ICMA INTERNATIONAL
lead strategically

# MODEL PAPER

## PRACTICAL INDUSTRY KNOWLEDGE (PIK) EXAMINATION

**[COMPUTER BASED EXAMINATIONS]**

## Advanced Financial Accounting & Sustainability Reporting [Strategic Level-1]

TIME ALLOWED: 03 HOURS | MAXIMUM MARKS: 100

**Effective from December 2025 Examinations**

**EXAMINATION DEPARTMENT**

## MULTIPLE CHOICE QUESTIONS (MCQs)

**Question No.1**

A company inflates sales by delivering goods to its own depot labelled as "customer warehouse". This practice violates: **[04 Marks]**

| | |
|---|---|
| A | Materiality |
| B | Substance over form |
| C | Dual aspect |
| D | Prudence |

**Question No.2**

Which standard provides the principles for classification and measurement of financial assets, including the business model test and cash flow characteristics test? **[04 Marks]**

| | |
|---|---|
| A | IAS 32 |
| B | IFRS 7 |
| C | IFRS 9 |
| D | IFRIC 16 |

**Question No.3**

Your company issues preference shares with a 7% fixed dividend and a mandatory redemption in 4 years. The finance manager classified them as equity to show stronger equity ratios. What is the correct classification under IAS 32? **[04 Marks]**

| | |
|---|---|
| A | Equity |
| B | Hybrid instrument |
| C | Financial liability |
| D | Off-balance sheet item |

**Question No.4**

At year-end, ABC Ltd. provides an interest-free loan of Rs. 500,000 to an employee. The market interest rate for similar loans is 10 percent. The HR department wants to record only the loan amount without any other adjustments. What adjustment is required under IAS 19? **[04 Marks]**

| | |
|---|---|
| A | No adjustment is required |
| B | Recognize the difference between fair value and face value as employee benefit expense |
| C | Recognize it as a financing cost |
| D | Record it as revenue |

**Question No.5**

The company grants cash-settled share appreciation rights to managers. As of year-end, the company's share price has increased significantly, which raises the value of the obligation. The finance department wants to use last year's value to avoid additional expense. What does IFRS 2 require? **[04 Marks]**

| | |
|---|---|
| A | Keep last year's liability unchanged |
| B | Recognize the increase only when cash is paid |
| C | Reverse previous expenses |
| D | Remeasure the liability at the reporting date and recognize the increase in expense |





**[Note: The questions made available through this Model Paper reflects the pattern of questions to be tested in exams.]**

**Question No.6**

Employees are offered restricted shares that will vest if they meet both a two-year service requirement and a sales performance target. After one year, the performance target seems unlikely to be achieved. However, employees continue to meet the service requirement. How should the company account for the arrangement? **[04 Marks]**

| | |
|---|---|
| A | Continue recognizing the same expense as before |
| B | Recognize full expense immediately |
| C | Reverse previously recognized expense and stop future expense if vesting is no longer probable |
| D | Transfer previously recognized expense to equity |

**Question No.7**

A company identifies that a machine is impaired. The machine's carrying amount is Rs. 2,000,000, and its recoverable amount is Rs. 1,500,000. The impairment loss is **[04 Marks]**

| | |
|---|---|
| A | Rs. 500,000 |
| B | Rs. 2,000,000 |
| C | Rs. 1,500,000 |
| D | Zero |

**Question No.8**

A company buys back 300,000 of its own shares in January and holds them as treasury shares. The accountant has mistakenly included them in the weighted average shares for EPS. What is correct? **[04 Marks]**

| | |
|---|---|
| A | Include treasury shares because they still exist |
| B | Exclude treasury shares from the weighted average |
| C | Include only half of them |
| D | Include for diluted EPS only |

**Question No.9**

Horizon Ltd. acquires 80 percent of Sun Ltd. and needs to prepare consolidated financial statements. Sun Ltd. has liabilities of Rs. 40 million and assets of Rs. 90 million at acquisition. The accountant wants to record only Horizon's share of assets and liabilities. What is correct? **[04 Marks]**

| | |
|---|---|
| A | Consolidate only 80 percent of Sun Ltd.'s assets and liabilities |
| B | Consolidate 100 percent of assets and liabilities and show non-controlling interest separately |
| C | Consolidate only a proportionate balance sheet |
| D | Exclude Sun Ltd. until the first full year |

**Question No.10**

The parent acquires 75 percent of a subsidiary. Identifiable net assets at fair value are Rs. 80 million, and consideration transferred is Rs. 90 million. What is goodwill? **[04 Marks]**

| | |
|---|---|
| A | Rs. 10 million |
| B | Rs. 20 million |
| C | Rs. 90 million |
| D | Rs. 30 million |

## CASE STUDY

### Case Study: 1

AlphaTech Solutions Ltd. is a technology services company employing 450 staff members. To attract and retain skilled employees, the company offers several share-based compensation schemes. The financial year ends on 30 June 2025, and the following events occurred during the year.

1. **Equity-Settled Share Option Plan**

   On 1 July 2024, AlphaTech granted 120 employees a total of 180,000 share options. The options vest after three years of continuous service. The fair value at grant date was Rs. 12 per option. After the first year, 15 employees resigned, and management now expects a total of 30 employees to leave before the vesting date. Some senior managers suggest recognizing the same annual expense without adjusting for expected forfeitures.

2. **Modification of the Plan**

   In February 2025, AlphaTech revised the share option plan and granted an additional 20,000 options to each employee in the scheme to improve retention. The fair value of the modified award increased from Rs. 12 to Rs. 15 per option. Management wants to ignore the modification to avoid additional expense.

3. **Cash-Settled Share Appreciation Rights (SARs)**

   In August 2024, AlphaTech granted cash-settled SARs to 30 senior managers. At the reporting date, the company's share price increased significantly, raising the fair value of the SAR obligation from Rs. 6 million to Rs. 9.2 million. The finance team proposes using last year's liability to avoid recognizing the additional expense.

4. **Settlement of Liability Using Shares**

   AlphaTech owed a consulting firm Rs. 1.5 million for strategic advisory services. The company agreed to settle the payable by issuing its own shares instead of cash. The fair value of services received was reliably measured at Rs. 1.5 million. The junior accountant recorded the transaction at the nominal value of shares issued, which was significantly lower.

5. **Cancellation of the Plan**

   Due to cash flow constraints, AlphaTech cancelled a separate equity-settled share option scheme that was still in its second year of a three-year vesting period. The employees will not receive any replacement award. Management believes previously recognized expenses should be reversed completely because the plan no longer exists.

**Required:**

**(i)** Explain how the expense for the equity-settled share option plan should be recognized, considering expected employee forfeitures.

**(ii)** Describe the correct accounting treatment for the modification that increased the fair value of the share-based award

**(iii)** Explain the accounting treatment required when an equity-settled share-based payment plan is cancelled before vesting.

**[15 Marks]**

## Case Study: 2

Prime Holdings Ltd. is a diversified investment company with operations in manufacturing, retail, and services. The company's financial year ends on 30 June 2025. During the year, Prime Holdings expanded its portfolio by acquiring controlling interests in multiple entities. Management is preparing consolidated financial statements for the first time and seeks clarity on the correct treatment under IFRS 10.

1. **Acquisition of SilverTech Ltd**.

   On 1 October 2024, Prime Holdings acquired 70 percent of the voting shares of SilverTech Ltd., a technology distributor. The remaining 30 percent is held by various small investors who do not participate in decision-making. Prime plans to consolidate only 70 percent of SilverTech's assets and liabilities, believing that the group should reflect only its ownership proportion.

2. **Power over Relevant Activities**

   Prime holds only 45 percent of the shares of SunGlow Retail Ltd., but through a shareholder agreement, it has the right to appoint four out of five board members. The remaining shareholders are widely dispersed and do not coordinate their votes. Management is unsure whether SunGlow should be consolidated since ownership is less than 50 percent.

3. **Different Reporting Dates**

   Prime's year-end is 30 June, but SunGlow Retail Ltd. and SilverTech Ltd. both prepare their financial statements up to 31 March. Prime wants to use these statements without adjustment to avoid additional work.

4. **Exemptions from Consolidation**

   Prime also owns 100 percent of a dormant entity, CalmWave Pvt. Ltd., which has no operations and no significant assets or liabilities. Management wants to exclude it from consolidation because "it does not affect the financial results."

5. **Intra-group Transactions**

   During the year, SilverTech Ltd. sold inventory worth Rs. 30 million to Prime Holdings. At year-end, one-third of this inventory remained unsold in Prime's warehouse. The selling price included a 20 percent markup. Management is unsure whether these intra-group profits must be eliminated.

**Required**

**(i)** State whether SunGlow Retail Ltd. meets the definition of a subsidiary and whether it should be consolidated.

**(ii)** Describe how the difference in reporting dates between Prime and its subsidiaries should be handled.

**(iii)** Describe the appropriate treatment of the intra-group inventory and unrealized profit.

**[15 Marks]**

### Scenario Based Question-1

**(i)** A technology company grants share options that vest immediately because employees have already provided the required service in the past year. Management wants to spread the expense over the next three years to reduce volatility. How should the expense be recognized?

**A.** Spread over three years

**B.** Recognize full expense immediately since the service has already been provided

**C.** Defer expense until exercise date

**D.** Recognize only when options are exercised

**[05 Marks]**

**(ii)** A company has profit attributable to ordinary shareholders of Rs. 40 million. It also has convertible bonds that could turn into ordinary shares. If converted, EPS would decrease. The accountant wants to exclude them from diluted EPS. What option is correct?
**A.** Exclude them because conversion is optional

**B.** Include them because they are dilutive

**C.** Exclude them because they are debt instruments

**D.** Include them only in basic EPS

**[05 Marks]**

**(iii)** A company reports a profit of Rs. 60 million for the year. It had 10 million ordinary shares outstanding throughout the year and issued 2 million new shares on 1 September for cash. Management wants to calculate EPS using all 12 million shares for the full year because "they exist at year-end." What is the correct approach?

**A.** Use 12 million shares for the entire year

**B.** Use 10 million shares for the year and weight the 2 million shares from 1 September

**C.** Ignore the new shares

**D.** Include only the 2 million new shares

**[05 Marks]**

**Scenario Based Question-2**

**(i)** A parent company owns 60 percent of a subsidiary but has temporarily lost voting rights due to a legal dispute. The parent still directs operations and key decisions through contractual agreements. Should consolidation continue?

**A.** No, because voting rights are suspended

**B.** Yes, because the parent still has power over relevant activities

**C.** No, consolidation is only based on voting power

**D.** Yes, only if the dispute exceeds one year

**[05 Marks]**

**(ii)** Star Group acquires 45 percent of MoonTech Ltd. Although ownership is below 50 percent, Star Group holds a contractual right allowing it to appoint the majority of MoonTech's board members and direct all operating policies. Other shareholders are widely dispersed and do not coordinate their votes. Management is unsure whether MoonTech should be consolidated. What is correct under IFRS 10?

**A.** Do not consolidate because ownership is less than 50 percent

**B.** Consolidate because contractual rights give Star Group control over relevant activities

**C.** Do not consolidate because only voting shares determine control

**D.** Consolidate only if MoonTech is profitable

**[05 Marks]**

**(iii)** On 1 October, the parent acquires 70 percent of Falcon Ltd. Falcon charges depreciation annually on 30 June. For consolidation, the parent wants to use the subsidiary's year-end depreciation only, without adjusting for the post-acquisition period. What must be done?

**A.** Use full-year depreciation without adjustment

**B.** Recalculate depreciation for the post-acquisition period and use that amount

**C.** Ignore depreciation in consolidation

**D.** Use pre-acquisition depreciation only

**[05 Marks]**

**THE END**





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