payable in instalments of 50% on 1 April 2025, 30% on 30 September 2025 and 20% on 31 March 2026. The first two instalments were received on their due dates. All instalments are non-refundable. LTL's right to each unpaid instalment is conditional on continued performance. The contract further provides that LTL is entitled to an additional performance bonus of Rs. 8 million, payable on 31 March 2026, if the availability of the customer support services exceeds 95% over the contract year.

LTL regularly sells each of the three deliverables separately to other customers. The observable stand-alone selling prices for a one-year period for business intelligence software licence, cloud-based access to data analytics software and customer support services are Rs. 60 million, Rs. 36 million and Rs. 18 million respectively.

The licensed business intelligence software is fully functional when made available to GL and operates independently of the data analytics software and the support services. The support services do not integrate, significantly modify or customise either software application.

At 31 December 2025, the availability of the customer support services for the contract year to date was 97.4%. Based on performance to date, it is highly probable that LTL would achieve the 95% threshold for the full contract year.

Required:
Discuss how each of the above transactions should be accounted for in LTL's financial statements for the year ended 31 December 2025 in accordance with IFRSs. Your answer should include the relevant dated journal entries and all necessary workings. **(23 marks)**

QUESTION 5

Gemini Manufacturing Limited (GML) is finalising its financial statements for the year ended 31 December 2025. The following information is relevant to the preparation of the disclosures relating to taxation:

(i) Accounting profit before tax for the year, after all necessary adjustments, is Rs. 213 million.

(ii) On 1 January 2025, GML revalued its office building for the second time, resulting in an upward revaluation of Rs. 40 million. Immediately before the revaluation, the building had a carrying amount of Rs. 240 million and a remaining useful life of 16 years. The first revaluation, carried out on 1 January 2023, had resulted in a revaluation loss of Rs. 27 million and the carrying amount of the building after that revaluation was Rs. 270 million.

Under tax laws, revaluation has no effect. The tax base of the building on 1 January 2025 was Rs. 170 million, and depreciation at 20% of the tax base is allowed each year.

(iii) GML acquired a 5% equity interest in a company for Rs. 412 million during the year. The investment was irrevocably classified at fair value through other comprehensive income. A dividend of Rs. 20 million was received during the year. The fair value of the investment increased to Rs. 440 million at year-end.

Under tax laws, equity investments are required to be re-measured at fair value at each year-end. Dividends and capital gains (realised as well as unrealised) on such investments are taxable at a special rate of 15%.

(iv) On 1 April 2025, GML entered into a contract to design and deliver a customised machine to a customer for Rs. 120 million, which was received in full on that date. Control of the machine will transfer to the customer on 31 March 2027.

Under tax laws, the full amount received is taxable in the year of receipt.

(v) During the year, GML incurred expenditures of Rs. 90 million on a development project, of which only Rs. 54 million was capitalised. The project was not available for use at the year-end.

Under tax laws, expenditure on the development project is deductible in the year in which it is incurred.

(vi) As at 31 December 2025, taxable temporary differences on other items amounted to Rs. 60 million (2024: Rs. 96 million).

(vii) The applicable tax rate under the normal tax regime was 29%. On 15 November 2025, an increase in this rate to 32% was enacted, applicable to years beginning on or after 1 January 2026.

(viii) A discount rate of 14% per annum may be used wherever required.

Required:
Prepare relevant notes relating to current taxation and deferred tax liability/asset for inclusion in GML's financial statements for the year ended 31 December 2025, in accordance with IFRSs. **(16 marks)**
(Comparative figures are not required)

(THE END)

Rough Sheet