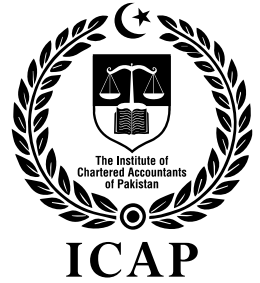


Certified Finance and Accounting Professional Stage Examination

Advanced Corporate Reporting

3 June 2026

100 marks



CRN:

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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 questions 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 are 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

Following are the draft statements of profit or loss of Hormuz Limited (HL), Bosphorus Limited (BL) and Gibraltar Limited (GL) for the year ended 31 December 2025:

	HL	BL	GL
	----- Rs. in million -----		\$ in million
Revenue	3,456	2,295	4.5
Cost of sales	(2,494)	(1,725)	(2.1)
Gross profit	962	570	2.4
Operating expenses	(580)	(350)	(1.3)
Other income	69	43	0.9
Finance cost	(38)	(20)	(0.4)
Profit for the year	413	243	1.6

Additional information:

- (i) On 1 March 2025, HL acquired 7.5 million shares of BL, representing a 75% shareholding, for the following consideration:
- Cash payment of Rs. 835 million, which included acquisition-related costs of Rs. 15 million. HL recognized the entire amount as the cost of investment in BL.
 - HL also agreed to issue its own ordinary shares equivalent to a fair value of Rs. 50 million if BL's revenue for the year ended 31 December 2025 exceeds Rs. 2,400 million. At the acquisition date, HL estimated a 60% probability that BL would achieve the revenue target. HL did not make any entry in respect of this contingent consideration, as BL did not achieve the revenue target for the year ended 31 December 2025.

The fair value per share of HL and BL on 1 March 2025 was Rs. 150 and Rs. 100, respectively.

- (ii) At the acquisition date, the fair value of BL's identifiable net assets was equal to their carrying value of Rs. 787 million, except for the following:
- The fair value of BL's website exceeded its carrying value by Rs. 120 million. The website had a remaining useful life of five years at the acquisition date. HL amortises its own website over three years.
 - BL's inventory included items whose net realisable value was Rs. 24 million lower than their carrying value at the acquisition date. These items were subsequently sold at a loss of Rs. 19 million.
 - BL's trade receivables included balances amounting to Rs. 21 million that were considered irrecoverable at the acquisition date. These receivables were provided for by BL after acquisition.
- (iii) In May 2025, BL purchased listed equity investments that were irrevocably elected at initial recognition as financial assets measured subsequently at fair value through other comprehensive income. BL recognized a fair value gain of Rs. 64 million in other comprehensive income for the year ended 31 December 2025. HL generally classifies its listed equity investments as financial assets measured subsequently at fair value through profit or loss.
- (iv) On 1 July 2024, HL acquired 3 million shares of GL, representing a 60% shareholding, for \$ 2.5 million. On acquisition date, the fair value of GL's identifiable net assets was equal to their carrying value of \$ 3.2 million.
- (v) GL's profit for the six months ended 31 December 2024 amounted to \$ 0.6 million.
- (vi) On 30 September 2025, HL disposed of 2 million shares of GL, reducing its shareholding from 60% to 20%, for cash consideration of \$ 2.8 million. HL credited the proceeds to retained earnings upon receipt. HL retains significant influence over GL after the disposal.
- (vii) The fair value per share of GL was \$ 0.75 on 1 July 2024 and \$ 1.2 on 30 September 2025.

(viii) The exchange rates per \$ to Rupee are as follows:

	Rs.
1 July 2024	272
31 December 2024	280
30 September 2025	285
31 December 2025	288
Average rate for July to December 2024	277
Average rate for January to September 2025	283
Average rate for October to December 2025	286
Average rate for January to December 2025	284

- (ix) On 31 December 2025, an impairment test indicated that goodwill arising on the acquisition of BL was impaired by 20%.
- (x) HL measures non-controlling interests at fair value on the acquisition date.
- (xi) Assume GL's disposal is not a discontinued operation.
- (xii) Unless otherwise stated, all income and expenses of the companies accrued evenly throughout the year.

Required:

Prepare HL's consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2025 in accordance with IFRS. **(25 marks)**

(Disclosures relating to allocation of profit or loss and comprehensive income attributable to non-controlling interest and owners of the parent are not required)

QUESTION 2

The following information is available regarding certain transactions of Suez Limited (SL):

(i) Share-based payment scheme:

On 1 January 2023, SL introduced a share-based payment scheme for 200 employees. Under the original terms of the scheme, each employee would become entitled, provided that the employee remained in service until 31 December 2026, to elect either:

- a cash payment equal to the market value of 8,000 ordinary shares of SL; or
- 12,500 ordinary shares of SL.

If an employee elects the share alternative, the shares cannot be sold or transferred for two years after vesting. At the grant date, SL estimated that the two-year post-vesting transfer restriction reduced the fair value of the shares by 20%. Ignore expected dividends and any other valuation adjustments.

The following information is also available:

	1 January 2023	31 December		
		2023	2024	2025
Employees in service	200	191	187	180
Employees expected to leave during the remaining vesting period	30	18	10	Nil
Fair value of each share <i>(Rs.)</i>	20	22	26	29

In order to simplify the capital structure for an upcoming merger of SL with another entity, SL offered immediate settlement on 31 December 2025 to all employees remaining in service on that date. SL also reduced the post-vesting transfer restriction from two years to one year for employees electing the share alternative.

The employees were given one week to communicate their preferred settlement option. In January 2026, 120 employees elected cash settlement and the remaining 60 employees elected settlement in shares.

At 31 December 2025, SL estimated that a two-year transfer restriction and a one-year transfer restriction would reduce the fair value of the shares by 20% and by 8% respectively.

(ii) Purchase of debentures:

On 1 January 2024, SL purchased 400,000 debentures of Mandeb Limited (ML). Each debenture has a face value of Rs. 100 and was purchased at Rs. 90. SL also incurred transaction costs of Rs. 608,000 on acquisition.

The debentures are redeemable at face value on 31 December 2028 and carry interest at 12% per annum, payable annually in arrears on 31 December. The effective interest rate, after considering transaction costs, is 14.5% per annum.

SL classified the debentures as financial assets measured at fair value through other comprehensive income. The fair value of each debenture on 31 December 2024 and 2025 was Rs. 94.5 and Rs. 87, respectively.

During 2025, ML's credit rating was downgraded due to declining operating results. ML also requested waivers for certain bank loan covenants. However, all contractual cash flows due up to 31 December 2025 were received on time, and the debentures were not credit-impaired. The decline in fair value during 2025 was attributable partly to an increase in market interest rates and partly to ML's credit deterioration. SL's management estimates that Rs. 3 per debenture of the fair value decline during 2025 related to ML's credit deterioration. For the purpose of measuring expected credit losses, the following probability of default (PD), loss given default (LGD) and exposure at default (EAD) were estimated:

Date	12-month PD	Lifetime PD	LGD	EAD
31 December 2024	2%	6%	45%	Gross carrying amount
31 December 2025	8%	18%	50%	Gross carrying amount

(iii) Lease of manufacturing facility:

On 1 January 2023, SL entered into a lease agreement for a specialised manufacturing facility for a term of 5 years. Annual lease payments of Rs. 10 million are payable in arrears on 31 December. SL's incremental borrowing rate at the commencement date was 12% per annum. SL depreciates right-of-use assets on a straight-line basis and applies the cost model.

Under the lease agreement, SL is required to dismantle certain leasehold installations and restore the facility to its original condition at the end of the lease term. At the commencement date, SL estimated restoration costs of Rs. 9 million payable on 31 December 2027. The appropriate discount rate for the restoration obligation at that date was 10% per annum.

On 1 January 2025, SL and the lessor modified the lease agreement. Under the modified agreement, the remaining lease term was extended from 3 years to 6 years, ending on 31 December 2030 and annual lease payments were increased to Rs. 12 million for each of the six remaining years, payable in arrears. The modification is not accounted for as a separate lease. SL's incremental borrowing rate on 1 January 2025 was 14% per annum.

On the same date, the estimated restoration costs increased to Rs. 14 million, payable on 31 December 2030, due to new environmental regulations and the extended use of the facility. The appropriate discount rate for the revised restoration obligation was 11% per annum.

There was no impairment indicator at any reporting date.

Required:

Prepare the relevant extracts (*including comparative figures*) from SL's statement of financial position and statement of profit or loss and other comprehensive income for the year ended 31 December 2025, in accordance with IFRS. **(25 marks)**

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

QUESTION 3

Davis Limited (DL) is in the process of finalizing its financial statements for the year ended 31 December 2025. The following information has been gathered for preparing the disclosures relating to taxation:

- (i) Profit before tax for the year, after incorporating all necessary adjustments, amounted to Rs. 256 million.
- (ii) On 1 May 2025, DL acquired 45% of the ordinary shares of Tsugaro Limited (TL) for Rs. 415 million. Under the contractual arrangement, DL and the other investor jointly control TL, and distribution of profits require the unanimous approval of both investors. DL accounts for its investment in TL using the equity method. For the eight-month period ended 31 December 2025, TL reported total comprehensive income of Rs. 280 million, including other comprehensive income of Rs. 40 million. On 30 September 2025, DL received a dividend of Rs. 27 million from TL. DL does not intend to dispose of its investment in TL in the foreseeable future.

Under the tax laws, dividend income and capital gains are taxable at 20%.

- (iii) Sales commissions amounting to Rs. 24 million were accrued in 2025 in obtaining customer contracts and were capitalised as an asset in accordance with IFRS 15. During 2025, amortisation expense of Rs. 6 million was recognized. Of the total sales commissions accrued, Rs. 14 million remained payable at 31 December 2025.

Under the tax laws, sales commissions are deductible upon payment.

- (iv) At 31 December 2025, DL had an asset of Rs. 16 million representing the right to recover inventory and a refund liability of Rs. 44 million, in respect of goods expected to be returned.

Under the tax laws, only actual returns are considered for computing taxable income.

- (v) An unrealised exchange gain of Rs. 36 million was recognised in the statement of profit or loss on the retranslation of a long-term foreign currency loan.

Under the tax laws, the translation exchange losses or gains are used in determining taxable profit in the year in which the loan is finally settled.

- (vi) DL issued perpetual preference shares that are classified as equity in accordance with IAS 32. During the year, DL paid a discretionary dividend of Rs. 18 million to the preference shareholders.

Under the tax laws, such dividend payment is deductible in determining taxable profit for the year.

- (vii) During 2025, DL introduced a funded gratuity scheme for its employees with retrospective effect from 2022. Based on actuarial valuation, DL recognised gratuity expense of Rs. 80 million in the statement of profit or loss and a remeasurement gain of Rs. 26 million in other comprehensive income. During the year, DL contributed Rs. 40 million to the gratuity fund.

Under the tax laws, gratuity amounts determined by actuary, which are recognised in the statement of profit or loss and other comprehensive income, are deductible/taxable for tax purposes in the next year after their recognition in the financial statements.

- (viii) The applicable income tax rate for the year ended 31 December 2025 and for future years is 35%, unless stated otherwise.

- (ix) There were no opening temporary differences as at 1 January 2025 requiring recognition of deferred tax. However, DL had minimum tax carried forward amounting to Rs. 21 million, which is adjustable against income tax liabilities within the next five years.

Required:

Prepare relevant notes relating to current taxation and deferred tax liability/asset for inclusion in DL's financial statements for the year ended 31 December 2025 in accordance with IFRS. **(20 marks)**

QUESTION 4

Yucatan Components Limited (YCL) is a listed manufacturer of automotive components. Due to recent increase in borrowing costs and pressure from lenders, YCL is exploring ways to improve its profitability and earnings per share (EPS) for the year ending 30 June 2027. YCL's loan covenants require it to maintain a minimum basic and diluted EPS.

In this regard, the CEO has engaged a consultant who has proposed two arrangements (I and II) while the CEO has also identified two further arrangements (III and IV). The details of the arrangements are as follows:

(I) Loan restructuring involving shares and warrants:

One of YCL's loans, having a carrying amount of Rs. 1,200 million and interest rate of 9% per annum, would be restructured on the following terms:

- YCL will issue 10 million ordinary shares of Rs. 10 each to the bank. The fair value of each share on issuance is estimated at Rs. 60.
- YCL will also issue 6 million warrants to the bank. Each warrant entitles the bank to subscribe for one ordinary share of YCL at Rs. 80 on 30 June 2029. The fair value of each warrant on issuance is estimated at Rs. 12.
- The remaining balance of the loan will be replaced by a new three-year loan having a fair value of Rs. 360 million and would carry interest at 8% per annum.

The consultant believes that the transaction will result in significant gain of Rs. 740 million arising on restructuring because the shares issued will be recorded at par value and the warrants would be ignored, as they will not result in issuance of any ordinary shares until a future year. The consultant also believes that the resulting gain in the statement of profit or loss will support the YCL's EPS.

(II) Cumulative convertible preference shares:

YCL should issue 5 million cumulative preference shares of Rs. 100 each at par. The preference shares will carry a cumulative preferential dividend of 8% per annum and will not be redeemable. Each preference share will be convertible, at the holder's option, into two ordinary shares after three years.

Dividends on the preference shares will be payable only when declared by the board. However, if not declared, the unpaid dividend will accumulate and must be settled before any dividend can be paid to ordinary shareholders.

The consultant believes that this is a unique arrangement where the preference shares would be recorded as liability but their dividend payments would not be recognised as finance cost. These dividends would be recognised in equity, as these are avoidable and would only be payable when declared by the board.

(III) Repurchase of own shares from market:

YCL intends to use the proceeds from issue of preference shares in arrangement (II) to repurchase 8 million of its own ordinary shares from the market at Rs. 60 per share. The shares will be cancelled immediately. The repurchase will also require transaction costs directly attributable to the purchase amounting to Rs. 10 million.

The CEO is uncertain about the accounting treatment but believes that the reduction in the number of ordinary shares would improve YCL's EPS.

(IV) Forward contract to repurchase own shares:

YCL also intends to enter into a forward contract with an existing shareholder under which YCL will be required to repurchase a further 5 million ordinary shares on 30 June 2028 at Rs. 75 per share. The forward contract will be physically settled, whereby YCL will pay cash and receive its own ordinary shares.

The CEO believes that there would be no immediate accounting consequences of this arrangement. He also believes that although the shares will not be legally repurchased until 30 June 2028, the expected future reduction in shares should be reflected in the calculation of YCL's EPS.

Required:

- (a) In respect of arrangements (I) and (II), evaluate the consultant's comments regarding the accounting treatment. **(06 marks)**
- (b) In respect of arrangements (III) and (IV), discuss how each arrangement should be accounted for in YCL's financial statements. **(08 marks)**
- (c) For each of the four arrangements, explain whether and how it would impact the calculation of YCL's basic and diluted EPS. *(Calculations are not required)* **(08 marks)**

QUESTION 5

You are the Group CFO of Panama Industries Limited (PIL). Kerch Limited (KL), one of PIL's subsidiary, manufactures electric buses and related charging equipment. In November 2025, the government announced a change in public transport subsidy policy. Under the revised policy, subsidies significantly favour hydrogen-powered buses over electric buses. Following the announcement, KL has experienced a decline in new orders for electric buses. In addition, costs of raw materials and battery components have increased significantly.

KL's management has prepared an impairment working which was submitted to PIL's finance manager for recording impairment in PIL's consolidated financial statements. He had started reviewing the working but proceeded on emergency leave before concluding the review. You have noted that he has highlighted certain areas in the impairment working but did not write the reasons for highlighting. The details of highlighted areas are as follows:

- (i) Despite the fact that the working results in a significant amount of impairment loss, KL's management has concluded that no impairment should be recognised. KL's management believes that the fall in demand is temporary and market conditions may improve after three years, as the hydrogen technology is not sustainable in the long term.
- (ii) In the working, KL has been considered as comprising of two cash generating units (CGUs), i.e. the electric buses business and the charging equipment business. Therefore, separate workings have been prepared for each CGU. The manufacturing plant, which is KL's core asset, has been allocated between the two CGUs based on revenue. However, KL operates a shared manufacturing facility, utilises integrated operational resources, and is monitored by management as a single electric mobility operation. Charging equipment is generally sold to customers who also purchase electric buses from KL.
- (iii) The value in use calculation incorporates cost savings expected from a proposed restructuring plan involving reduction of one of the production shift and staff redundancies. Although the plan has been discussed internally, it has neither been formally approved nor communicated to affected employees.
- (iv) The value in use calculation excludes future income tax payments, whereas the carrying value of KL's net assets includes a deferred tax asset.
- (v) The fair value less costs of disposal, used as a cross-check, is based on an indicative offer received nine months before the reporting date.

Required:

Briefly explain how the matters highlighted by the finance manager in relation to KL's impairment working should be dealt with in accordance with IFRS. **(08 marks)**

(THE END)

