

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN

Multi-Subject Assessment Stage

Financial Reporting and Assurance Professional Competence

Examiners' Comments

Winter 2025

PASSING %

Question-wise Passing %														Overall
1a	1b	1ci	1cii	1d	1e	2a	2b	2c	2d	3a	3b	3c	3d	
62	40	73	42	46	27	55	38	62	36	35	63	94	86	50%

GENERAL COMMENTS

The overall passing rate of 50% is broadly consistent with the previous session's result of 54% and the five-session average of 52%, and is in line with historical performance trends and the expected standard for this paper.

Although examinees generally performed satisfactorily in structured audit procedures and the identification of ethical threats, notable deficiencies were observed in the application of IFRS, particularly in questions involving group consolidation, revenue recognition, and hedge accounting. In addition, a recurring weakness across the paper was the failure to fully address the requirements, with examinees frequently providing calculations without sufficient explanation or narrative discussion without adequate numerical support. In line with previous sessions, responses were expected to apply relevant principles to the specific facts of the scenario, and answers that stopped at identification or general explanation, without applying those principles, attracted limited credit.

QUESTION-WISE COMMON MISTAKES OBSERVED

Question 1(a)

In respect of the lease arrangement, overall performance was satisfactory, with most examinees correctly identifying the lease as a finance lease and applying the relevant principles. However, examinees frequently failed to correctly determine the closing balance of the net investment in the finance lease, and errors were commonly noted in the determination and inclusion of the unguaranteed residual value, resulting in an incorrect calculation of the net investment in the finance lease at inception. In addition, some responses accepted management's conclusion that the lease was an operating lease without sufficient professional scepticism, particularly where the judgment indicators available in the scenario clearly contradicted management's classification and treatment of the lease.

In respect of the contract, examinees were often unable to conclude that the discount granted was commercially justified and that the entity was still able to maintain its original profit margin, indicating that the price of the new contract was distinct. As a result, the seating stand was frequently treated as an addition to the original contract, rather than being accounted for as a separate contract. Where examinees correctly identified the arrangement as a separate contract, further weaknesses were evident. Examinees failed to identify the stand-alone selling price of the seating stand of Rs. 110 million and incorrectly allocated the discount across both the original and the new contract in proportion to their stand-alone selling prices. In addition, examinees often failed to recognise that, given the early stage of construction and the associated uncertainty, revenue in respect of the new seating stand should have been recognised only to the extent of costs incurred. Instead, the majority merely applied 75% and 10% completion percentages to the relevant amounts, without proposing any necessary adjustments to revenue and cost of sales.

Question 1(b)

Examinees who performed well in part (a) were generally able to carry forward the impact of adjustments into property, plant and equipment, the net investment in the finance lease, and the investment in bonds. However, adjustments to profit or loss were frequently incorrect. In particular, in relation to revenue and cost of sales, examinees often recognised the full amounts calculated, rather than adjusting only for the incremental impact of the contract modification, despite the draft financial statements already including the revenue and cost of sales for the current year. Only a limited number of examinees were able to correctly determine the number of free shares and compute diluted earnings per share.

Question 1(c)

In respect of part (i), examinees frequently listed audit procedures that were often not linked to the specific audit risks identified. Where examinees failed to correctly identify the underlying financial reporting issues, the procedures proposed were commonly misdirected and focused on irrelevant aspects of the scenario due to a misunderstanding in part (a).

In respect of part (ii), weaknesses were evident where responses relied on generic audit reporting statements, such as broadly stating that a misstatement would be material or pervasive without calculating materiality or applying it to the specific facts of the scenario. Some responses incorrectly referred to the inclusion of an emphasis of matter paragraph where a modification of opinion was required. Confusion was also evident between the wording of qualified and adverse opinions.

Question 1(d)

While the majority of examinees correctly identified the event as a non-adjusting event, only a limited number were able to appropriately describe the audit evidence required, such as reviewing public announcements and examining the sales contract to support the required disclosure.

Question 1(e)

Examinees simply stated that a business relationship with a client is not permitted without considering whether the arrangement was conducted on an arm's length basis, resulting in the loss of marks on an otherwise straightforward requirement. In addition, examinees often identified ethical threats without explaining why those threats arose in the specific circumstances of the scenario.

Question 2(a)

Examinees correctly identified certain errors, as reflected in their revised goodwill calculations, but these errors were not explained, despite this being a requirement of the question. Examinees also failed to explain and appropriately incorporate the fair value adjustments relating to the legal claim and contingent liability, with incorrect signs or/and amounts frequently used in the workings.

Question 2(b)

In part (b), examinees focused mainly on calculating the foreign exchange gain or loss. In addition, a few examinees addressed the adjustments required for additional depreciation arising from fair value adjustments to property, plant and equipment, legal claim, and contingent liability. Furthermore, examinees frequently failed to discuss that goodwill should be tested for impairment at year-end.

Question 2(c)

Although it was clearly stated in the question that the tax services provided by CX & Co. were prohibited services, the examinees started discussing which services are permitted or prohibited under the ICAP Code of Ethics, rather than concluding that group ethical requirements apply to CX & Co. as well and that the provision of prohibited services disqualified CX & Co. from being appointed as a component auditor. In addition, examinees under-estimated the significance of language barriers on the group auditor's ability to be sufficiently involved in the work of the component auditor. The use of the client's staff as translators was, in several responses, accepted without appropriate challenge, despite the threats this poses to audit quality and objectivity.

Question 2(d)

Examinees failed to identify that management's decision to invite tenders reflected an incorrect understanding that a different auditor could be appointed to audit the summary financial statements, whereas the applicable standards require the same auditor to report on both the full and the summary financial statements. Furthermore, examinees did not conclude that the auditor must agree with identified matters with management before accepting the engagement.

Question 3(a)

In respect of the customer loyalty program, examinees failed to recognise that a portion of the consideration was required to be allocated to the free coffees under the loyalty arrangement. Even where examinees identified this requirement, they did not discuss and incorporate the impact of the 15% of free coffees expected not to be redeemed, resulting in an incorrect allocation of revenue.

In respect of inventory, examinees often correctly identified that inventory is a non-monetary item and therefore not subject to retranslation at the reporting date for exchange differences. However, examinees failed to conclude that, in the given scenario, net realisable value was denominated in a foreign currency and therefore required translation at the appropriate exchange rate. As a result, the required adjustment to inventory was frequently omitted.

In respect of the hedging arrangement, examinees provided only very brief explanations and focused primarily on journal entries and numerical calculations, without demonstrating a clear understanding of the underlying hedge relationship. Only a limited number of examinees recognised that the fair value changes on the hedging instrument recognised in other comprehensive income should be recycled to profit or loss upon the purchase of the inventory, given that the hedged item had not yet been recognised.

Question 3(b)

Examinees often relied on generic audit reporting statements, referring broadly to materiality or pervasiveness without calculating or applying materiality to the specific facts of the scenario, which limited the marks awarded. In addition, confusion was evident between the use of emphasis of matter paragraphs and modified opinions, as well as between the wording of qualified and adverse opinions.

Question 3(c)

There were no significant common mistakes in this part of the question.

Question 3(d)

There were no significant common mistakes in this part of the question

(THE END)