

<b>THE INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN</b> <b>EXAMINERS' COMMENTS</b>											
<b>SUBJECT</b> Financial Reporting and Assurance Professional Competence						<b>SESSION</b> Multi-Subject Assessment - 1 Examination (MSA-1) Summer 2025					

### Passing %

Question-wise												Overall
1a	1b	1c	1d	1e	2a	2b	2c	2d	3a	3b	3c	
45	55	71	78	59	62	65	34	50	50	88	81	
												54%

### General comments

The passing rate for the Summer 2025 attempt was 54% which is broadly consistent with the previous session's outcome of 52% and aligned with the five-session average of 54%.

Although examinees performed relatively well in structured audit procedures, identification of ethical threats and impairment assessments, significant gaps were observed in the application of IFRS, particularly in questions involving group consolidation, revenue recognition, and the capitalisation of development costs. Furthermore, examinees demonstrated a tendency to focus on calculations without providing the necessary conceptual explanations or vice versa, resulting in incomplete or imbalanced responses.

### Question-wise common mistakes observed

#### Question 1(a)

- In relation to the sale of the resort, examinees failed to critically assess the substance over form of the arrangement with MTL, resulting in the incorrect recognition of the full profit on sale in the financial statements. The fact that JHG retained significant involvement in the operation and management of the property should have prompted a reassessment of whether control had truly transferred under IFRS 15. Only a limited number of examinees correctly identified that the transaction may not qualify as a genuine sale and could represent a failed sale-and-leaseback, thereby requiring deferral of profit recognition and continued partial recognition of the asset.

- In relation to the impairment of the conference division, examinees correctly identified the need for an impairment assessment, recognising the presence of indicators in accordance with IAS 36. However, a significant number merely calculated the total impairment loss without performing the required allocation of the loss to individual assets within the division. Among those who attempted the allocation, most failed to explain the basis and sequence of allocation, such as prioritising goodwill before allocating on a pro rata basis to other assets, which resulted in the loss of marks that could have been readily earned.
- In respect of the pension-related transaction, examinees focused primarily on the calculations and journal entries, often without providing the necessary explanatory context or references to IAS 19. Even within the calculations, the treatment of past service cost and the related interest cost was frequently omitted or inaccurately applied.

#### **Question 1(b)**

Examinees were able to identify and explain the relevant audit issues with reasonable clarity. However, the suggested further actions were often misdirected or lacked depth.

In the case of the impairment of the conference division, responses were limited to recommending that management should recognise the impairment, rather than suggesting appropriate audit procedures such as reviewing management's impairment model or challenging key assumptions. Similarly, for the transaction with AAA & Co., examinees frequently focused only on verifying the details of the specific transaction already identified, instead of taking a broader audit perspective, such as reviewing related party disclosures, evaluating the appropriateness of governance approvals, or assessing the completeness of related party identification.

#### **Question 1(c)**

There was no significant common mistake in this part of the question.

#### **Question 1(d)**

There was no significant common mistake in this part of the question.

#### **Question 1(e)**

In this part, responses were generally divided into two categories. First focused solely on explanation without providing the required financial statement extracts, and second, those prepared extracts but failed to accompany them with any supporting explanation. Both elements were necessary to earn full marks, as the question required not only the presentation format but also a clear articulation of the rationale behind the classification and measurement of the proposed investment under IFRS 9.

**Question 2(a)**

A key weakness in responses to this part was the failure to address the specific consolidation issues relating to Rubic-AI, particularly those arising from the step acquisition. Examinees did not discuss the need to re-measure the previously held 10% interest at fair value and recognise a gain or loss on remeasurement. In addition, the required fair value adjustment for the research and development asset of Rubic-AI and its subsequent amortisation were often omitted.

**Question 2(b)**

Answers to this part were often brief and focused primarily on calculating the expense and liability at year-end, with limited discussion of the underlying accounting principles.

**Question 2(c)**

- Approximately 20% of examinees did not attempt this part, and for many of those who did, it was evident that the question was left until the end of the exam, and responses were often incomplete and/or poorly structured.
- A recurring issue was the failure to incorporate the fair value adjustment for the research and development asset of Rubic-AI and the related amortisation adjustment.
- The Other Comprehensive Income section was omitted altogether.
- Examinees did not present the allocation of profit and total comprehensive income between the parent and non-controlling interest, resulting in incomplete consolidated statements.

**Question 2(d)**

In this part, examinees failed to identify the core ethical issue, which was the acceptance of an engagement involving a contingent fee, a clear threat to objectivity under the ICAP Code of Ethics. Instead, examinees focused only on the broader concern of whether audit and accounting services can be performed simultaneously, thereby missing this ethical breach presented in the scenario.

**Question 3(a)**

- In respect of the capitalized development costs, examinees failed to identify that the capitalization criteria under IAS 38 were met as of 28 February 2025 and therefore did not assess the timing of recognition appropriately. A large number of responses merely listed the six criteria for capitalization of internally generated intangibles without applying them to the facts of the case. Instead of discussing the nature of each cost item individually, such as staff costs, training expenses, or equipment usage, examinees proceeded directly to calculations, often treating all costs as capitalisable by default.

- In respect of the sale and leaseback transaction, examinees overlooked the critical fact that the arrangement had been assessed as a sale under IFRS 15, which significantly impacted the accounting treatment under IFRS 16. As a result, several responses proceeded with an altogether incorrect approach of recognising the full gain on sale or by failing to account for the right-of-use asset and lease liability arising from the leaseback.

**Question 3(b)**

There was no significant common mistake in this part of the question.

**Question 3(c)**

There was no significant common mistake in this part of the question.

***(THE END)***