THE INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN

Multi Subject Assessment Stage (Transitional Scheme)

Financial Reporting and Assurance Professional Competence

Examiners' Comments **Summer 2026**

PASSING %

Question-wise Passing %												Overall
1a	**1b**	**1c**	**1di**	**1dii**	**1e**	**2a**	**2b**	**3a**	**3b**	**3c**	**3d**	
46	48	71	84	86	54	15	60	35	44	75	69	60%

GENERAL COMMENTS

The passing rate increased to 60%, representing an improvement from the previous session's results. The examinee population reduced significantly from the usual level of approximately 1,000 to around 600, with all examinees falling under the transition scheme. Given that only two attempts, including the current session, remained available for MSA-1, the stronger performance was attributed to the increased focus and effort of examinees aiming to complete their qualification.

Performance was generally weaker in requirements involving the determination and application of specific accounting treatments, while audit-related parts were usually addressed more effectively.

QUESTION-WISE COMMON MISTAKES OBSERVED

Question 1a

- In respect of the Lahore production facility, examinees often restricted their responses to the transfer of the asset from property, plant and equipment to investment property and overlooked the need to assess the classification of the lease. Some incorrectly treated the five-year arrangement as a finance lease without considering the facility's remaining useful life of 25 years or whether the significant risks and rewards of ownership had transferred to the lessee. Although examinees recognised that the property should be measured at fair value on transfer, many accepted management's valuation of Rs. 290 million without critically assessing the underlying valuation inputs. The recent sale of a comparable production facility for Rs. 270 million represented a more observable Level 2 input and should have been preferred over the valuation based on the present value of future rental income.

- For the disposal of shares, examinees often retained management's recognised profit of Rs. 3 million and overlooked the requirement to update the investment to its fair value of Rs. 62 million immediately before disposal. Accordingly, the increase of Rs. 5 million from the previous carrying amount of Rs. 57 million should have been recorded in other comprehensive income. A further common error was the recycling of the accumulated fair value reserve to profit or loss. Under the FVOCI election for equity instruments, amounts recognised in other comprehensive income are not reclassified to profit or loss on disposal.

- In respect of the advance payment received from the customer, examinees often accepted management's classification of the arrangement as a bill-and-hold sale merely because the customer had requested delayed delivery and had made full payment. They failed to assess each of the relevant recognition criteria separately. Even where examinees correctly concluded that the amount could not be recognised as revenue, they frequently did not explain the basis for that conclusion. The consequential requirement to confirm that the vehicles remained included in closing inventory at the lower of cost and net realisable value was also commonly overlooked.

Question 1b

Errors arising in part (a) were often carried forward into the calculation of profit before interest and tax and total equity. The correct revaluation gain of Rs. 29.2 million was sometimes recognised in profit before interest and tax rather than in other comprehensive income, while other examinees omitted its effect on total equity altogether.

Question 1c

- For the Lahore production facility, examinees often recommended merely "checking the valuation report" without considering the competence, capabilities and objectivity of the surveyor or evaluating whether the valuation methodology and assumptions used were appropriate. The recent sale of a comparable facility which provided important supporting evidence for the valuation was also not adequately addressed.

- In respect of the customer advance, examinees commonly recommended confirming the receipt from Haneef Ltd but failed to inspect the underlying contract to assess whether the bill-and-hold criteria had been satisfied or whether any portion of the transaction price related to a separate storage service.

Question 1di

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

Question 1dii

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

Question 1e

- Examinees assumed that the employment of Aliya Sandhu's brother by AAL necessarily required her removal from the audit team. However, they did not assess the significance of his position or whether his responsibilities gave him influence over the preparation of the financial statements. Responses also lacked depth in identifying the ethical threats; some mentioned only familiarity while others cited self-interest without linking it to the possibility that Aliya might avoid challenging matters that could have negative consequences for her brother.

- Responses generally referred to a familiarity threat but did not address the self-review threat involved in Bilal Ajmal reviewing his own prior judgements and decisions from the previous year's audit. Examinees considered that his appointment would be acceptable if his work were subject to review by another partner, without recognising that this arrangement would still fail to meet the specific eligibility criteria under ISQM-2.

Question 2a

- In respect of the share options, examinees incorrectly treated the share-price target as a non-market vesting condition and therefore reversed or discontinued the expense when the target of Rs. 2,500 had not yet been achieved. The share-price target was a market condition already incorporated into the grant-date fair value and did not justify any reversal of the expense. Deferred tax relating to the share options was frequently omitted or incorrectly calculated by applying the tax rate to the accounting expense. Examinees did not determine the tax base using the intrinsic value of the options at the reporting date. In addition, the brought-forward deferred tax asset was often ignored when calculating the current-year movement.

- In respect of the lease, examinees commonly expensed the legal fees of Rs. 1 million instead of including them in the initial cost of the right-of-use asset. The deferred tax implications were also widely overlooked, as examinees failed to recognise that both the right-of-use asset and lease liability had nil tax bases and that the resulting net temporary difference gave rise to a deferred tax liability. In addition, journal entries frequently did not fully eliminate the Rs. 6.8 million suspense balance, despite all related payments having initially been recorded in that account.

- In respect of the land valuation, examinees frequently recognised the entire Rs. 4.5 million revaluation decrease in other comprehensive income. Deferred tax was either omitted altogether or restricted to reversing the existing deferred tax liability. In addition, the resulting deferred tax movement was often not correctly allocated between other comprehensive income and profit or loss.

Question 2b

- Examinees generally recognised that Amir Syed did not possess the specialist expertise required to perform the property valuation. However, responses were often limited to recommending that he refuse the assignment, without considering whether the threat could first be reduced to an acceptable level through appropriate safeguards. Some examinees treated Amir Syed as auditor of GIL instead of an employee of GIL and drafted their answer from the auditor's point of view.

- Examinees often viewed the 5% bonus simply as extra compensation and did not assess whether it was being offered as an inducement to persuade Amir to perform a specialist valuation beyond his level of expertise.

Question 3a

In respect of both disposals, examinees frequently failed to distinguish between the accounting treatment required in MCG's separate financial statements and that applicable in the consolidated financial statements, despite this distinction being specifically required by the question. Responses usually addressed only the consolidated treatment. In addition, examinees focused mainly on the numerical calculations and provided little or no explanation of the underlying accounting principles.

Question 3b

- For the brand valuation, examinees overlooked the fact that the internally generated brand was not eligible for recognition in the separate financial statements of Haris Systems Ltd.

- In respect of the legal case, examinees incorrectly assumed that any information obtained within 12 months of the acquisition must be treated as a measurement-period adjustment to goodwill. They failed to distinguish between information providing further evidence about conditions that existed at the acquisition date and changes arising from subsequent events. Consequently, the increase in the liability from Rs. 1.2 million to Rs. 2.3 million was frequently adjusted against goodwill instead of being recognised as a post-acquisition expense.

Question 3c

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

Question 3d

- Examinees frequently proposed generic procedures, including statements such as "check the disposal" or "verify the calculations", but did not specify the supporting documents to be inspected or the particular computations that required re-performance.

- Procedures relating to the fair value of the retained 25% interest were either limited or omitted. Examinees should have evaluated the valuation methodology and key assumptions used and compared the resulting valuation with relevant market information.

- Review of the disclosures required by IFRS 10 and IAS 28 was omitted from many responses.

(THE END)