ICAP

Multi Subject Assessment Stage

2 June 2025
4 hours and 15 minutes – 100 marks

Financial Reporting and Assurance Professional Competence

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 4 hours and 15 minutes, which includes the reading time and an extra 30 minutes of time that has been allocated due to the introduction of computer-based examinations.
3. All questions are compulsory.
4. Questions can be attempted in any sequence.
5. There is no specific time allocated for individual questions.
6. 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.
7. Each question provides an answer area with a Rich Text Format (RTF) editor for writing your answers. Additionally, 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.**
8. Work done in the spreadsheet of one question can also be copied into the RTF editor of the same or another question.
9. You may use Microsoft Office applications such as MS Word or MS Excel for rough working. However, please remember that any work performed in these applications cannot be copied into the examination software, and vice versa. Furthermore, any such work will not be uploaded with your exam for marking.
10. You may use pen and paper for rough work, but please note that pen and paper work should only be done on the last two pages of the question paper that are specifically allocated for this purpose. Remember that any rough work done on these pages will not be uploaded with your exam for marking.
11. In accordance with the open book policy of this paper, you are allowed to have a maximum of **FIVE** original books duly bound. Please ensure that the books or notes you bring are permissible under the open book policy. Keeping a book or notes that are not permissible will be considered a violation under the policy on the use of unfair means.
12. An external calculator can be used, provided it is included in the list of permissible calculators issued by ICAP.
13. During the exam, access to any website other than exam software website is strictly prohibited. Engaging in such activities will be considered a violation under the policy on the use of unfair means.

QUESTION 1

Johar Hotels Group Ltd (JHG) is a well-established, medium-sized hotel chain, operating across several business segments, including conference facilities, holiday-focused resort hotels, and mid-priced hotels aimed at business travellers.

You are Iqbal Baig, an audit manager at Zaman & Co, the auditor of JHG for the year ended 31 March 2025. The audit work is partially complete, and there are several outstanding matters to be resolved before finalising the audit. In addition, JHG has requested advice on the accounting treatment of a proposed investment in another entity's shares.

You have been presented with the following information:

Appendix 1: Extracts from the draft financial statements of JHG for the year ended 31 March 2025.

Appendix 2: File note from Nazir Hafeez, audit senior at Zaman & Co.

Appendix 3: Email from Bashir Wali, Finance Director at JHG.

Appendix 4: Extracts from the actuarial report on the JHG defined benefit pension scheme, provided by KGL Actuarial Services.

Appendix 5: Transcript of a phone message from Abida Umer, audit junior to Iqbal Baig.

Appendix 6: Email from Bashir Wali to Saif Javeid, Audit Partner at Zaman & Co.

Requirements

(a) Using the notes provided by the audit senior (Appendix 2), along with the additional information from the client (Appendices 3 and 4), explain the appropriate accounting treatment for the identified issues. Prepare journal entries, where relevant, and draft a disclosure note relating to the transactions with AAA & Co. **(21 marks)**

(b) Explain the audit issues arising, and the further action that Zaman & Co should take with regard to the following matters outlined in Appendix 2:

(i) the impairment calculation provided by JHG management;
(ii) the transaction with AAA & Co; and
(iii) the actuarial report for the defined benefit pension scheme. **(14 marks)**

(c) Discuss the audit quality management issues arising from Appendix 5, and recommend the appropriate action that Zaman & Co should take. **(04 marks)**

(d) Discuss the professional and ethical issues arising from the request for Zaman & Co to provide corporate finance advice, as detailed in Appendix 6. Recommend the appropriate action Zaman & Co should take. **(03 marks)**

(e) Using the information in Appendix 6, explain the available alternative accounting treatments for the proposed investment in shares. Prepare extracts for inclusion in the financial statements to illustrate the effect of each treatment. **(08 marks)**

Total: 50 marks

APPENDIX 1 – EXTRACTS FROM THE DRAFT FINANCIAL STATEMENTS OF JHG

Statement of profit or loss for the year ended 31 March 2025

	Rs. in million
Revenue	8,655
Cost of sales	(4,978)
Gross profit	**3,677**
Expenses	(2,958)
Other income	714
Finance costs	(27)
Profit before tax	**1,406**
Taxation	(77)
Profit for the year	**1,329**

Statement of financial position as at 31 March 2025

	Rs. in million
Non-current assets	
Property, plant and equipment	23,045
Intangible assets	2,350
	25,395
Current assets	
Inventories	2,387
Trade and other receivables	2,953
Cash and cash equivalents	1,288
	6,618
Total assets	**32,023**
Equity	
Ordinary share capital (Rs.10)	12,500
Other components of equity	657
Retained earnings	11,505
	24,662
Non-current liabilities	
Defined benefit pension liability	905
Current liabilities	6,456
Total equity and liabilities	**32,023**

APPENDIX 2 – FILE NOTE FROM AUDIT SENIOR

Date: 28 May 2025
Subject: JHG audit for the year ended 31 March 2025

Our audit site visit concluded today. Points to note from the fieldwork completed so far are as follows:

Sale of hotel resort

Audit work on this transaction was carried out by Abida Umer (audit junior). The sale proceeds of Rs. 880 million were traced to the cash book and bank statement. Abida requested further details from the accounts assistant, but was informed that only the Finance Director had the relevant information. It is unclear whether any further audit procedures were performed by Abida, and I have not had the opportunity to review her working papers. She is now on study leave for the next two weeks.

Conference division

Analytical review of the divisional performance showed a significant decline in revenue and cash flows of the conference division this year.

I discussed the matter with the Sales Director, who explained that a new competitor had entered the market, and several of JHG's key clients had moved their business to that competitor. One of the reasons cited was the age and condition of JHG's conference facilities, which are now considered to be outdated and in poor condition. The Sales Director expressed optimism that these clients might return if better terms are offered for future conferences over the next three years.

Bashir Wali has not yet provided his impairment review for the conference division, and audit work remains outstanding in this area.

JHG has not recorded any journal entries in relation to impairment losses for the conference division in the financial statements. The carrying amount of the division is Rs. 6,420 million.

Transactions with AAA & Co

In the hotel division, several transactions with AAA & Co were made during the year. Rooms were made available to AAA & Co in a number of mid-range hotels in different locations, for use by its employees when travelling for business purposes.

The total amount invoiced to AAA & Co during the year was Rs. 500 million, which was more than double the amount from the previous year. The outstanding balance at the year-end was Rs. 401 million, and Rs. 385 million of this had been outstanding for over 30 days (note that JHG's terms of trade require all invoices to be paid within 30 days).

As there was a significant amount overdue, I queried this with the sales manager and was given the following information:

"There is no problem with the invoices to AAA & Co. We have a long-standing relationship with them, and they always settle their invoices eventually. On 1 April 2024, AAA & Co was taken over by Muhammad Faizan, who is the son of Zubair Faizan, our CEO, so I am 100% sure we will collect the balance."

We agreed 100% of the balance outstanding from AAA & Co at year-end to payments received after the year-end. No further audit procedures were deemed necessary, as the outstanding balance has now been received.

Pension balances

JHG operates a defined benefit pension plan for its employees. The pension balances have not yet been accounted for, due to the late receipt of the actuarial report from KGL Actuarial Services (KGL). We were informed that the delay was due to Mirza Lal, the actuary handling JHG, being unavailable when his approval of the report was required. The only accounting entry made during the year was a debit to Profit or Loss – Expenses and a credit to Bank, for the contributions paid during the year.

KGL specialises in pension calculations, and Zaman & Co has had a positive experience with KGL in previous years. KGL requires all of its actuaries to be current members of the Pakistan Society of Actuaries.

While performing audit procedures, we noted that Mirza Lal was a complimentary guest at JHG's holiday resort in the Naran Valley for two weeks in March 2025. When I inquired about this with the sales manager, I was told it had been approved by Bashir Wali, so there was "no need to worry".

APPENDIX 3 – EMAIL FROM FINANCE DIRECTOR AT JHG

To: Iqbal Baig
From: Bashir Wali
Date: 1 June 2025
Subject: Audit queries

I believe the audit team were asking about a couple of issues while they were on site – namely, the sale of the hotel resort and the performance of the conference division. I was surprised they did not come and speak to me directly about these matters, as I had some additional information which they might have found useful! See below for further details that might help you complete your work before our meeting next week.

Sale of hotel resort

We sold one of our resorts this year to a travel company, Multan Tours Ltd (MTL) which regularly uses significant capacity across our hotels. Normally, MTL reserves blocks of rooms in our resorts (which we invoice directly to MTL, and they settle on normal credit terms), and these rooms are then allocated by MTL to their tour customers. We decided it would be more commercially advantageous to both JHG and MTL if we sell a resort to MTL instead, which we did at the start of the year.

Proceeds of the sale were Rs. 880 million, received in cash. The carrying amount of the entire resort immediately prior to the transaction was Rs. 800 million.

Under the sale agreement, JHG will continue to operate, manage, and maintain the resort for the next 10 years. During this period, MTL will advise JHG of their required levels of occupancy each month, up to a maximum of 80% of resort capacity. No invoices will need to be sent by JHG to MTL during this time, and MTL will continue to allocate rooms to their tour customers directly. Any spare capacity can be sold by JHG to other customers at rates determined by JHG.

As well as being commercially advantageous, JHG also benefits from having effectively received payment for 10 years' worth of resort bookings upfront, giving us a clear financial benefit. MTL has previously suggested that they could make loans to JHG at an interest rate of 12% per annum, but we feel this transaction is more appropriate for JHG in our current position.

The profit on the disposal of the resort has been recognised in profit or loss for the year and calculated as proceeds received less 80% of the carrying amount of the resort, i.e., Rs. 240 million (880 – 80% × 800). Property, plant and equipment has been decreased by 80% of the carrying amount of the resort and remaining 20% has been depreciated over its estimated useful life of 20 years.

Conference division

The conference division was acquired by JHG three years ago, and initial performance was in line with expectations. However, results for the current year have been disappointing, and the cash flow budgets and forecasts for the coming year indicate a potential cash shortfall. The conference facilities are also showing signs of wear and tear that were not anticipated at the time of acquisition.

Net assets of the division at year-end, measured at historical cost, were as follows:

	Rs. in million
Property, plant and equipment	4,450
Goodwill arising on acquisition	500
Other intangible assets	900
Net current assets	570
	6,420

Forecasts for the next five years indicate that the present value of the division's future cash flows is approximately Rs. 4,700 million. We have recently received an enquiry from one of our competitors to acquire the entire division for Rs. 4,500 million (net of legal and selling fees), but the board has not yet made a decision on whether to proceed with the sale.

Included within the carrying amount of property, plant and equipment in the division's net assets is a specific conference facility with a carrying amount of Rs. 1,200 million. JHG has also received an offer from a different buyer to purchase this facility alone for net proceeds of Rs. 1,100 million. No decision has yet been made on whether to accept this offer either.

No entry has been passed as final decision regarding sale of the division has not been made.

Transactions with AAA & Co

I believe that as Muhammad Faizan and Zubair Faizan live in different towns and do not see each other regularly due to their business commitments, we would not define them as close family members. Hence, we have decided not to disclose the transaction as a related party transaction.

Defined benefit pension scheme

Finally, the actuarial report for the pension scheme is now available, and I will send this to you separately.

Kind regards,

Bashir
Bashir Wali
Finance Director
Johar Hotels Group Ltd

APPENDIX 4 – EXTRACTS FROM THE ACTUARIAL REPORT PROVIDED BY KGL ACTUARIAL SERVICES

The following information relates to the Johar Hotels Group Ltd defined benefit pension scheme for the year ended 31 March 2025.

	Rs. in million
Fair value of plan assets at 31 March 2024	3,750
Present value of plan obligations at 31 March 2024	4,655
Current service cost for year ended 31 March 2025	893
Contributions paid into the plan	420
Benefits paid to pensioners	375
Fair value of plan assets at 31 March 2025	4,129
Present value of plan obligations at 31 March 2025	5,573

On 1 April 2024, the trustees of the pension plan decided to extend benefits to include the dependants of current members. This change resulted in an increase of Rs. 95 million in the present value of the defined benefit obligation. This increase was not reflected in the present value of the obligation as at 31 March 2024.

The annual yield on high-quality corporate bonds was 14.8% at 31 March 2024 and 14.5% at 31 March 2025.

All contributions and benefit payments were settled in cash on 31 March 2025.

APPENDIX 5 – PHONE MESSAGE FROM ABIDA UMER, AUDIT JUNIOR TO IQBAL BAIG

Hi Iqbal, it’s Abida here. I just wanted to check if you had any questions regarding my work on the sale of the hotel resort for the JHG audit. Nazir didn’t have time to review my work in this area before I went on study leave, and I’m not sure if it was ever looked at. I’ve never audited this area before, and I remember the audit partner saying it was a significant risk for the audit. Please let me know if you have any feedback. Thank you.

APPENDIX 6 – EMAIL FROM FINANCE DIRECTOR OF JHG

To: Saif Javeid
From: Bashir Wali
Date: 18 May 2025
Subject: Investment

Dear Saif,

By the end of 2025, we intend to acquire a 1% interest in the shares of a listed company to hold as an investment. The expected purchase cost is approximately Rs. 115 million, based on current forecasts of the share price. We also anticipate incurring additional professional fees of 2.6% of the purchase price in connection with the acquisition. The investee company regularly pays a dividend on 28 February each year, and we understand our share of the 2026 dividend would be approximately Rs. 7 million. The forecasted market value of the shares on 31 March 2026 is Rs. 127 million.

We would like Zaman & Co to undertake an additional engagement to provide corporate finance advice regarding this investment.

Additionally, could you please explain the possible alternative accounting treatments for this investment in our financial statements for the year ending 31 March 2026? It would also be helpful if you could prepare relevant extracts for inclusion in the financial statements at that date, using the figures above, to illustrate the effect of each treatment in support of your explanation.

Kind regards,

Bashir
Bashir Wali
Finance Director
Johar Hotels Group Ltd

QUESTION 2

Haider Consulting Ltd (HCL) is a small group of companies specialising in IT consulting. Although HCL is currently exempt from audit, it has elected to apply full IFRS in preparing its consolidated financial statements, as the group plans to expand in the future and wishes to appear attractive to potential international investors.

You are Fatima Dil, an accountant at Shafi & Co, a professional services firm providing accounting and business advisory services to HCL for past few years. You have been assigned to complete the group consolidation and address the accounting for the share appreciation rights (SARs) at HCL.

Nasir Wajid, the finance assistant at HCL, has prepared financial statements for each company in the group and has drafted a basic consolidation schedule by simply aggregating the line items of all three companies. He now requires your assistance to complete the consolidation process properly. Nasir also seeks guidance on how to account for SARs issued during the year.

You have been provided with the following information relating to the year ended 30 April 2025:

Appendix 1: Draft consolidation schedule of HCL by Nasir Wajid.

Appendix 2: Details of group structure and acquisition of Rubic-AI.

Appendix 3: Information regarding intra-group trading and balances.

Appendix 4: Details of share appreciation rights issued during the year.

Appendix 5: An email to Anwar Shah, partner at Shafi & Co, with a request from Ali Yaseen, finance director at HCL.

Requirements

(a) Using the information in Appendices 2 and 3, identify and explain any errors and omissions in the draft consolidation schedule (Appendix 1). **(06 marks)**

(b) Explain the correct accounting treatment of the share appreciation rights as described in Appendix 4. Also, provide the necessary journal entries for the year ended 30 April 2025. **(04 marks)**

(c) Prepare a revised consolidated statement of profit or loss for the year ended 30 April 2025 and a consolidated statement of financial position as at that date, incorporating all necessary adjustments from requirements (a) and (b). **(10 marks)**

(d) Discuss the professional and ethical issues arising from the scenario in Appendix 5 and recommend the appropriate action that Shafi & Co should take. **(05 marks)**

Total: 25 marks

APPENDIX 1 – DRAFT CONSOLIDATION SCHEDULE OF HCL BY NASIR WAJID

Statement of profit or loss for the year ended 30 April 2025

	HCL	Subito	Rubic-AI	Consolidated
	------------------ Rs. in million ------------------			
Revenue	1,045	619	586	2,250
Cost of sales	(574)	(376)	(334)	(1,284)
Gross profit	**471**	**243**	**252**	**966**
Expenses	(59)	(73)	(44)	(176)
Finance cost	(32)	(19)	(8)	(59)
Profit before tax	**380**	**151**	**200**	**731**
Taxation	(62)	(29)	(30)	(121)
Profit for the year	**318**	**122**	**170**	**610**

Statement of financial position as on 30 April 2025

	HCL	Subito	Rubic-AI	Consolidated
	------------------ Rs. in million ------------------			
Property, plant and equipment	175	95	174	444
Investments	550	-	-	550
Current assets	48	17	32	97
Total assets	**773**	**112**	**206**	**1,091**
Share capital	9	1	2	12
Retained earnings	625	92	165	882
Non-current liabilities	95	-	-	95
Current liabilities	44	19	39	102
Total equity and liabilities	**773**	**112**	**206**	**1,091**

APPENDIX 2 – GROUP STRUCTURE AND ACQUISITION OF RUBIC-AI

Haider Consulting Limited (HCL) acquired 80% of the issued share capital of Subito Limited (Subito) on 1 May 2023 for Rs. 40 million, when Subito's retained earnings were Rs. 34 million. At the acquisition date, the fair value of Subito's net assets was equal to their carrying amount.

On 1 May 2024, HCL acquired a 10% interest in the ordinary share capital of Rubic-AI Limited (Rubic-AI) as a strategic investment, at a cost of Rs. 60 million. On 1 November 2024, HCL acquired an additional 60% of Rubic-AI for Rs. 450 million. At that date, the fair value of the initial 10% interest was Rs. 75 million. On initial recognition, HCL has elected to recognise fair value gains and losses on equity investments that are not held for trading in other comprehensive income (OCI). However, no adjustments have yet been made to reflect this policy in the draft consolidation schedule provided in Appendix 1.

The group's policy is to measure non-controlling interests in all subsidiaries at their proportionate share of net assets. The profit of Rubic-AI has accrued evenly throughout the year.

There has been no impairment of goodwill relating to either Subito or Rubic-AI.

Rubic-AI is a company focused on developing artificial intelligence capabilities. It has relatively few recognised assets on its statement of financial position, having incurred significant research and development (R&D) expenditure that does not meet the capitalisation criteria under IAS 38 Intangible Assets. However, HCL has reliably estimated the fair value of Rubic-AI's R&D work at 1 November 2024 to be Rs. 188 million. This R&D is expected to have a useful life of three years to the group.

APPENDIX 3 – INTRA-GROUP TRADING AND BALANCES

HCL provides management services to its subsidiary companies and charges a management fee to each company on a quarterly basis. Invoices are issued on the last day of July, October, January and April, and are settled on the last day of the following month. Management fees are charged at Rs. 15 million per quarter for Subito and Rs. 20 million per quarter for Rubic-AI.

HCL records the management fees as part of revenue, while the subsidiaries include them within cost of sales.

APPENDIX 4 – SHARE APPRECIATION RIGHTS

To incentivise employee retention, HCL granted 1,200 cash-settled share appreciation rights (SARs) to each of its 150 full-time employees on 1 May 2024. The SARs will vest on 30 April 2027, subject to the condition that the employees remain in service until that date. At the grant date, the fair value of each SAR was estimated at Rs. 2,100. This fair value increased to Rs. 2,200 by 30 April 2025.

HCL's management initially estimated that 20% of the employees would leave during the vesting period. By 30 April 2025, five employees had left the company, and management now estimates that a further 22 employees will leave before the vesting date.

No accounting entries for the SARs have been recorded in HCL's draft financial statements for the year ended 30 April 2025.

APPENDIX 5 – EMAIL FROM FINANCE DIRECTOR AT HCL

To: Anwar Shah
From: Ali Yaseen
Date: 5 May 2025
Subject: Audit

Dear Anwar,

As you may be aware, HCL's paid-up capital is approaching Rs. 10 million. Accordingly, we will soon be required to file audited financial statements. Over the past few years, HCL has been very impressed with the professionalism and expertise of Shafi & Co. Consequently, we would like to offer your firm the opportunity to act as our statutory auditor. We expect the first audited financial statements will be for the year ending 30 April 2026.

HCL places a high value on efficiency. We propose the following fee structure:

- if the audit is completed within two months of the year-end, the full audit fee will be paid.
- if the audit takes longer, the fee will be reduced by 10% for each additional month taken.

HCL will continue to require Shafi & Co's accounting and business advisory services over the coming years, in the same manner as you have been providing to date.

Kind regards,

Ali
Ali Yaseen
Finance Director
Haider Consulting Ltd

QUESTION 3

Malik Majeed Ltd (MM) is a textiles manufacturer. Recently, MM is developing a new type of fabric named as CleanTex, which has self-cleaning properties. Production of CleanTex is expected to commence in August 2025.

You are Rahmat Sheikh, an audit manager at Qasim Awan & Co (QA & Co), and are planning the audit of MM's financial statements for the year ended 31 May 2025.

You have been provided with the following information relating to the year ended 31 May 2025:

Appendix 1: Minutes of recent MM board meetings (extracts).

Appendix 2: Extracts from draft financial statements of MM.

Appendix 3: Analysis of amount capitalised as development costs in the draft financial statements provided by Khadija, finance director at MM.

Appendix 4: Details of a sale and leaseback transaction, provided by Khadija.

Requirements

(a) Explain the correct accounting treatment for the capitalised development costs (Appendix 3) and the sale and leaseback transaction (Appendix 4), including supporting calculations for both issues. For the sale and leaseback, also provide the necessary journal entries. **(13 marks)**

(b) Identify and explain the audit risks associated with the capitalised development costs and the sale and leaseback of the warehouse. **(04 marks)**

(c) Describe the audit procedures that QA & Co should perform to obtain sufficient appropriate audit evidence in relation to both the capitalised development costs and the sale and leaseback transaction. **(08 marks)**

Total: 25 marks

APPENDIX 1 – MINUTES OF MM BOARD MEETINGS (EXTRACTS)

Malik Majeed Ltd

Minutes of board meeting held on 28 February 2025 (extracts)

Khadija made a presentation to the board regarding a new fabric currently under development. Testing phase has been completed and has demonstrated that the fabric's self-cleaning properties are highly effective, and Khadija was pleased to report that a ten-year patent has been successfully obtained for the product.

The marketing team has held detailed discussions with several key customers, and significant interest has already been generated — particularly from manufacturers of sportswear and children's clothing.

The board approved additional spending to finalise the development of the fabric and to purchase new manufacturing equipment.

The board also approved the use of the name CleanTex for the product.

Minutes of board meeting held on 31 May 2025 (extracts)

Khadija updated the board on progress regarding CleanTex, reporting that financial forecasts for the product continue to appear very positive. The marketing campaign has successfully generated further interest, and several of MM's major customers have already placed orders for September and October 2025.

Shazia Sher, Operations Director, confirmed that preparations for the start of CleanTex manufacturing are proceeding as planned, with production expected to commence in August 2025.

All manufacturing equipment ordered for CleanTex has now arrived and is fully installed. Khadija reminded the board that payment for the equipment would be made from the proceeds from the sale and leaseback of one of MM's properties.

The board queried about the useful life of the new equipment, and Khadija informed that it would be depreciated over ten years.

APPENDIX 2 – EXTRACTS FROM DRAFT FINANCIAL STATEMENTS OF MM

Statement of financial position as on 31 May 2025

	Rs. in million
Assets	
Property, plant and equipment	20,700
Intangible asset for CleanTex	4,900
Other assets	2,300
	27,900
Equity and liabilities	
Share capital	5,000
Retained earnings	13,200
Liabilities	9,700
	27,900

Statement of profit or loss for the year ended 31 May 2025

	Rs. in million
Revenue	71,800
Profit before tax	7,400

APPENDIX 3 – DEVELOPMENT COST ANALYSIS FROM KHADIJA, FINANCE DIRECTOR AT MM

As you will have seen from the draft financial statements and the board meeting minutes, MM has developed a new type of fabric this year, called CleanTex. This has been a costly process, but we expect to derive benefits from it over a number of years. Below is the breakdown of the cost of CleanTex included in the draft financial statements for the year ended 31 May 2025:

	Note	**Rs. in million**
Cost of testing equipment	1	1,660
Payroll costs	2	1,750
Other costs of developing prototype fabric	3	950
Patent registration fees (registered 28 February 2025)		250
Staff training costs	4	140
Marketing campaign		150
		4,900

Notes:

1. The testing equipment was purchased and installed on 1 August 2024 and has been used as part of the development project since 1 October 2024. As it is currently only used for this project, its full cost has been included in the cost of CleanTex. The equipment is capable of testing a wide range of products and is expected to have a useful life of five years.
2. Payroll costs represent wages and salaries of the project team for the entire year. The number of employees and the average salary level have remained relatively stable throughout the year.
3. This figure represents additional costs incurred after 28 February 2025 for further development, testing, and refinement of the prototype fabric.
4. Staff training costs comprise Rs. 100 million for training employees to use the testing equipment, and Rs. 40 million for training production staff on how to manufacture the new fabric.
5. A useful life of 30 years has been assigned to the capitalised development costs.

APPENDIX 4 – DETAIL OF SALE AND LEASEBACK TRANSACTION – PROVIDED BY KHADIJA

To finance the ongoing development of the business, MM entered into a sale and leaseback arrangement on 31 May 2025 involving one of its properties. This is the first time MM has entered into such an arrangement.

The property was sold to a bank for Rs. 3,200 million. Its carrying amount at the date of sale was Rs. 1,800 million, and it had a remaining useful life of 30 years. Under the agreement, MM is required to make ten annual payments of Rs. 350 million, commencing 31 May 2026, and retains the right to use the property for the next 10 years. After that period, the bank will take full possession of the property. The building is one of MM's key manufacturing sites and will continue to be used during the lease term.

The transaction has been assessed as a sale in accordance with IFRS 15 Revenue from Contracts with Customers. The interest rate implicit in the lease arrangement is estimated at 7% per annum.

Khadija has explained accounting treatment she has adopted as follows:

"As the property has been sold, I treated this as an asset disposal — recording the cash proceeds and removing the property's carrying amount from PPE. The profit on disposal has been included in arriving at the profit for the year. This has had a very positive impact on our results, especially since the fair value of the property was only Rs. 2,300 million at the time of sale — so this is a great result for us!"

(THE END)

Rough Sheet

Rough Sheet