

**EXAMINERS' COMMENTS**  
**FALL 2012 (FEBRUARY 2013) EXAMINATIONS**  
**FUNDAMENTALS OF FINANCIAL ACCOUNTING**  
**Semester-1**

**Question No. 2**

**(a) Time Interval Concept:**

This part required examinees to explain the concept "Time Interval". Only a few examinees answered it satisfactorily. A brief answer to the concept is that financial statements are prepared at regular intervals of one year. Examinees could not answer this part of the question due to lacking in theoretical knowledge.

**(b) Accrual Basis:**

In this part examinees were asked to explain the concept "Accrual Basis". The question was very simple and easy. A good number of students attempted the question well; however, some examinees mixed up the answer with the concepts of "prudence" and "consistency" which was uncalled for.

**(c) Business Entity Concept:**

This part of the question required the examinees to explain the term "Business Entity" concept. Most of the examinees replied reasonably, however, definition of the concept was presented in different ways. On the other hand, those who didn't have clear concept, they related the answer with the types of business, viz., partners and shareholders rather than giving primary idea behind the concept that business affairs should be treated as separate from the non-business affairs of its owner.

**(d) Money Measurement Concept:**

For this part, examinees were supposed to explain the "Money Measurement" concept. Although it is a very simple concept that is only monetary transactions are incorporated in accounting records yet most of the examinees could not answer correctly.

**(e) Historical Cost Concept:**

Except a few, examinees replied to the level of satisfaction.

**Question No. 3**

**(a) General Journal Entries:**

This part required preparation of journal entries relating to a number of transactions. Although, a large number of examinees attempted the question accurately yet some examinees made mistakes in many entries as follows:

- "Inventory" or "monitors" accounts were debited or credited instead of debiting/ crediting 'purchases' or 'purchases return' accounts while making entries for purchases and purchases returns transactions. Similarly, inventory or monitor accounts were credited or debited for sales and sales returns transactions.
- Some examinees mixed up 'returns inward' and 'returns outward'.
- For advance payment of salary, most of the examinees debited 'salary expense account' without considering that salary was paid in advance and as such "prepaid salary" account should have been debited. Surprisingly, some examinees debited bank account and credited salary account.
- Regarding last journal entry relating to full settlement of a customer's account, most of the examinees could not record correct journal entry. Some recorded sales discount as income and because of such mistakes, mostly, examinees could not settle debtor's account correctly.

**(b) Accounting for Non-current Assets:**

Examinees were required to (i) compute cost of coaches, (ii) prepare vehicle account, (iii) prepare accumulated depreciation account and (iv) calculate loss or gain on disposal of the coaches. Even though the requirements of the question were modest and easy to understand yet all the examinees, except a few, committed many notable mistakes such as:

- Several examinees treated list prices of 10 coaches as only Rs. 2 million instead of Rs. 20 million and solved the entire question based on Rs. 2 million.
- Some examinees ignored trade discount and did not deduct it from list price.
- Similarly excise duty and sales tax paid thereon were not added to the invoice price of coaches. On the other hand some examinees wrongly deducted them from the invoice price.
- Repainting was treated as revenue expenditure instead of capital expenditure.
- While calculating depreciation, a major mistake committed by most of the examinees was deduction of salvage value from total computed cost although it is not deducted under written down method of charging depreciation.
- A separate working for computing year-wise depreciation was also not prepared.
- Examinees did not carefully read the requirement of the question and as a result of this carelessness, many examinees presented journal entries instead of preparing ledger accounts.

It was noticed that while attempting the question, most of the examinees used short-cut methods to deal with accounting for non-current assets. They were not equipped with the required level of understanding and practice. Many examinees could not differentiate between capital expenditure and revenue expenditure. Because of such weakness, answers given by the examinees were mostly incorrect as regards preparation of vehicle account, accumulated depreciation account and calculation of loss or gain on disposal.

#### **Question No. 4**

##### **(a) Allowance for Doubtful Debts Account:**

This part required examinees firstly to compute the amount of 'allowance for doubtful debts' on the basis of ages of the outstanding debts and then prepare an account for 'allowance for doubtful debts'. A number of examinees attempted this part of question correctly with the exception that some of the examinees mistakenly brought forward the opening balance of 'allowance for doubtful debts' on debit side instead of credit side. Some examinees over-sighted the actual requirement of the question and recorded journal entries instead of preparing a T-account of allowance for doubtful debts.

##### **(b) Correction of Errors, Suspense Account and Corrected Profit:**

This part required examinees to (i) prepare journal entries to correct the errors, (ii) prepare suspense account and (iii) calculate corrected profit. A mix approach by examinees was observed. Many examinees attempted the substantial part of the question correctly while rest could not do so and make mistakes as follows:

- Examinees could not differentiate between 'discount received' and 'discount allowed' and recorded wrong entries relating to under-casting and over-casting of purchases discounts and sales discounts respectively.
- Disposal account or computer (a non-current asset) was wrongly debited instead of crediting the same to record the correcting journal entry in respect of sale of computer, which was wrongly treated as sales of goods.
- Some of the examinees corrected all the entries with cash account instead of 'suspense account'.
- Some examinees over-sighted the requirement of preparing suspense account and gave journal entries instead.

It is concluded that a number of examinees were not reasonably familiar with the procedure of rectification of entries and its adjustment with 'suspense account'.

##### **(c) Bank Reconciliation:**

Here it was asked to prepare a 'bank reconciliation statement'. Many examinees made mistakes and could not match up cash book balance with the balance appearing in bank statement. It was because of following reasons:

- Few examinees could not differentiate between bank's 'overdraft' balance and 'favourable' bank balance, hence, they treated 'overdraft' as 'favourable' bank balance.
- Similarly they could not distinguish between interest charged by the bank on 'overdraft' and interest paid by the bank on fixed deposits and consequently, they treated "interest paid by the bank on fixed deposits" as expense and deducted it from the balance appearing in cash book instead of adding it to cash book balance.
- Outstanding cheques were deducted from bank 'overdraft' instead of adding them to the bank 'overdraft'. Likewise, late cheques/ deposits and late cash deposits were added to 'overdraft' instead of deducting them from the amount of bank 'overdraft'.

#### **Question No. 5**

##### **(a) Preparation of Income Statement:**

Examinees were required to prepare income statement of a limited company. Almost all examinees tried to attempt this question, however, they made following errors:

- While preparing income statement, many examinees did not mention proper heading showing name of the company, name of the statement being prepared and accounting period thereof.
- Many examinees could not differentiate between figures given in '000' and figures given in full. They mixed up both the figures and because of this confusion they miscalculated the answer.
- Some examinees incorporated land, plant and debenture in the income statement. Besides that surprisingly income/ expenses were shown in the statement of financial position.
- Dividend paid was accounted for in income statement by some examinees instead of preparing separate statement of 'retained earnings' and debiting the same therein. Similarly general reserves and debentures were deducted from gross profit instead of showing them in the statement of financial position.
- Ending inventory was added to, instead of deducting the same from goods available for sale.
- A number of examinees were not familiar with the treatment of preliminary expense and whole amount was included under operating expenses.
- A few examinees also wrongly charged depreciation on land as well.

##### **(b) Preparation of Statement of Financial Position (SFP):**

In this part of the question examinees were required to prepare statement of financial position of a limited company. Almost, all examinees tried to attempt this question, however they made following errors:

- While preparing statement of financial position, many examinees did not mention proper heading showing name of the company, name of the statement being prepared and date of preparation of SFP.
- Some examinees showed 'general reserves' and 'retained earnings' accounts under current assets.
- There was not proper classification of current assets, non-current assets, current liabilities and non-current liabilities.
- Some examinees considered cash of Rs.540,000 and bank balance of Rs.540,000 separately. Although only one figure for "cash and bank" of Rs.540,000 should have been shown in SFP.

The question regarding preparation of financial statements is a repetitive question and is asked almost every time by the examiner. Despite that the examinees dealt with the question in a haphazard way and committed mistakes. Few examinees were familiar with the preparation of financial statements of a limited company and mostly treated it as financial statements of a sole trader.

**Question No. 6****Calculation of Ratios:**

The question required examinees to calculate different profitability, liquidity and efficiency ratios. A number of examinees attempted the question accurately to the extent of calculation of profitability and liquidity ratios, however, except a few examinees they could not calculate efficiency ratios correctly. The question was very easy comprising calculation of basic ratios but examinees were not prepared to attempt the question.

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**EXAMINERS' COMMENTS**  
**FALL 2012 (FEBRUARY 2013) EXAMINATIONS**  
**BUSINESS ECONOMICS**  
**Semester-1**  
**SECTION "A"**

**Question No. 2**

**(a) Principal Agent Problem, Interest of Managers and Shareholders:**

The examinees were required to define the phrase "The Principal Agent Problem" and to explain how the interest of managers and shareholder be aligned in a corporate form of organization. Majority of the examinees did not follow the phrase and they even could not give correct answer that there is no assurance that agent will run the organization in the best interest of the principals. The examinees did not state the three main ways to resolve the principal agent problem i.e.

- Improved scrutiny
- Check and balance
- Incentives

Most of examinees did not differentiate between "Principal" and "Principle" even at this stage of ICMAP. Some examinees perceived principal as Board of Directors instead of share holders.

The principal agent problem arises where the owners or members of an organization (principals) give authority to a manager (agent) to run the organization. There is no assurance that the agent will run the organization in the best interests of the principals.

**(b) Shareholder Risk Return Curve:**

It was expected of the examinees to correctly indicate share holders risk return curve and explain the same with the help of diagram and also describe the two factors that determine the risk free rate. Only few could give correct indication of the shareholders risk return curve but the majority could not explain it through diagram and they even could not state the two factors that determine the risk free rate.

Majority of examinees wrote "Higher the Risk, higher the profit" which is wrong. It is actually required return or expected return for higher investment.

In graph majority of examinees did not draw the curve cutting y-axis. some examinees showed the curve passing through origin which is wrong. Very few examinees showed it correctly passing through y-axis above the origin.

A shareholders' risk return curve shows the minimum rate of return that shareholders will accept as compensation for higher risks to their investments.

The risk free rate is determined by two factors:

- The time value of money
- The rate of inflation

**(c) Substitute Goods, Complimentary Goods:**

The examinees were required to state the meaning of the terms "substitute good" and "complementary good" with examples to petroleum products. The examinees attempted this question well as it was a straight question.

Substitute goods are those goods which can be used for one another or which can be replaced for another i.e. it means one product can be used for another. Examples of substitute goods are: Coke, Pepsi/tea, coffee/CNG, petrol.

Complementary goods are those goods which are necessary for one another. These goods are also known as jointly consumed goods. Examples of complementary goods are petrol and car/film and camera/lighter and cigarette.

### Question No. 3

#### (a) Price Instability, Measures Taken by Government for Agricultural Price Instability:

The term "Price instability" was defined correctly only by few of the examinees. As regards the second part of the question, the examinees were unable to state the measures including directed payment to producers, subsidies to set-aside or for producing particular crops and government purchases or surpluses. By price instability, we mean that the prices do not remain stable due to instability of demand and supply.

#### (b) Marginal Cost, Average Cost:

Most of the examinees provided correct definitions of the marginal cost and average cost with examples but they were unable to draw the graph correctly to show the relationship between "Average Cost and Marginal Cost."

Some examinees wrote wrong definition of Average Cost. They wrote:

A.  $\text{Cost} = \text{Total fixed cost} + \text{total variable cost}$ .

Most of examinees did not give table or schedule of total cost, average cost or marginal cost. Only a few examinees gave the table and drew the graph according to the Table.

Marginal cost is the rise in total cost resulting from producing an extra unit of the product. This is the extra cost of producing one more unit of output.

Average cost is the unit cost of producing a product at a given volume of output. Calculated as  $\text{Total Cost} / \text{Total Output}$ . The average total cost for a given level of output is the total cost divided by the total quantity produced.

#### (c) Influence of E-business on Cost and Market Behaviour:

All the examinees attempted this part of the question but only few examinees could properly describe the influence of e-business on cost and market behaviour. Furthermore, only few examinees could mention impact of (ACT) reduced search costs zero variable cost and influence of E-business on market price.

Moreover, only some of them could state the influence of e-business on

- (i) Advanced Communication Technology (ACT)
- (ii) Reduced search cost for buyers
- (iii) Zero variable cost.

### Question No. 4

#### (a) Subsidy Given by Government:

Majority of the examinees gave proper explanation of the purpose of subsidy given by the government but they could not follow why the decrease in price will be less than the value of the subsidy in normal supply & demand curve and they drew wrong "Supply & demand curve. Only some of the examinees solved this question correctly.

A subsidy is payment to the supplier of a good by the government the payment may be made for a variety of reasons:

- a) To encourage more production of the good by offering a further incentive to suppliers.
- b) To keep prices lower for socially desirable goods whose production the government wishes to encourage.
- c) To protect a vital industry such as agriculture when demand in the short term is low and threatening to cause an excessive contraction of the industry.

#### (b) Numerical Question – Elasticity of Demand:

All the examinees attempted this question only 50% of them could solve the question according to the formula and due marks were awarded to them. Most of examinees who attempted this question made mistakes.

## SECTION "B"

### Question No. 5

#### (a) Budget Surplus, Budget Deficit, Government Deficit, Government Debt:

This being a straight question was attempted by all the examinees who correctly explained the terms "Budget surplus" and "Budget deficit" and distinguished between "Government deficit" and Government debt" with examples 25% of the examinees solved this question very well.

Government expenditure is very unlikely to be equal to government revenue in each fiscal year, and so a government is likely to have either a budget surplus or a budget deficit.

When revenue exceed outlays there is a budget surplus when outlays exceed revenues there is a budget deficit. The deficit can therefore be represented as;

Budget deficit = government expenditure-government revenues

When governments spend more than they raise in taxes and therefore incur a budget deficit they have to borrow.

The government deficit represents the excess of government spending over government revenues in any one period.

In any one year, the budget deficit represents the amount of new borrowing that the government must undertake.

Government debt is the accumulation of government deficits over time and represents all the debt issued to fund the deficits. Since deficits by governments are funded by issuing government debt is the total outstanding amount of bonds presently in issue.

#### (b) Numerical Question: Real Rate of Interest:

Majority of the examinees did not attempt this question. Only few of the examinees solved this question correctly according to the given formula. Some of them, however wrongly calculated the question.

### Question No. 6

#### (a) Foreign Exchange Rate:

Only few of the examinees, however, tried to solve this question and were awarded marks accordingly.

Most of the examinees could give proper explanation of the term "Foreign exchange".

So far as the second part of the question is concerned, the majority of the examinees could not illustrate the process of fluctuation of the foreign exchange rates according to the intensity of demand and supply a foreign currency.

An exchange rate is the rate at which one country's currency can be traded in exchange for another country's currency. It is the price of one currency expressed in terms of another currency.

A foreign exchange is a currency of a foreign country. Foreign exchange may also include all currencies, foreign govt. papers and treasury bills denominated in foreign currencies.

The forex dealers reduce the rate for two reasons:

- (a) To return to profitable trading
- (b) To limit risk of capital loss

The forex dealers raise the rates they quote for two reasons:

- (a) To increase profits from trading
- (b) To make a capital gain

**(b) Trade Cycle:**

Almost all the examinees attempted this question and only mentioned the three phases but did not discuss the three phases. The remaining group of examinees properly discussed the three phases of trade cycle and due marks were awarded to them. The second part of this question was attempted by only few but they also could not identify the causes of the trade cycle.

None of them wrote the exact reason of "Rise and Fall" of Economy. No one discussed the psychological factor like "optimism" and "pessimism" and miscalculation about the future. Some of them however focussed on Govt. policy. But Govt. policy is the remedy not the reason.

Trade cycles or business cycles are the continual sequence of rapid growth in national income, followed by a slow-down in growth and then a fall in national income (recession). After this recession comes growth again, and when this has reached a peak, the cycle turns into recession once more.

Phases of the Business Cycle are:

- Recession phase
- Recovery phase
- Boom phase

Causes of the Business Cycle are:

- Instability of private
- Business psychology
- Inappropriate government policy

**Question No. 7**

**(a) Unemployment:**

Majority of the examinees attempted this question and gave correct definition of the terms "Unemployment". They also solved the numerical question correctly and calculated the rate of unemployment according to the formula given in the suggested answer plan. Few of them applied wrong formula.

Unemployment is where all workers willing to take a job at the present level of wages cannot find work.

**(b) Protectionist Measures to Rectify Balance of Payment Deficit by Reducing Volume of Imports:**

Approximately 40% of the examinees properly described the protectionist measures but the remaining group of examinees could not follow the question.

A way of attempting to rectify a balance of payments deficit is to take direct protectionist measures as if trying to reduce the volume of imports these measures might include the following:

- (a) Import tariffs
- (b) Import quotas
- (c) A total ban or embargo on imports from certain country
- (d) Placing Administrative burdens on importers (for example increasing documentation required or safety standard that imported goods must comply with )
- (e) Exchange control regulation which make it difficult for importers to obtain foreign currency to buy goods from abroad
- (f) Providing export subsidies to encourage exports and other measures of financial support to exporters.

**(c) Terms of Trade:**

Majority of the examinees attempted this part of the question but only few of them could provide correct answers regarding definition of terms of trade and its measurement.



The terms of trade are an 'export: import' price ratio, which measures the relative prices of a country's exports and imports. The terms of trade for a country continually change as export prices and import prices change.

The terms of trade are measured as:

$$\frac{\text{Unit value of exports}}{\text{Unit value of imports}}$$

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**EXAMINERS' COMMENTS**  
**FALL 2012 (FEBRUARY 2013) EXAMINATIONS**  
**BUSINESS COMMUNICATION AND REPORT WRITING**  
**Semester-1**

**Question No. 2**

**(a) Seven Major Issues for Critiquing a Document:**

This question was simple that's why majority of examinees solved it correctly and secured good marks even then they explained all the points without giving examples and proper explanation. Some of them couldn't understand the question so they answered it incorrectly i.e. writing 'seven C's. This shows lack of knowledge and proper study.

When critiquing a document, concentrate on the following points:

- Are the assignment instructions clear?
- Does the document accomplish the intended purpose?
- Is the factual material correct?
- Does the document use unambiguous language?
- Can the document truly be improved?
- Can you justify the time needed for a rewrite or a revision?
- Will your request have a negative impact on morale?

**(b) Non Verbal Communication:**

This part of the question required examinees to explain 'non-verbal communication in different cultures' they were asked to select two cultures & differences should be mentioned in respect to non-verbal communication with examples. This task should have been relatively straight forward while examinees wrote only 'what is non-verbal communication'. They were unable to give examples of different cultures properly and they knew a very brief answer of this question so they couldn't get good marks in this question.

Nonverbal communication plays a significant role in understanding verbal communication. It is important to learn about nonverbal communication as it may convey different meanings in different cultures. We can understand this phenomenon by comparing nonverbal communication in Pakistani and USA culture e.g.

In Pakistani culture a hand shake between a man and woman is not considered to be appropriate. Whereas in USA, it is norm to shake hands when meeting people formally irrespective of whether you are a man or a woman.

In countries like Pakistan, proximity between opposite genders is unacceptable. A male member from USA has to maintain an appropriate distance when standing near a female from Pakistan. On other hand, in USA, physical nearness of opposite genders is not an issue. In fact physical proximity is considered to be an indication of warmth. On the contrary, high distance indicates formality or at times rudeness.

In Pakistani culture maintaining an eye contact of a female with opposite gender is still not considered appropriate by many people. Whereas, in USA culture not maintaining an eye contact by any gender is thought to be an indication of shyness or rudeness.

**Question No. 3**

**(a) Eight Steps of Communication Process:**

In this part 'identifying the steps of communication process' was required to write, only few could apply the typical model of communication. Some of the examinees could not understand the question as they thought writing 'how to be a successful communicator' was required. 40-50 %didn't solve the question as they were not prepared.

Many variations on this process model exist, but these eight steps provide a practical overview:

- The sender has an idea
- The sender encodes the idea as a message
- The sender produces the message in a transmittable medium
- The sender transmits the message through a channel
- The audience receives the message
- The audience decodes the message
- The audience responds to the message
- The audience provides feedback

**(b) Memo Writing: Possible Personality Trait of New CEO – Cultural Context.**

In this question required task was

- 1) Writing a memo
- 2) Explaining high and low context cultures
- 3) Writing personality traits of new CEO based on cultural context

The answers were quite weak as

- 1) Some of them did not know the correct memo format
- 2) Almost none of them had knowledge of low and high context cultures
- 3) The personality traits of new CEO were not based on cultural context which was incorrect indeed so they could not get good marks.

Communication occurs within a cultural context, the pattern of physical cues, environment stimuli, and implicit understanding that convey meaning between the two members of the same culture. There are two main cultures exist in the world in respect to communication.

People from Canada, USA, and European countries are considered to be from low context culture. They rely more on verbal communication and less on circumstances and cues to convey meaning.

In high context culture people rely less on verbal communication and more on the context of nonverbal actions and environment setting to convey meaning.

**Question No. 4**

**(a) Five Steps for Making Successful Presentation:**

The requirement of this question was writing communication techniques to ensure your audience hears what you say 'while answer was given 'how to make presentation'. Almost no one knew the correct answer.

Five Tips for Making Presentations Around the World are:

- Speak slowly and distinctly
- Repeat key words and phrases
- Aim for clarity
- Communicate with body language
- Support your oral message with visual aids

**(b) Key Elements to Overcome Anxiety for Presentation:**

In this part the required answer was to write 'how to overcome anxiety while giving first presentation', the answer given was again 'how to give presentation. Almost nobody knew the correct answer.

Following suggestions to overcome anxiety in oral presentation are:

- Prepare more material than necessary
- Practice, practice, practice
- Think positively

- Visualize your success
- Take a few deep breaths
- Be ready
- Be comfortable
- Maintain eye contact with friendly audience members

**(c) Collection Letter Writing:**

In this part a 'collection letter' was required to write, which was a very simple task but most of the examinees did not know

- 1) Appropriate formal letter format
- 2) Full block format or modified block format
- 3) Indentation/ no indentation

They mixed up all. Over all the content details were satisfactory.

Most letters contain seven standard parts:

- Heading
- Inside address
- Salutation
- Body
- Complimentary close
- Signature block
- Reference initials

**Question No. 5**

**(a) Report Writing:**

In this question writing short report was required to write. Most of them wrote well, however, they did not know how to write introduction and conclusion of report.

This question was very lengthy so they found it difficult to complete. Few candidates could not differentiate between long and short report.

Many reports are written in businesses. They are a very important method of gaining and giving information. Although many reports are presented orally, for example at a meeting, reports are usually presented in writing.

Formal reports are usually written by a committee or group after fairly detailed investigation or research.

**(b) Memo Writing:**

In this part a memo writing about 'business trip to USA' was required to write.

Most of the examinees did not consider it as their 'business trip' where as some of them explained well.

Memo is a written communication from one person to another (or a group of people) within the same organization. Memo serves a variety of purposes. It is important that the memo headings show the details of sender and recipient as well as reference and date.

### Question No. 6

#### (a) Different Types of Curriculum Vitae (CV)/Résumé:

In this question very few of the examinees knew the 'correct types of CVs' while rest knew only 'how to write CV' which was not the requirement.

CV plays a vital role in getting a job. It represents what you can do for an organization. There are three main types of CVs:

- Chronological Résumé/CV (curriculum vitae)
- Functional Résumé/CV
- The Combination CV/Résumé

#### (b) Preparation for Meeting:

This particular task asked suggestions on the preparation before calling a meeting.

It seemed as if they had no knowledge of 'notice' and 'agenda' of meeting. They gave very poor answers.

Examinee should consider the following points before calling a meeting:

- Identify the purpose
- Select the participants for the meeting
- Choose the time and prepare the facility
- Set the agenda

### Question No. 7

#### (a) Suggestions for Improvement in Listening Skills:

This part of question was required to write 'some ways of improving listening skills and overcoming barriers of good listening'. This question was quite simple but only a few knew the correct answer while all others had no knowledge about the topic.

This question was of 8 marks so proper explanation of concept of listening skill and how to improve listening skills should be written which they were unable to explain. Nearly 70% did not attempt this question.

Listening is an important skill and we should listen with a purpose in mind or with a hope to gain something from speaker's talk rather than insult or degrade someone.

Listening skill is a key to success if one wants to communicate better. To be a good listener and to overcome the listening barriers the examinee must have covered the following points:

- Stop talking
- Put the talker at ease
- Remove the distraction
- Empathize with the speaker
- Be patient

#### (b) Letter Writing - Recommendation Letter:

In this part a recommendation letter was required to write which most of them found easy to write but some of them did not understand even this very simple question. They did not know that the letter should be written to whom or about whom.

Letters are used for written messages to individuals outside an organization and also used to communicate formal written messages to employees within an organization.

Most letters contain seven standard parts:

- Heading
- Inside address
- Salutation
- Body
- Complimentary close
- Signature block
- Reference initials

**EXAMINERS' COMMENTS**  
**FALL 2012 (FEBRUARY 2013) EXAMINATIONS**  
**COST ACCOUNTING**  
**Semester-2**

**Question No. 2**

**(a) Difference between data and information:**

Examinees were required to differentiate between data and information, but instead of differentiating, they mentioned examples of data and information. Similarly, in place of stating characteristics of quality data, examinees stated the purposes and uses of data/ information.

**(b) Production and non-production cost:**

Examinees were required to calculate manufacturing cost, cost of goods manufactured and cost of goods sold. Some examinees failed to add any of the opening inventory and transportation cost or both while calculating the figure of material consumed. Moreover, examinees included sales salaries, advertising expenses and delivery expenses in manufacturing cost/ cost of goods sold whereas these are not part of manufacturing cost or cost of goods sold.

**Question No. 3**

**(a) Cost accounting system:**

This question was aimed to inculcate the abilities of the students to record the transactions related to cost accounting. Following weaknesses of the examinees were noted:

- Proper ledger format or T-accounts were not made.
- Narrations of transactions like material issued, material purchased etc., were used instead of stating head of accounts i.e., work-in-process, factory overhead, accounts payable, etc.
- Indirect material and indirect labour were charged to work-in-process instead of factory overhead.

**(b) Calculation of direct and indirect labour cost:**

In the computation of gross wages examinees added minimum weekly guaranteed wages in piece rate wages for all units. Examinees should charge gross wages to work-in-process instead of minimum guaranteed wages and labour cost related to piece rate to factory overhead.

**(c) Calculation of variable, fixed and total cost:**

The performance of the examinees in this part of the question was found well. However, profit was calculated at 20% on cost instead of sales.

**Question No. 4**

**(a) Job and process costing:**

Examinees stated examples of job costing and process costing instead of mentioning features i.e., in job costing each job is unique and is priced separately, while process costing is related to production of identical products which are processed continuously.

**(b) Marginal and absorption costing methods:**

Generally, examinees found conceptually weak as apparent from the following mistakes they committed in attempting the question:

- Contribution margin was calculated instead of gross profit in absorption costing and vice versa in marginal costing.
- The income statement under marginal costing was incompletely prepared and ended up at contribution margin without showing net profit.
- Variable selling expenses were not deducted while calculating contribution margin.

### Question No. 5

#### Process costing:

This question was poorly attempted by majority of the examinees. Following mistakes were noted in calculating the figures for Department-1:

- Units completed and transferred to Department-2 were not included in equivalent units of production.
- Wrong calculation of work-in-process due to above error.
- Completed units transferred to Department-2 were not considered in total cost accounted for.

Similarly, mistakes were also committed as mentioned below for calculating the 'equivalent production', 'cost of production' and 'total cost accounted for' of Department-2:

- Units completed but not transferred to finished goods were not included in equivalent units of production.
- Cost of goods received from Department-1 was omitted while calculating cost of production and/ or cost accounted for.
- Units completed but not transferred were not considered in total cost accounted for.

### Question No. 6

#### (a) Proforma standard cost card:

Instead of preparing proforma standard cost card, examinees tried to define prime cost, marginal cost, total production cost and total cost. Those who prepared the cost card took total amount instead of per unit standard cost.

#### (b) Variances:

Examinees found non-serious as they committed silly mistakes as noted below:

- Original budget quantities were taken instead of flexible budget quantities for calculating material quantity, labour efficiency and fixed overhead volume variances.
- Variances calculated were not labelled as 'favourable' or 'adverse'.

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**EXAMINERS' COMMENTS**  
**FALL 2012 (FEBRUARY 2013) EXAMINATIONS**  
**BUSINESS MATHEMATICS & STATISTICAL INFERENCE**  
**Semester-2**

**Question No. 2**

**(a) Simplification of Fraction:**

This part was on basic algebra. Most of the students lacked the concept of basic algebra, so they could not do it well. Students did not expand radicals correctly and they made mistakes in simplification/ cancellation just because of weak concept of algebra.

**(b) Linear Equation:**

This is first degree linear equation and such types of questions have been asked in previous sessions. Most of the students were not able to take LCM correctly and hence made mistakes.

**(c) Evaluation of Investment Opportunities:**

This part pertained to application of system of linear equations in a business situation. Normally students make a lot of mistakes in applications, they fail to understand the situations and convert them in the form of equations. In this case, solutions of system of linear equations seemed to be well known to the majority but they failed to convert the given situation in the form of equations.

**Question No. 3**

**(a) Critical Points:**

Finding of critical points are very easy questions, which requires finding the first derivative and then equating it to zero to arrive at the value of variable 'x'. Mostly, the examinees were not conversant with this procedure.

**(b) Annuity:**

Examinees were supposed to determine the quarterly payments that must be made at the end of each quarter to achieve the objective of accumulating Rs.600,000 after 8 years at the rate of 10 percent per year compounded quarterly.

- Some students tried to solve it with the formula of compound interest instead of the required formula, which was given in question.

**(c) Derivative:**

This sub-part required the application of the following rule:

$$f'(x) = \frac{vu' + uv'}{v^2}$$

Those who were aware of the rule did not face any difficulty in finding the desired answer. However some of them who attempted to do it otherwise failed to arrive at the required solution.

**(d) Compound Interest:**

This part of the question was based on compound interest in which examinees were asked to find the interest rate at which a sum of Rs.200,000 would grow to Rs.1,000,000 over an 8-year period given that the interest is compounded quarterly. Overall performance of the examinees was satisfactory.

**Question No. 4**

**(a) Sampling Distribution:**

Examinees were asked to construct sampling distribution of mean when random samples of size 2 are drawn 'without replacement' from the finite population 2, 4, 6, 8, and 10. Some students did it correctly but a few of them made mistakes while drawing samples. Some students drew samples 'with replacement' instead of 'without replacement'.



**(b) Frequency Distribution:**

Here the task was to set up a frequency distribution from the data consisting of the marks of 39 students. The construction of frequency distribution is very basic thing in Statistics but students made mistakes in designing the classes, determination of class intervals and marking of tally marks.

**(c) Mean and Median:**

In this part, a frequency distribution of marks obtained by 100 candidates in a Statistics examination was given and the examinees were expected to calculate arithmetic mean and median. It was very simple and straightforward question based on calculations. Most of the examinees were familiar with the procedure to determine the mean, however, when it came to find the value of median, some examinees used the formula of mode instead of the required formula of median:

$$\text{Median} = l + \frac{h}{f} \left( \frac{N}{2} - C \right)$$

**(d) Mean and Variance:**

In this part, population mean and variance of 10 observations were given. One observation (which is 12) is replaced by 18 and examinees were wanted to find new mean and variance. It was a tricky question. This question was correctly attempted by only those students who had a good knowledge of mean and variance.

**Question No. 5**

**(a) Regression Line:**

Examinees were wanted to (i) determine the relation between weekly advertising expenditure and sales by finding regression line and then (ii) predict the amount of sales for the advertising expenditure of Rs.60,000. It was a simple question requiring the knowledge of the formulas and computing skills. Nevertheless, students got confused in the formula and calculations.

**(b) Index Number:**

Here also the requirement was very easy just requiring examinees to find Fisher's Ideal Index Number, which tested their knowledge of the formula of Fisher's Ideal Index Number and computing skills.

**(c) Coefficient of Variance:**

In relation to 10 boxes of a certain brand of cereal, examinees were provided with the data of their mean content with a standard deviation of 9.64 grams as well as the average price per box with a standard deviation of Rs.9. Examinees were to decide as to whether weights were relatively more homogeneous than the prices. Most of the Students failed to calculate coefficient of variance to check the relative homogeneity of the given data,

**Question No. 6**

**(a) Moving Averages:**

Examinees were required to describe the various characteristics of 'moving averages'. It was a very simple theoretical question and only those students who had the knowledge and writing skills attempted it correctly.

**(b) Probability:**

It was also a very simple question based on basic probability rule, but students had a lot of problems in understanding it and consequently the majority was not able to attempt it correctly.

**(c) Confidence Intervals:**

A random sample of college students was given which showed mean marks 50 and variance 36. Assuming the scores to be normally distributed, examinees were expected to construct a 95% confidence interval for average marks scored by the entire students. Relevant figures of 't' distribution were given in the question and the students were needed to apply the correct formula. The response was not satisfactory.

**EXAMINERS' COMMENTS**  
**FALL 2012 (FEBRUARY 2013) EXAMINATIONS**  
**COMMERCIAL LAWS AND PROFESSIONAL ETHICS**  
**Semester-2**

**Question No. 2**

**(a) Functions of "High Court" and Types of "Prerogative Orders" issued by the High Court:**

Mostly examinees could not properly list down the functions of High Court and describe the type of prerogative orders issued by the High Court. Many of them repeated the same functions in different words. Following shortcomings were observed:

- Majority of examinees discussed the Court Structure in Pakistan rather than describing its functions.
- Some examinees explained the number of Courts in Pakistan and qualifications required for hiring of a Judge.
- In some cases civil and criminal laws and proceedings were described by the examinees.

**(b) Purposes of "Act of Parliament":**

Performance of majority of the examinees was remained poor in this part. Following common mistakes were committed by the examinees while answering the question:

- Some examinees discussed the process of law making and source of law, which were not required;
- Instead of describing the purposes of Act of Parliament, National Assembly, and Senate and in some cases Statue Law and Federal Shariat Law were explained.
- The purposes of Act of Parliament is to create new laws and amend the existing one were mentioned but consolidating and cancelling the existing laws were not discussed by majority of examinees.

**Question No. 3**

**(a) (i) Nature and Types of "Quasi Contracts":**

This question was well attempted by most of the examinees. However, some of them unnecessarily discussed the definition of "**Contract**" and essentials of a valid contract. Few examinees described offer, acceptance, consideration and ways of entering into a "**Contract**" rather than stating the types of "**Quasi Contracts**". In some cases examinees tried to explain Quasi Contract through examples instead of explaining its nature.

**(ii) Modes of "Revocation of Offer":**

This part was answered by all examinees and the performance was also very good. However, some of them were unable to explain the right modes of revocation. Many examinees described the ways of acceptance of offer rather than specifying modes of revocation. Some examinees mixed the modes of revocation with the process of making offer and its culmination into a contract.

**(b) Explanation of the Rule "Nemo Dat Quod Non Habet" and Exceptions in relation to "Contract for Sales of Goods":**

Almost all the examinees attempted this question and demonstrated good performance in it. In spite of good performance some weaknesses were identified which are:

- Some examinees discussed the process of making contract of sale.
- Some mentioned the essential of contract of sales.
- Some examinees repeated the same exceptions in different words.

**(c) Definition of “Condition” and “Warranty” and Circumstances under which Breach of Condition is to be treated as Breach of Warranty:**

Majority of the examinees attempted this question. Some examinees failed to define the terms in a legal context. However, the following shortcomings were noticed:

- Some examinees had a general understanding of condition and warranty and their replies were out of context.
- Some examinees failed to explain circumstances under which breach of condition is to be treated as breach of warranty.
- Few examinees explained examples of condition and warranty instead of defining both terms and elucidating circumstances.

**Question No. 4**

**(a) Situations where Mere Sharing in the Profit of a business does not Constitute Partnership:**

Most of the examinees were unable to attempt this question properly. Many examinees discussed the partnership and its type rather than describing the situations where mere sharing of profit does not constitute partnership. Very few examinees focused on the requirement and described the situations comprehensively.

**(b) Meaning of General and Special Crossing of a Cheque and the Purpose of Crossing a Cheque and Who can Cross it:**

Majority of the examinees attempted this part of the question and performance of them was also good. In spite of good performance some weaknesses were identified which are as follows:

- Some examinees discussed format of crossing instead of defining the terms;
- Few examinees define the term on the basis of their general information;
- Examinees answered incompletely regarding “who can cross the cheque”.

**(c) Cases:**

**(i) Promissory Note:**

Majority of examinees concluded correctly this case that it is not a promissory note because promissory note must be definite and unconditional and should not be uncertain or conditional undertaking as these characteristics destroy the negotiable character. Some of the examinees failed to identify the main characteristics of promissory note and wrongly answered to this part.

**(ii) Contingent Contracts:**

Most of the examinees attempted this part but could not succeed to give right conclusion. Few examinees gave the right answer that uncertain events are not collateral to the contract while the rest of examinees wrongly concluded that “renovation of an office on the terms that no payment shall be made till the completion of the work” is a “Contingent Contract”.

**(iii) Dissolution of Partnership Firm:**

Majority of examinees wrongly concluded that partnership can be dissolved at will of dissolving partners and without the order of the court. However, few examinees were able to identify that court can dissolve the firm on the petition filed by the partners who want to dissolve it. Many examinees failed to explain that consent of all the partners required for dissolving a firm constituted for fixed term i.e., five years.

#### Question No. 5

**(a) Power to require from Employers Statements regarding FATAL ACCIDENTS under the Workmen's Compensation Act, 1923:**

Almost all examinees who had attempted this question failed to give the right provisions regarding the “**Power to require from Employers Statements regarding FATAL ACCIDENTS**” under the “**Workmen's Compensation Act, 1923**” except few. Following shortcomings were observed:

- Majority of the examinees explained the types of disablement like Temporary Disablement, Partial Permanent Disablement and Permanent Disablement;
- Many examinees attributed Fatal Accidents as Normal Accidents like Car Accidents and Employer death rather than describing the correct provisions under the Workmen's Compensation Act, 1923;
- Some examinees misconstrued the relevant provisions and explained different amounts as disablement compensation.

**(b) “Precautions in Case of Fire” as per the Factories Act, 1934:**

Performance of the examinees in this question was average. Most of the examinees could not answer the question properly due to lack of practical knowledge about Factories Act, 1934; concerning the aforesaid areas. Following mistakes were identified:

- Some examinees discussed the fire incident occurred in the factory of Karachi which was not the actual requirement of the question.
- Some examinees went beyond the scope of the question and explained restricted area / working areas for women and children instead of providing the precautionary measures in case of fire breakdown;
- Some explained the precautionary measures in a very general way without pertaining to legal context.

**(i) Short Note on “Wages” in the context of the Employees’ Social Security Ordinance, 1965:**

- Majority of the examinees failed to explain Wages in the context of the **Employees’ Social Security Ordinance, 1965**. Majority explained the working hours, hourly rate and bonus plans rather than explaining the contents of Wages.

**(c) Consideration of Factors while Engaging in Pre-Qualification of Suppliers and Contractors:**

Performance of the examinees in this part was poor. Most of the examinees could not answer the question properly. Only few examinees list down the factors regarding the past performance, financial position and other factors.

#### Question No. 6

**(a) (i) Receiving Accountants; (ii) Professional Accountants in Public Practice:**

Most of the examinees did not attempt this part of the question. It seems that examinees had ignored this area from their studies. With reference to above terms following shortcoming were found:

- Some examinees defined Receiving Accountants as a person who is not qualified yet but in future will complete his professional studies;
- Few of the examinees explained that Receiving Accountant is a Professional Accountant who has to receive sum of money from customers and credit into their account;
- Some of the examinees explained Professional Accountants in Public Practice as a CA and CMA qualified person while few described as an accountant, who is not in public practice, not the member of SAFA-Code of Ethics and working in a private sector.

**(b) Fundamental Principles which a Professional must follow in all Professional and Business Relationship:**

Majority of the examinees demonstrated good performance in this part of the question. Some examinees answered the question on the basis of their general understanding without elucidating the fundamental principles which a Professional Accountant must follow in all professional and business relationship as per SAFA- Code of Ethics.

**(c) Factors which professional accountant need to consider while resolving an ethical conflict:**

Only few examinees were able to answer properly and clearly. Most of the examinees wrote the process of resolving a conflict on the basis of their general understanding. Some examinees defined consideration and example & factors of Consideration instead of describing the question's requirement. In short the ratio to explain this question correctly was very poor and score of majority was also very low.

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**EXAMINERS' COMMENTS**  
**FALL 2012 (FEBRUARY 2013) EXAMINATIONS**  
**FINANCIAL ACCOUNTING**  
**Semester – 3**

**Question No. 2**

**(a) Accounting Conceptual Framework:**

This part of the question required the examinees to briefly explain (i) the objective of general purpose financial reporting and (ii) underlying assumption of preparing financial statements. Most of the examinees attempted this part of the question but the majority failed to explain the same and resorted to irrelevant answers.

**(b) Statement of Cash Flows:**

In this question the examinees were required to (i) prepare Statement of Cash Flows using 'indirect method' and (ii) determine Free Cash Flow as per the requirements of IAS-7. Overall, performance of the examinees was satisfactory. However, following shortcomings were noted in the scripts:

- (i) While calculating 'cash flows from operating activities', the examinees were required to make adjustments to the 'profit before tax' amount. Some examinees failed to adjust the correct amount of depreciation for the year (Rs.27,000), apparently, due to lack of clear concept of accounting treatment for disposal of assets while computing the current depreciation.
- (ii) A few of the examinees could not calculate correct amount of 'interest expense on bonds payable' (Rs.200,000 x 10% = Rs.20,000).
- (iii) A few of the examinees could not calculate correct amount of gain (Rs.250,000) on sale of equipment, since they could not determine the correct carrying value of the asset (Rs.3,750,000) at the date of disposal.
- (iv) A good number of the examinees did not calculate correct amount of increase in debtors mainly because they considered the difference of gross amounts of debtors of two years instead of net debtors. The total increase in debtors should have been Rs.16,000.
- (v) While calculating 'cash flows from investing activities' a few examinees did not calculate the cash flow for purchase of equipment (Rs.70,000) correctly because they ignored the disposal of equipment. Those who did consider disposal amount, took book value instead of cost of the equipment disposed of.
- (vi) Surprisingly, none of the examinees was able to calculate Free Cash Flow i.e., Rs.2,000 (Rs.92,000 – cash flow from operating activities, minus Rs.70,000 – capital expenditure, minus Rs.20,000 – dividend paid).
- (vii) While preparing statement of cash flows, cash inflow is shown with positive number while cash outflow is shown with negative sign or within brackets. A few examinees were found making this serious mistake of not following this rule and ended up calculating wrong amounts.
- (viii) A good number of the examinees did not prepare working notes to show calculation of various figures of cash flows.

**Question No. 3**

**Financial Statements:**

This question required the examinees to prepare (i) Income Statement & the Statement of Retained Earnings and (ii) Statement of Financial Position. The majority attempted this question and, overall, performance was satisfactory. However, following shortcomings were noted:

**(a) Income Statement and Statement of Retained Earnings:**

- (i) A few examinees could not calculate correct net sales of Rs.1,068,000 (1,100,000 – 17,500 – 14,500), which could be computed by subtracting sales return and sales discount from the revenue.

- (ii) Some examinees did not calculate the 'cost of goods sold' correctly (Rs.645,000) hence they could not arrive at the correct gross profit (Rs.423,000) mainly due to wrong treatment of freight-in and closing inventory.
- (iii) A few examinees were not able to calculate operating expenses (Rs.376,920) correctly mainly due to wrong calculation of depreciation on building (Rs.3,920) and (Rs.28,000) on equipment.
- (iv) Some of the examinees could not calculate correct financial charges on bonds payable (Rs.6,000 =  $100,000 \times 12\% / 2$ ) since they calculated the same for the whole year while financial charges were to be accrued for 6 months only.
- (v) Likewise, a good number of the examinees could not prepare the 'statement of retained earnings' correctly since they did not calculate correct amount of profit after tax (Rs.54,002) and did not account for correct amount of dividend paid / declared (Rs.30,000 + Rs.15,000).

**(b) Statement of Financial Position:**

- (i) Some examinees did not present the non-current assets correctly, i.e. they did not mention the non-current assets along with accumulated depreciation amounts. A few calculated the accumulated depreciation amount wrongly. A few even did not show the amount of land (Rs.70,000).
- (ii) A good number of the examinees did not show the net accounts receivable amount i.e., Rs.100,000 (Rs.106,000 – Rs.6,000) correctly since they totally ignored the allowance for doubtful accounts. While a few examinees showed the notes receivable under non-current assets.
- (iii) A few of the examinees mentioned the bonds payable under current liabilities. Some of the examinees showed the dividend payable amount including the dividend paid which was showing their weak grip over the basic accounting concepts.

**Question No. 4**

**(a) Revaluation of Non-current Assets:**

This part of the question required the examinees to prepare (i) Journal Entries for revaluation of assets and depreciation for the year ended December 31, 2011. Most of the examinees attempted this question but, overall, performance was not commendable. Following shortcomings were found in the scripts:

- (i) Some examinees could not calculate correct amount of revaluation surplus (Rs.900,000), since they were not able to compute the correct amount of book value of the asset (Rs.1,200,000).
- (ii) Majority of the examinees did not adjust accumulated depreciation amount prior to revaluation of the asset (Rs.800,000) and did not debit the asset account with the correct amount (Rs.100,000).
- (iii) A few examinees could not calculate correct amount of depreciation i.e., Rs.700,000 (Rs.2,100,000 / 3 years) after revaluation of the asset.
- (iv) A large number of the examinees could not prepare correct journal entry for realization of revaluation surplus for the year ended December 31, 2011 i.e., Rs.300,000 (Rs.900,000 / 3 years).

**(b) Impairment Loss of Assets:**

- (i) In this sub-part of the question the examinees were asked to briefly state the accounting treatment of impairment loss of assets under IAS-36. The examinees appeared to have weak grip over the topic and resorted to giving irrelevant answers. Only a few could answer to the point.
- (ii) In this sub-part of the question the examinees were required to demonstrate allocation of impairment loss of assets relating to a cash generating unit and prepare relevant journal entry. A good number of the examinees attempted this part. Overall performance was found satisfactory. However following common mistakes were noted:
  - A few examinees did not adjust 100% of the goodwill amount (Rs.15 million). Instead, they wrongly

adjusted the entire loss (Rs.20 million) against all the assets proportionately.

- Some examinees allocated the impairment loss proportionately against current assets as well which is wrong treatment as the impairment loss has occurred against the non-current assets only.
- Surprisingly, a few examinees could not calculate correct amount of total impairment loss (Rs.20 million = Rs.105 million – Rs.85 million), which is the excess of carrying values of assets over their recoverable amounts.
- Majority of the examinees could not prepare journal entry to record allocation of impairment loss of assets correctly i.e., they debited accumulated depreciation account and credited asset accounts with the total amount instead of debiting profit or loss account and crediting respective fixed assets accounts.

#### **Question No. 5**

##### **Finance Lease:**

In this question, examinees were required to prepare (a) Lease Amortization Schedule, (b) Relevant Journal Entries for the period ended June 30, 2012 and (c) Extracts from Income Statement and Statement of Financial Position for the year ended June 30, 2012. A good number of the examinees attempted this question and the majority answered satisfactorily. However following observations were made:

- (i) Majority of the examinees could not prepare correct lease amortization schedule, since the installment was payable on July 1<sup>st</sup> each year; they should have calculated the interest accrued as of June 30, each year and add the same in the ending balance as of that date.
- (ii) In the question, it was apparent that the data given pertains to the lessee. In spite of it, some of the examinees passed the journal entries in the books of lessor instead of the lessee's books. While a few, unnecessarily, prepared journal entries in both the books.
- (iii) While preparing extracts from the income statement and the statement of financial position, a few examinees did not show the financial charges on leased assets in the income statement for the year ended June 30 as an expense. A good number of examinees did not classify the year-end lease obligation between current and non-current parts properly. Some omitted to mention accrued financial charges under the current liability in the statement of financial position.

#### **Question No. 6**

##### **(a) Deferred Taxation (IAS-12):**

This part of the question required the examinees to explain the meanings of (i) Temporary Differences, (ii) Taxable Temporary Differences and (iii) Deductible Temporary Differences. Most of the examinees tried to attempt this question but except a few, the majority failed to explain the meaning of the above terminologies correctly. Following common mistakes were observed in the scripts:

- (i) Some of the examinees did not have clear concept of the Deferred Taxation hence they could not define the terms as per IAS-12.
- (ii) A good number of the examinees were not able to explain the terminologies Taxable and Deductible Temporary Differences; they did not have clear concepts of Deferred Tax Asset and Liability. Some resorted to irrelevant answers.

##### **(b) Inventories (IAS-2):**

In this part of the question the examiner required the examinees to calculate inventory cost and the net realizable value (NRV) and state the amount at which the inventories will be shown in the financial statements as required by the IAS-2 (Inventories). This question was attempted by a good number of examinees but overall performance was very poor. Following shortcomings were noted:

- (i) As per IAS-2, the inventories were to be recorded at cost or NRV whichever is lower since the examinees



did not have clear concept of the above, they ended up with wrong answers.

- (ii) Some examinees did not calculate correct NRV (difference of sale price and cost to sell) since they did not have clear concept of the same. Likewise, a few examinees could not calculate the cost (sum of material and production cost) of the inventories correctly.

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**EXAMINERS' COMMENTS**  
**FALL 2012 (FEBRUARY 2013) EXAMINATIONS**  
**ENTERPRISE MANAGEMENT**  
**Semester-3**

**Question No. 2**

**(a) Skills for Successful Management Performance:**

Most of the examinees were able to briefly explain technical skills, human skills and conceptual skills related to different levels. They also gave details of the importance of human skills. This shows that they have understood the topic completely. However It was noted that some examinees only described human skills in details. They missed to briefly explain other skills required at different levels.

In traditionally structured organization managers operate at different levels ranging from bottom level to top level; first-line managers, middle-level managers and top-level managers. The first-line managers require technical skills more because they manage the work of non-managerial employees who are typically involved with producing the organization's products and services. Middle-level managers require human skills more, because they work in coordination with other managers at the same level and supervise the work of first-line managers. In addition to it they to act a bridge between top-level managers and lower-lower mangers when implementing a strategy.

Top-level managers require more the conceptual skills, because they are responsible for making goals and plans that affect the entire organization. Human skills remain important at all levels, because managers requires skills through which they build cooperation, so that they can work with the people.

**(b) Leadership Styles:**

This was a simple question asking about autocratic and democratic leadership styles and asking about which one is best. Most of the examinees answered the question. However, the answers were too short. The examinees should have given more details and explanation as the question carries eight marks. It was also noted that most of the examinees favoured democratic leadership but the reasons were insufficient. The examinees must know that style of leadership depends upon the type of environment and situation in which a manger is performing his/her duties. In case of urgent/emergent situation and if the employees are less experienced and professionally mature then one has to go for autocratic leadership.

Autocratic style is described as a leader who dictated work methods, made unilateral decisions, and limited employees participation.

Democratic style described a leader who involved employees in decision making, delegated authority, and used feedback as an opportunity for coaching employees.

Which style of leadership is best; is dependent upon the type of environment and situation in which a manger is operating.

**Question No. 3**

**(a) Challenges/Rewards to Managers:**

Examinees were required to explain challenges a modern manger has to face and rewards he or she can have. Overall performance with regard to first part of the question was satisfactory. However, many examinees did mention only few rewards which a manger can have for facing the challenges. Even the explanation to this part was sub standard. This was a simple straight question and it is felt that the examinees' have not fully covered answer to the question.

The Challenges that a modern faces are:

- They have to do hard work
- May have to perform duties that are more clerical than managerial

- Have to deal with variety of personalities
- Often have to make do with limited resource
- Motivate workers in chaotic and uncertain situations
- Blend knowledge, skills ambitions and experiences of a diverse work groups
- The success of a manager depends on success of others

Rewards For Modern Managers:

- Create a work environment in which organizational member can work to the best of their ability
- Have opportunities to think creatively and use imaginations
- Help others find and meaning and fulfilment in work
- Support coach and nurture others
- Receive recognition and status in organization and community
- Play a role of influencing organizational outcomes
- Receive appropriate compensations in the form of bonuses and stock options
- Good managers are needed by organization.

**(b) Conflict: Functional/Dysfunctional:**

Most of the examinees defined functional and dysfunctional conflicts in a very broad way. They should be specific and precise. Many of them missed to mention the traditional view of conflict, the human relations view of conflict and interactionist view of conflict. They even could not specifically explain when is conflict functional and when is it dysfunctional. This topic is quite important thus examinees should have covered it comprehensively. Therefore examinees were unable to attain good marks.

Conflict is perceived incompatible differences resulting in some form of interference or opposition. Whether the differences are real is irrelevant. If people in a group perceive that differences exist, then there is conflict.

Functional conflicts are constructive and support the goals of the work group and improve its performance. Dysfunctional conflicts are destructive and prevent a group from achieving its goals.

**Question No. 4**

**(a) Corporate Social Responsibility (CSR):**

In this part of the question, examinees were called to explain views of Manager A and Manager B regarding Corporate Social Responsibilities. A good number of examinees were able to reply the question satisfactorily. Few examinees answered the question in a very general way and missed some important points. They should be specific and precise in answering the question.

**Arguments Which Supports Manager's A Viewpoint :**

- Violation of profit maximization
- Dilution of purpose
- Costs
- Too Much Power
- Lack of Skills
- Lack of Accountability

**Arguments Which Supports Manager's B Viewpoint:**

- Public expectations:
- Long-Run Profits:
- Ethical Obligations:
- Better Environment:

- Discouragement of further governmental regulations
- Balance of Responsibility and Power:
- Stockholders interest:
- Possession of Resources:

**(b) Total Quality Management (TQM):**

In this part of the question, examinees were called to explain TQM program. The overall performance of the examinees was observed satisfactory. However, some of them missed to understand the requirement of the question and did not cover the important points of TQM like: intense focus on the customer, Sustained improvement in quality, focus on process, accurate measurement and empowerment of employees. They must remember that to win market and face competitors one can not miss any of important point.

Success of any organization mainly depends on its customer satisfaction. Implementing TQM programs can increase a company's success rate because as it focuses on getting customer satisfied through continuous improvement in all processes of organization.

TQM believes in:

- Intense focus on the customer
- Concern for continual improvement
- Process focused
- Improvement in the quality
- Accurate measurement
- Empowerment of employees

**Question No. 5**

**(a) Human Resource Management (HRM) Activities:**

In this part of the question examinees covered human resource planning, recruitment and selection, orientation and training. However, majority of the examinees did not provide details regarding employee performance management. Compensation and benefits and employees career development. This was an essential part of the question. Thus the question was partly covered and examinees couldn't get good marks.

Some of the activities of HR are:

- HR Planning
- Recruitment
- Selection
- Orientation
- Training
- Employee performance management
- Compensation Management

**(b) Quality Dimensions of Goods and Services:**

In this part of the question, examinees were called to list and briefly describe quality dimensions of goods and services. Majority of the examinees were successful to answer quality dimensions of goods correctly. However, it was noted that second part of question was answered vaguely. They should have covered the points like timeliness, courtesy, consistency, convenience, completeness and accuracy which are essential part of Service Quality.

Product Quality Dimensions are:

- Performance

- Features
- Durability
- Conformance
- Serviceability
- Aesthetics
- Perceived quality

Service Quality Dimensions are:

- Timeliness
- Courtesy
- Consistency
- Convenience
- Completeness
- Accuracy

#### Question No. 6

##### **Selling Concept/Marketing Concept:**

Majority of the examinees were able to define selling concept but did not mention the reasons about what could be wrong in applying the selling concept by the company. Many examinees were successful to explain shifting to marketing concept from selling concept and the benefits which they can derive from this change. They covered the points like customers need, wants and expectations. This will help the organizations to efficiently and effectively meet their requirements and ultimately retain the customers. The result of these steps will be to build company/brand loyalty and financial benefits.

Selling concepts holds that consumers will not buy enough of the firm's product unless it undertakes a large scale selling and promotion activity. The selling concept is mostly practiced with unsought goods and services.

Disadvantages of Following selling Concept are:

- The company will not focus on understanding customer needs so the products they sale will have less chance to satisfy customer needs.
- The focus of the company will be on "aggressive selling", that is risky.
- The company will be focusing on creating sales transactions, rather than building long-term profitable relationships with the customer through satisfying their needs.
- Company might be able to reap benefits in short-run, but in long-run it might lose customer and market share.

The marketing concept holds that achieving organizational success depends on understanding and satisfying customer needs profitably than competitors do. The marketing concept of the company are:

- Will become customer oriented than sales oriented.
- Will enable the company to understand customers needs wants and expectations and it will be able find, efficient and effective ways to satisfy their needs better than competitors.
- The aim of the company will be to build satisfy customers, retaining customers, build company/brand loyalty and eventually that will drive financial benefits.

**Question No. 7****Consumer Buying Behaviour:**

In this part of the question, examinees were required to discuss consumer buying behavior of desired products. Some of the examinees briefly explained the buying behavior satisfactorily. However, other examinees answered the question in a very common way. They should have been specific in their answers. In case of Plasma the consumers would have Complex Buying Behavior, because the product is expensive, risky and self expressive. In case of Carpet the buyers will show Dissonance Reducing Buying Behavior as it is an expensive carpet and occasionally purchased. In case of candies/toffees the buyers show Variety Seeking Behavior. In case of cigarettes consumers may be more brands conscious. This explanation was missing. This shows lack of study and preparation which was quite visible from the answer scripts.

**Question No. 8****Operations Management:**

Mostly the candidates were able to discuss operations management and its effects on organization's productivity. Some of the examinees missed to write that smart operations can efficiently and effectively manage its value chain. This results in increased productivity and capability to respond to change in market and customers need. These were important points which they left to mention. However, majority of the examinees were successful to answer this question. The answers were found satisfactory to this question. Operations management refers to transformation process that converts resources into finished goods and services. The process includes (i) inputs (ii) transformation (iii) final output. Operations management is important for all organizations' because operation process is carried out in all organizations' whether large or small, manufacturing or service.

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**EXAMINERS' COMMENTS**  
**FALL 2012 (FEBRUARY 2013) EXAMINATIONS**  
**INFORMATION SYSTEMS AND I.T. AUDIT**  
**Semester-3**  
**SECTION "A"**

**Question No. 2**

**(a) Data Integrity Testing:**

This part required examinees to explain the term "Data Integrity Testing" and properties of ACID principle. A very small majority of examinees was able to answer the question correctly. A large number of examinees attempted the question with very vague definitions without showing clear understanding of it. Performance of entire group was below average in this part.

**Suggested approach:**

It is expected that examinees should explain the concept of Data integrity testing, which comprises of substantive tests that examines accuracy, completeness, consistency and authorization of data presently held in a system. Four major components of ACID principle should be elaborate as follows:

**Atomicity:** It requires that each transaction is "all or nothing". An atomic system must guarantee atomicity in each and every situation, including power failures, errors and crashes.

**Consistency:** It ensures that any transaction will bring the database from one valid state to another.

**Isolation:** Each transactions must be isolated from other transactions and hence each transactions only accesses data that are part of a consistent database state.

**Durability:** It ensures that once a transaction has been committed, it will remain so even in the event of power loss, crashes or errors.

**(b) Customer Relationship Management (CRM):**

In this part, the examinees were asked to state the importance of CRM. The examinees were also required to differentiate between operational and analytical CRM. The examinees generally answered the question well.

**Suggested approach:**

Examinees are expected to explain features of Customer Relationship Management and its importance in new business trends. This emphasizes the importance of focusing on information relating to transaction data, preferences, purchase pattern, status, contact history, demographic information and service trends of customers rather than on products.

Operational and Analytical CRM are two major types of CRM. Scope of both type of CRM is required in this part. Operational CRM is concerned with maximizing the utility of the customer's service experience while Analytical CRM seeks to analyze information captured by the organization about its customers and their interactions with the organization. Operational CRM relates to the operational factors of implementing a CRM system while analytical CRM refers to customer data analysis to determine behavioural responses.

The overall performance of examinees was good and most of them discussed role of CRM and its importance in business trends. Majority of the examinees knew how CRM helps in improving organization customer's database. Answer scripts shows that majority of the examinees knew that "who expects something from us, is our customer". Customer's relationship management is the needs of today competitive business environment. Majority of the examinees clearly explained the difference between operational and analytical CRM. Majority of the examinees got good marks in this part.

### Question No. 3

#### (a) Virtualization:

This part required examinees to explain the virtualization features offered by operating systems and their advantages/disadvantages. A small majority of examinees was able to answer the question correctly. Most examinees attempted the question by discussing non-relevant operating systems concepts that clearly showed the lack of understanding of the virtualization concept.

##### **Suggested approach:**

Virtualization is the key feature of modern operating system. It refers to the creation of a virtual machine that acts like a real computer with an operating system. It has many advantages like reduction in server costs; multiple OSs can share processing capacity and storage, cloud computing facility etc. Apart of this some concerns related to security threats, performance issues and exploits of vulnerabilities within the hosts configuration and Distributed Denial of Service (DDoS) attacks etc also need focus in implementation of this approach.

Performance of entire group were remained below average in this part. Majority of examinees mixed virtualization of OS with virtual reality. Majority of the examinees were able to identify that virtualization helps to reduce operational cost ,but they failed to technically elaborate that how can these improve the performance and cut down operational costs. Technical concept was weak in this part.

#### (b) Electronic Data Interchange (EDI):

This part required examinees to explain the functions used in traditional EDI process. A small majority of examinees was able to answer the question correctly. Most of the examinees attempted the question by describing e-business and various stakeholders involved in an electronic transaction rather than the functions of the electronic trading system.

##### **Suggested approach:**

It is expected from examinees to enlist and elaborate following functions within each trading partner's computer system.

##### i) Communication handler:

It is process for transmitting and receiving electronic documents between trading partners via dial up lines, PSTN, dedicated lines or a VAN.

##### ii) EDI Interface:

It manipulates and routes data between the application system and the communication handler.

##### iii) Application system:

The program that process the data sent to, or received from, the trading partner. Application-initiated transactions are passed to a common application interface for storage and interpretation.

Most of the examinees have no clear concept that EDI process generally involves three functions within each trading partner's computer system. Mostly examinees discussed batch processing and EDI working and other irrelevant detail which was not asked in question. Very few examinees (approx 5%) knew about required EDI processes. Progress of entire group was very poor in this part.

### Question No. 4

#### (a) Software Development Methodologies:

This part required examinees to explain features of waterfall and spiral models. Additionally, examinees were also asked to explain how spiral model can be helpful in managing risk of software development. A large majority of the examinees answered the question by providing a labelled diagram of both the models but the explanation provided in support of their answers clearly showed a lack conceptual understanding of



the two models. Almost all examinees didn't provide acceptable and conceptual explanation as to how spiral model can help manage risk in software development.

**Suggested approach:**

**Waterfall model:**

The waterfall models shows a process, where developers are to follow phases in order. Requirement analysis, software design, implementations, testing, deployment and maintenance are important phase of this model. In this model reviews may occur before moving to next phase. Drawback of this model is that it discourages revisiting and revising any prior phase once it's complete.

**Spiral model:**

This model combines some key aspect of the waterfall and rapid prototyping methodologies. Risk driven spiral model, emphasizing the conditions of options and constraints in order to support software reuse, software quality can help as a special goal of integration into the product development. This model allows review at any stage and allow prototyping to minimize risk at any stage.

**(b) WAN Technologies:**

This part required examinees to explain different WAN technologies. Only few examinees were able to answer the question partially. Rest answered the question by providing definition of various network connectivity devices such as router, switch, hub etc.

**Suggested approach:**

Discussion on common types of WAN technologies used to manage and provide point to point connectivity among different sites of bank to its central head office. This question mainly focus on features of different WAN technologies like Packet switching, Frame relay , ATM ,ISDN, VPN, MPLS,DXX & DSL etc.

This is one of the easiest question of paper but answer scripts shows that majority of the examinees did not grasp what is asking about in this subpart. Majority of the examinees wrote irrelevant details like topology bus, ring, star & network devices like switches, hub, routers, firewalls etc in this part. Majority of student performance were below average in this part and it shows that networking was the weakest area of majority of the examinees, which need lot of improvement during theory sessions.

**SECTION "B"**

**Question No. 5**

**(a) Why Symmetric Encryption Used for Data Encryption and Asymmetric Encryption Used in Key Exchange:**

This part required examinees to differentiate between Asymmetric and Symmetric Encryption techniques. In addition, they were also asked as to how the public keys can be distributed while sending messages using a public key cryptographic system. Many examinees provided a partially correct answer while differentiating between Asymmetric and Symmetric Encryption techniques. Very few provided correct answer as to how the public keys can be distributed while sending messages using a public key cryptographic system. Most examinees provided answers by discussing a vague idea of how encryption works in general.

**Suggested approach:**

After brief introduction of Encryption methods, it is required to elaborate most feasible uses of symmetric and asymmetric encryption. Symmetric key size is normally smaller so CPU utilization is relatively very low and results in less processing time. This make symmetric key cryptosystems suited for bulk data encryption.

While Asymmetric key is more secure due to larger size. Size of data is also limited in key exchange mechanism so Asymmetric key is preferable in key exchange mechanism.

An important element to the public key system is that the public and private keys are related in such a way that only the public key can be used to encrypt messages and only the corresponding private key can be used to decrypt them.

Public-key cryptography is a cryptographic technique that enables users to securely communicate on an insecure public network, and reliably verify the identity of a user via digital signatures.

**(b) Hardware Review:**

This part required examinees to discuss main areas which need to be reviewed related to hardware. Many examinees answered the question correctly by describing the main categories of hardware review. Rest answered the question by describing various hardware devices themselves such as hard disk, monitor, CPU etc.

**Suggested approach:**

In IS infrastructure auditing, hardware reviews should include the following points.

- Hardware acquisition plan review
- Capacity management and monitoring review
- Preventative maintenance schedule review
- Hardware availability and utilization report review
- Problem logs & job accounting system reports review
- Acquisition of hardware review

It is required from examinees to explain these areas needed for hardware review.

Overall progress of entire group was relatively better in this part. Some examinees also explained review areas related to operating system, networking and database which was not asked. Precision and relevancy level in some answer scripts was below expectations.

**Question No. 6**

**(a) Information Security Policy Document:**

This part required examinees to discuss main features of information security policy document. In addition, they were also asked as to how IS auditor can ensure Acceptable Internet Usage Policy. Many examinees answered the first part of the question by correctly describing the main features of information security policy document. Rest answered the question by describing the importance of information security itself. Very few examinees provided correct answer as to how IS auditor can ensure Acceptable Internet Usage Policy. Rest answered the question by describing how the Internet can be used in an organization.

**Suggested approach:**

Examinees first explain briefly that the Information security policy document should state management's commitment and set out the organization's approach to managing information security. After that student is required to discuss main ingredients of Information security policy document. Brief explanation of information security policy document framework, legislative/ regulatory requirements, consequences of policy violations and business continuity management is expected from the examinees. Discussion on AUP, which is a set of rules that are put into effect by an enterprise to control how its information system resources will be used. Features of acceptable Internet usage policy, which prescribes the code of conduct that governs the behavior of a user while connected to the network/internet.

Progress of entire group remained below average in this part. Mostly examinees explained the term policies and procedures. Major components/areas of effective information security policy documents were missing in most answer scripts. Examinees were lacking in in-depth knowledge about Information security policy document.

**(b) Computer Assisted Audit Techniques (CAAT):**

This part required examinees to discuss how CAAT can help IS auditor in gathering information from hardware and software environment. In addition, they were also asked as to discuss different functions supported by Generalized audit software (GAS). Many examinees answered the question correctly by describing various features of CAAT that IS auditor can use to gather information from hardware and software environment. Rest answered the question by incorrectly describing the miscellaneous hardware and software features. Very few examinees answered the question correctly about the main functions of GAS.

**Suggested approach:**

It is expected to explain computer assisted audit technique, which is important tool for IS auditor in gathering information from different environments. CAAT's provide means to gain access and analyze data for a predetermined audit objective, and to report the audit finding. GAS is important tool used for CAAT. Enlist and explanation of following functions supported by GAS is also required in this part.

- File access
- File reorganization
- Data Selection
- Statistical functions
- Arithmetical functions

Majority of the examinees explained the term CAAT well and its importance in collecting information from different environment. Answer script shows that examinees knew about GAS which is important tool of CAAT, however most of the examinees had failed to elaborate different function supported by GAS. Mostly examinees wrote features of GAS rather than focus on required functions. Answer scripts reveals that examinees knew about the GAS but could not understand the second requirement of this part resulting in irrelevant details. Overall progress were remained average in this part.

**Question No. 7**

**(a) Access Control List:**

This part required examinees to discuss reasons to create Access Control Lists (ACLs). In addition, they were also asked as to how an extended ACL can be implemented on company's router interface. Most examinees answered the question by describing the network security in general. Very few described correctly as to how the extended ACL can be implemented.

**Suggested approach:**

It is required to explain different reasons to implement ACL which limit network traffic and provide basic level of security for network access. ACL decide which type of traffic are forwarded or blocked at the router interface. Extended ACL's have the ability to look at source and destination IP addresses, layer 4 protocol specific information like source and destination ports. Both type of ACL's are list of instruction implemented on router interface to filter incoming and outgoing traffic.

A very few examinees could properly answer this part of question paper. Majority of the examinees had no idea about purpose of ACL's. Mostly student discussed irrelevant details like physical security access controls and firewalls. Quality and precession level was below average. Almost all examinees had no idea about role of extended ACL. Mostly examinees mixed ACL concept with physical security measures. Overall performance remained unsatisfactory in this part.

**(b) Business Continuity Plan:**

This part required examinees to discuss the process of developing and maintaining an appropriate Business Continuity Plan. In addition, they were also asked about major tasks involved when an IS auditor is evaluating the suitability of business continuity plan. Most examinees attempted the question by describing the general concept of business continuity. Most examinees provided very vague answers as to how IS auditor can evaluate the suitability of business continuity plan. Most examinees discussed the general steps of IS audit which were no close relation to business continuity.

**Suggested approach:**

It is required from examinees to explain what BCP is and how it impact in case of any disruptions. Following consideration are required in effective Business continuity planning.

- Conduct risk assessment
- Prepare business impact analysis
- Choose appropriate controls
- Developed detailed DRP Plan
- Maintain and develop for any change management.

It is responsibility of IS Auditor to evaluate business continuity strategy ,evaluating offsite storage and DR sites, reviewing emergency procedures and ensure effectiveness of preventative and corrective measures in order to minimize downtime .It is expected from examinees to discuss role of IS Auditor in implementing and assurance of effective BCP in organization.

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**EXAMINERS' COMMENTS**  
**FALL 2012 (FEBRUARY 2013) EXAMINATIONS**  
**MANAGEMENT ACCOUNTING**  
**Semester-4**

**Question No. 2**

**Preparation of operating budgets:**

This was a simple question, asking about the quantities of sale units, purchase units and units consumed, with purchasing cost and sales revenue. However, following shortcomings were observed:

- Some examinees used the sales revenue amount to determine the production quantities instead of the sales quantities.
- Some made an error of adding the opening and subtracting the closing quantities to/ from the sales quantities to arrive at the production quantities.
- Some of the examinees wrongly determined the purchases.
- Examinees used the raw material quantities consumed per box instead of calculating the quantity of raw material required for the total production.
- Few of the examinees wrongly calculated the product wise material purchase budget ignoring total production requirement of each raw material and opening and closing balances of raw material which were given in the question paper.
- Presentation of data was improper coupled with poor handwriting.

**Question No. 3**

**(a) Calculation of net present value (NPV):**

This question related to the calculation of present value (PV) of future outflows of an offer. This question was divided into two parts i.e., calculation without taxes and calculation with tax. The examinees failed to prove their worth and attempted the question in a very unprofessional way. Some common shortcomings witnessed are as under:

- The examinees failed to demonstrate that NPV technique to discount cash inflows and outflows.
- The examinees also failed to show that depreciation was given for calculation of tax benefit and it had no other impact on inflows and outflows.
- Quite a good number of examinees even could not tabulate the data correctly. This shows lack of study and conceptual grip on the topic.
- Many of the examinees did not take into consideration the PV factor in either part and jumped to the conclusion directly by taking out the difference between the benefits and the increase in costs.

First part of the question required to calculate the NPV ignoring taxation and to give opinion to accept or reject the offer. Examinees committed following mistakes in this part of the question:

- Majority of examinees made mistakes in working with tax and depreciation.
- The overhauling cost of Rs.200,000 was divided on an annual basis, while it was to be charged in the respective year.
- The overhauling cost was not required to be charged for the 10<sup>th</sup> year since a new power generation system was to be installed but examinees charged this cost in 10<sup>th</sup> year also.
- The residual value of Rs.70,000 was a cash saving in the 10<sup>th</sup> year but examinees could not net off the cash flows with this amount.
- A few of the examinees considered the biannual maintenance cost every year.

Second part required the consideration of taxation, the examinees could not clearly understand the implication of taxation for decision making purpose and tried to reach the solution improperly. Very few examinees solved this part of the question correctly.

**(b) (i) Sensitivity analysis:**

This part of the question was related to a simple definition of sensitivity analysis. The concept of sensitivity analysis was not clear to most of the examinees, as a method of analysing the effect of change of any variable in an investment appraisal decision.

**(ii) Change in level of expected cost to attain break-even:**

This part was just the simple calculation of net present value of the total inflow and outflow of cost and revenues. The change in the level of expected costs to attain break-even (when NPV of revenue and cost is zero) could not be calculated by many examinees. Some examinees did not consider NPV calculation and those who managed to calculate could not conclude the level of change in cost to attain the break-even.

**Question No. 4**

**Break-even analysis:**

This question was related to the break-even analysis, and the major factor of this analysis belongs to the fixed cost. In the question there are 360 mandatory trips having total cost of Rs.1,620,000. Almost all the examinees charged this cost as variable. The examinees failed to understand the point that since one trip daily i.e., 360 trips in a year are mandatory, so variable costs of these 360 trips is also a fixed cost which should be recovered to break-even.

**Question No. 5**

**(a) Current assets policy and expected return on equity:**

The question was based on the simple working of return on equity. Examinees were required to calculate current assets at different percentages of sales, debt as per given ratio and equity was balancing figure. Generally, examinees committed following mistakes:

- The examinees could not clearly understand the requirement and treated the fixed assets as total assets and calculated debt through it and then determined the amount of interest from that amount, while the current assets was to be calculated through different percentages of sales given in the question and to be added to the fixed assets to arrive at the total figure of assets. Then from the total assets, the amount of debt was to be deducted to get amount of the equity.
- Most of the examinees also calculated tax on the amount of sales instead of calculating it on the EBT.
- Some examinees used the sale amount of Rs.6,000,000 as EBIT and ignored the 15% on sale mentioned in the question.

**(b) Cash management and budgeting:**

This question was based on the uses of cash budget and a preparation of cash budget. The examinees could not understand the question and committed following mistakes:

- Examinees failed to describe the purposes of preparing the cash budget.
- The examinees were unable to solve the question completely, despite all the expenses incurred in the respective months were clearly mentioned.
- Some of the examinees treated the investment amount of Rs.120,000 as an expense.
- Majority of the examinees partially attempted the question.
- The amount of interest was not correctly calculated by any of the examinees.

### Question No. 6

#### (a) Activity based costing (ABC) system and ranking of customers on the basis of profitability:

This question was about the ranking of customers on the basis of profitability based on 'activity based costing'. Some of the examinees made the following errors:

- Examinees did not understand the basis of cost allocation and ignored the activities related to each customer and distributed the cost between the customers haphazardly.
- Some could not apportion the admin cost correctly i.e., on the basis of gross margin.
- A few of the examinees after determining profitability, calculated the per unit profit and therefore, could not rank the customers correctly.
- Some examinees made mistake in calculating the cost, taking wrong bases of activities. It was clearly mentioned in the question about the related activity, but unfortunately examinees could not concentrate on the data.

#### (b) Operating statement showing the (i) budgeted and actual profit, (ii) variances for direct materials, (iii) direct labour and (iv) overhead:

The question had four requirements, first part related to the calculation of actual and budgeted profit, which was calculated by the examinees correctly, second, third and fourth parts required the variances of material, labour and overhead. This was quite simple question about the basic calculation of variances. Examinees got satisfactory marks in their working, but the presentation was very inappropriate. Moreover, they committed following common mistakes:

- A few of the examinees were unable to calculate the budgeted sales price per unit correctly and hence the budgeted profit.
- Actual sales price and actual profit were also wrongly calculated.
- Many examinees tried to calculate the budgeted and actual profit through calculating the variances, although it was not required.
- Those examinees, who did not study the topic thoroughly, had difficulty in calculating variances.
- Many examinees failed to label the variances as 'favourable' or 'unfavourable'.

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**EXAMINERS' COMMENTS**  
**FALL 2012 (FEBRUARY 2013) EXAMINATIONS**  
**BUSINESS TAXATION**  
**Semester-4**

**Question No. 2**

**(a) Tax Refund:**

Majority of examinees attempted this part of the question on the basis of their general understanding. This part of the question was divided into two parts i.e., "who is entitled to claim refunds and when does an application for a refund become due" as per Income Tax Ordinance, 2001. Most of the examinees were able to answer first part but failed to answer the second part of the question. Majority wrote that an application for a refund becomes due within two, three or five years instead of providing their answer in the relevant legal context. Examinees provided long and absurd answers.

**(b) Industrial undertaking:**

The performance of the examinees was average in this part of the question. Majority had a vague idea of the definition of industrial undertaking. Some of the examinees answered incompletely and some explained the points in disorganized manner. Most of the examinees were confused about the number of persons required to be employed in an undertaking set up in Pakistan as per the requirement of relevant legal provision.

**(c) (i) Records which shall be Issued and Maintained by the Tax Payer Deriving Income from Property:**

This part required the list of records to be issued and maintained by persons deriving income from property. Most of the examinees attempted this part of the question but very few of them replied correctly. Most of the examinees failed to list down the important records required to be maintained and issued by tax payer i.e., tenancy agreement, rent received, local taxes, ground rent, un-paid rent, expenditures on collection of rent. However, many of the examinees repeated the points and list down the same records in some other words.

**(ii) Petroleum Products:**

Most of the examinees were not able to understand the question and answered wrongly. There was three points need to be discussed in the answer of this question for e.g., (i) deduction of tax from the amount of commission or discount allowed to the operator at the rate specified in "Division VIA of Part III of the First Schedule" of the Income Tax Ordinance, 2001 (ii) consideration of a tax under the Final Tax Regime and (iii) the rate of tax. Majority of the examinees did not cover all aspects of answer and replied incompletely. There might be a single paper in which the examinee has given the reference "Division VIA of Part III of the First Schedule" of the Income Tax Ordinance, 2001.

**Question No. 3**

**(a) Short Answers of the Questions:**

- (i)** Very few examinees answered correctly. Majority of the examinees were not very much aware about "the condition for an Individual and Association of Persons to qualify as a prescribed person for the purpose of making deduction at source while making payment under the provisions of Section 153 of the Income Tax Ordinance, 2001".
- (ii)** Mostly examinees were aware about the rate of income tax where the taxable income of non-salaried taxpayer exceeds Rs.2, 500,000. However, some examinees mixed up the tax rate of non-salaried taxpayer i.e., 25% with the rate of salaried tax payer i.e., 20%.
- (iii)** This part of the question was very easy and simple based on basic information. Some examinees wrongly answered that income of university or an educational institution established for educational purposes and for making profit is exempt from tax.



(iv) This part of the question was regarding the period of income tax exemption on sale/ export of IT Services and software. Most of the examinees attempted this part but replied different types of answers like dates even some examinees given a period of five years, three years from the date of transaction instead of specific period mentioned in the provision i.e., June 30, 2016.

(v) It was also easy and simple question. Majority of the examinees attempted this part and secured good marks. However, few of them failed to answer properly and guessed wrong 'head of income' in their answers.

**(b) (i) Methods to determine arm's length results:**

This question was a tricky one. Most of the examinees tried to attempt the question but their replies were very poor therefore could not obtain the standard marks. Very few of them mentioned the correct names of methods used to determine arm's length results. However, some of the examinees repeated one or two methods while others listed out various methods used in cost accounting for inventory valuation.

**(ii) Method to be used where arm's length results can not be reliably determined:**

Majority of the examinees gave a wrong answer. Mostly examinees guessed by stating 'fair market value method' or some other specific method instead of mentioning that Commissioner of Income Tax has a power to use any of the methods laid down in the Income Tax Rules, 2002 according to arm's length standard.

**(c) Valuation of Accommodation:**

It was a basic question and majority secured good marks. However, some of them confused about the percentage of minimum of the time scale or basic salary for the valuation of accommodation. Some of the examinees filled number of pages by writing irrelevant points adding gardener, driver and servant salaries, utilities and all other benefits in the value of accommodation.

**Question No. 4**

**Computation of Taxable Income and Tax Liability:**

This question was the main and important question of the whole paper covering the all important sections/ rules of the Income Tax Law. Some of the examinees had calculated the correct taxable income and tax liability. However following shortcoming were observed:

- Many examinees failed to calculate the tax on property.
- Examinees failed to correctly treat the medical expenses, capital loss, and profit on profit and loss sharing bank account.
- Most of the examinees did not know that profit on PLS bank account are taxable under Final Tax Regime.
- Most of the examinees could not calculate exemption limit on provident fund and interest on provident fund for income tax calculation purpose.

**Question No. 5**

**(a) Definitions of (i) person, (ii) input tax and (iii) distributor:**

Majority of examinees correctly defined the term 'person' and 'distributor' but were not able to exactly define the term 'input tax'. Although there is a comprehensive definition of "input tax" has been laid down in the relevant provision of the Sales Tax Act, 1990 but most of the examinees discussed only one point i.e., "sales tax levied on supply of goods to the person".

**(b) (i) Liability of the purchaser in case of non-payment of sales tax by the seller:**

Most of the examinees attempted this part of the question and replied wrongly that the liability of purchaser is nil. From the legal point of view both purchaser and seller were jointly or severally liable in the given scenario because purchaser has reasonable grounds to suspect that seller has not been depositing the sales tax paid by the purchaser. Again this shows a lack of knowledge of the examinees.

**(ii) Name of authority has the power to declare the transaction:**

Majority of the examinees attempted this part of question. Most of the examinees quoted the name of other authorities like Income Tax Commissioner, Federal or Provincial Government and others instead of mentioning the name of Board. As per the Sales Tax Act 1990 rule 2(4), Board means Federal Board of Revenue and Board has power to declare the transaction or transactions exempt from any liability in case where the tax remains unpaid. This also shows that examinees do not consume more time to obtain correct and authentic material.

**Question No. 6**

**(a) (i) Penalties under the Sales Tax Act, 1990:**

This question was simple but many examinees failed to give correct answer. Most of the examinees arrived at wrong amount and rates of penalties in all the cases.

**(b) Sales tax liability calculation:**

It was a numerical question related to calculation of sales tax liability. Many of the examinees failed to calculate the correct output tax because the examinees did not aware about the calculation of discount on retailed price mentioned in the question. Most of the examinees did not provide relevant notes about zero-rated supplies and treatment of sales made by non registered person which is an integral part of the practical questions.

**Question No. 7**

**(a) (i) Particulars of invoices:**

Majority of the examinees attempted this part properly. Few of them mixed up and repeated the same particulars of invoice in other words.

**(ii) Definition of (a) adjustment and (b) duty due, as per the Federal Excise Act, 2005:**

Most of the examinees attempted this question but in a general way. The answers of examinees revealed that they had a little knowledge of the Federal Excise Act, 2005.

**(b) (i) Liability to pay public rent house under section 96 of the Custom Act, 1969:**

Almost all examinees wrongly attempted this question and lost marks. Most of the examinees wrote irrelevant details while many of them confused about the owner. The examinees quoted owner of the goods instead of owner of the warehouse in their answers. Custom and Federal Excise Act are also very important laws and examinees are advised to focus on these laws as well.

**(ii) Time limit for deposit of rent:**

Most of the examinees failed to provide correct answer and guessed 15, 30, 45 days etc instead of 10 days given in the Act.

**(iii) Remedies in case of default:**

Most of the examinees have given reply as cease of the goods is the main remedy for the custom authorities but some of them have given the correct answer that goods/parts of goods to be sold/ auctioned or caused to be sold by an appropriate officer.

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**EXAMINERS' COMMENTS**  
**FALL 2012 (FEBRUARY 2013) EXAMINATIONS**  
**CORPORATE LAWS AND SECRETARIAL PRACTICES**  
**Semester-4**

**Question No. 2**

**(a) Subscribers' Particulars:**

The examinees were required to mention the particulars of the individual subscriber in the memorandum of the Company having share capital. Majority of the examinees could not understand the specific requirements of the question. Many examinees discussed five clauses of memorandum instead of the particulars. Many examinees could not list down all the items of the particulars. Mostly examinees failed to provide additional particulars required to be specified in case of a person other than a natural person.

**(b) Shifting of Registered Office:**

The question was in two parts i.e., (i) shifting of registered office from one province to another province and from one city in a province to another in the same province and (ii) the approval of Securities and Exchange Commission of Pakistan in shifting of registered office in the context of given situations. Most of the examinees attempted very well but some shortcomings are as under:

- Some examinees discussed the irrelevant issues of the process for seeking the confirmation and how the Memorandum to be changed for the purpose.
- Some of them had the misconception that approval is necessary in all circumstances even when the shifting is within the province or between a city in Punjab and Islamabad.
- Some examinees answered with reference to the given situations but without mentioning the underlying provisions of law.

**(c) Change of Name by a Company:**

It was a simple question related to the steps involved in the process of changing the name of public limited company after passing a Special Resolution in the meeting of shareholders and listing of documents for submission to registrar. Performance of the examinees in this question was good but many of them tried to provide unnecessary steps involved in process of changing the name of the company. Following common mistakes were identified.

- Some examinees unnecessarily discussed the process before the Special Resolution, restrictions on various names, objectives of changing a name etc.
- Examinees expressed various misconceptions e.g. availability of name would be obtained after passing the Special Resolution, filing of Form-26 is same as an application submitted to registrar.
- Some examinees skipped the step of applying to the registrar, whereas this was evident from the second part of the question.
- Examinees also omitted various documents necessary to be submitted to registrar.

**Question No. 3**

**(a) Voting Power Needed by a Member, the Nature of Grounds and the Time Available to Move Petition in case of Declaration of Invalid Proceeding of General Meetings:**

It is again a very simple and almost every examinee attempted this question. Despite the good performance in general, following shortcomings were observed:

- Most of the examinees did not aware about correct voting power required by the members to file a petition in case of declaration of invalid proceeding of general meeting. Very few mentioned the correct answer that members having 10% voting power can file petition.
- The date in which the petition is to file is within 30 days but most of the examinees have mentioned 15 or 90 days.
- Some examinees failed to discuss correct grounds for filing petition.

**(b) (i) Status of Contract before Issue of Certificate of Commencement of Business:**

Few examinees were able to identify that the status of a contract made by a company before the date of commencement of business would be provisional and would become binding on the date of certificate issued. However, generally examinees committed following mistakes:

- The nature of the contract is provisional whereas most of the examinees have mentioned that the contract is void.
- Many examinees described preliminary expenses instead of the status of contract.
- Some had the misconception that such contract would be invalid and can not be binding even after issuance of certificate of commencement of business.

**(ii) Ordinance not Apply to Certain Corporations:**

Many examinees were not able to correctly identify the three types of institutions on which Companies Ordinance, 1984 does not apply. The description of the trading corporations was mostly incomplete or unclear. Majority did not know about the co-operative society and skipped this point.

**(iii) Alternatives Available for Presiding a General Meeting in the Absence of Chairman:**

Performance of the examinees were good in this part however, some of them produced incomplete answer. Most of the examinees have mentioned that the chairman himself or the secretary of the meetings can nominate any one to act as a chairman in case chairman is unwilling to preside meeting due to his personal reason. Many examinees had a misconception that the situation was known before the meeting and a new chairman should be appointed by the Board before holding the meeting.

**(c) Quorum of the General Meeting:**

- (i) Presence of minimum quorum in the given situation was the requirement of the question. Many examinees did not know the required minimum number of persons to be present and their voting power. Examinees mentioned incorrect figures such as 10, 20 persons having 10%, 15% or 50% of voting power.
- (ii) The question required examinees to describe minimum quorum in respect of a private limited company as per the Companies Ordinance, 1984. Many examinees were able to identify that the requirement for minimum quorum is the same for non-listed public companies and private limited companies. Some examinees said that requirement is different but still mentioned the correct figures. Few examinees also discussed the quorum requirement of listed companies which was not asked in the question.
- (iii) Examinees were required to define whether the Articles of Association of a company can prescribe a larger number of quorum than one given in the Companies Ordinance, 1984. Many examinees had the misconception that Articles cannot provide a larger quorum. Some examinees gave the right answer and also referred the provision of the Ordinance.
- (iv) Holding of general meeting where due quorum is not present at the appointed time was the requirement of the question. Few examinees were able to discuss the relevant provision but omitted the waiting time, dissolution in case of requisitioned meeting, initial waiting time on the adjourned date and reduced quorum thereafter.

**Question No. 4**

**(a) (i) Nominee and Alternate Nominee Director:**

This question required examinees to elaborate the description of nominee and alternate nominee director. Many examinees did not mention who appoints such directors or mentioned the wrong information. Some examinees mixed up the topic with the director's leave or absence from Pakistan. Mostly examinees failed to mention the requirements of submission of form S1.

**(ii) Actions to be Taken by Nominee Director upon Death of Single Member:**

None of the examinees have mentioned all the procedures required to be followed by the nominee director in case of death of single member. Most of them had mentioned two or three procedures only. Many examinees did not list all the pertinent actions. Some examinees wrongly assumed the company will necessarily be converted into private limited company.

**(iii) Prohibition of Sole Director to Become Company Secretary:**

This part of the question was correctly answered by the majority of the examinees. Very few wrongly mentioned that a sole director can become company secretary.

**(b) (i) Audit Committee's Meetings:**

Many examinees were not clear in the matter and they included all officials like all directors, chairman, senior management etc. instead of mentioning the requisite persons.

**(ii) Exclusive Meetings of Audit Committee:**

Majority of the examinees guessed the answer and could not identify the persons whose presence is prohibited in two exclusive meetings of the audit committee.

**(iii) Committee of the Board of Director in Addition to the Audit Committee:**

Some students wrongly answered as audit committee while few examinees rightly identified the name of that committee. Rest of the examinees mentioned all sorts of imaginative committees.

**(c) Issue of Shares for Consideration other than in Cash:**

Very few examinees given the correct answer. Majority of the examinees have mentioned the procedure for issue of shares. Many examinees were not aware of the four conditions and mentioned all sorts of wrong information. Some examinees discussed further issue of shares instead of mentioning four (4) conditions for a company to issue shares for consideration other than cash.

**Question No. 5**

**(a) (i) Qualification of Internal Auditors:**

Many examinees mentioned irrelevant qualifications e.g. graduates, law graduates etc. and some omitted area of specialization in case of MBAs. Most of the examinees answered this question correctly however they failed to mention that CISA and CIA qualified can also act as an internal auditor which shows lack of knowledge.

**(ii) Minimum Experience for the Position of Internal Auditor:**

Most of the examinees had wrong perception that the minimum experience is 5 years instead of 3 years.

**(iii) Outsource of Internal Audit Function:**

This question was very poorly answered by most of the examinees. Examinees mentioned that internal audit function could not be outsourced at all or can be outsourced to the audit firm without mentioning that the firm should be registered in ICAP having satisfactory Quality Control Review.

**(b) Religious Board of Modaraba Business:**

Specific details for religious board of modaraba business were asked in this subpart of the question. Many examinees were not fully aware about the provision. Most of the examinees assumed that the appointing authority for the members of religious board is Securities and Exchange Commission of Pakistan rather than the Federal Government. Some examinees wrongly discussed the operation of modaraba company rather than giving a relevant answer.

## Question No. 6

### (a) (i) Date of Resolution:

Few examinees could understand the requirements of the question and answered properly while few mentioned that the resolution will be treated to be passed on the date of original meeting instead of date at which the resolution is passed. Many examinees correctly identified that it would be the date when resolution is actually passed and some of them also mentioned the date is 07<sup>th</sup> September 2012 in this connection.

### (ii) Dividend and Dividend Warrant with Particulars:

Examinees generally had difficulty in differentiating the term dividend and dividend warrant. Examinees had the general idea of the particulars required to be annexed to each dividend warrant but the list of items was not complete. In the particulars of the dividend warrant only few examinees mentioned about the deduction of income tax on the dividend amount.

### (b) Identification of Ordinary Businesses:

This part was related to identification of ordinary business discussed in the two (2) annual general meetings of various public limited companies. Some examinees unnecessarily listed the four ordinary businesses instead of discussing in the specific context. However, following shortcomings were observed:

- Many examinees discussed various business transactions which was not the requirement.
- Some examinees identified the items but could not give the rationale for the same.
- Some mentioned the item incompletely and rest of them mixed up the business of election of directors with declaration of dividend.

### (c) Circulation of Notice:

- (i) Examinees were required to point out the manner of forwarding notices. Some examinees discussed the time period and other requirements of the notice and ignored the context of 'notice by a company to its members'. Some examinees discussed in detail the requirements for publication of notices in newspapers.
- (ii) This part required examinees to write about the notice to a foreigner member who did not provide address in Pakistan. Many examinees assumed that company is under obligation to send notice at the foreign address.
- (iii) In this subpart, sending of notice to a joint holder was required to discuss. Few examinees identified that the notice would be sent to the joint-holder named first in company's register. Many examinees had the misconception that notice will be sent to both the joint-holders or any one of them.
- (iv) This part was related to invalidation of the proceedings of the meeting due to accidental omission of notice. Many examinees wrongly gave the reply in affirmative and added many imaginary details as well.

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**EXAMINERS' COMMENTS**  
**FALL 2012 (FEBRUARY 2013) EXAMINATIONS**  
**ADVANCED FINANCIAL ACCOUNTING AND CORPORATE REPORTING**  
**Semester-5**

**Question No. 2**

**Consolidated Statement of Financial Position (CSFP):**

Examinees were required to prepare a consolidated statement of financial position. The problem involved piecemeal acquisition of a subsidiary by the parent company. Following were observed:

Goodwill: Examinees must realize that the Tea Co., became subsidiary of Coffee Co., at the time of purchase of 450,000 shares at September 30, 2012. Consequently, the relevant figures for calculation of goodwill are:

- The consideration paid at the time of acquisition of 450,000 shares.
- Fair value of NCI based on Rs.11.125 per share.
- Fair value of previously held shares (250,000) at the relevant rate of Rs.11.125 per share; and
- Less: the fair value of share capital, reserves and fair value adjustment at acquisition.

Mostly examinees missed the point and used various figures which showed lack of grip on the subject.

Consolidated Reserves: Here the examinees mostly missed to deduct the share-based payment, the profit on de-recognition of investment and the gain in the books of Coffee being the difference between fair value and cost of investment. Examinees did manage to calculate the reserves from the Tea Co., both before and after it became the subsidiary.

Profit on De-recognition of Investment: This was the difference between (i) fair value at the date of control and (ii) parent's share of the carrying value. For the item (ii) the purchase consideration of the first acquisition is to be increased with the change in the reserves position between the first and second acquisition to realize the income from Associate.

Non-Controlling Interest: This is the sum of (i) NCI at acquisition (when control was achieved) and share of the post acquisition reserves. Examinees failed to calculate the figure correctly.

Gain recognized by Coffee: This is the difference of value at which the investment is being carried in the books of Coffee Company and the fair value at reporting date. Very few examinees exhibited the required level of expertise.

Share Option: The number of examinees calculating the figure correctly was above average.

Property, Plant and Equipment: While calculating the figure of property, plant and equipment, Rs.1 million being the fair value adjustment of land was not included by the majority.

**Question No. 3**

**Consolidated Statement of Comprehensive Income:**

The question required preparation of consolidated statement of comprehensive income, where shares to the extent of 65 % and 25 % of Summer Co., and Winter Co., were acquired respectively. The former was to be treated as a subsidiary, which was acquired during the year and the latter as an associate. Consequently the figures of revenue, cost of sales of the subsidiary was to be included to the extent of the period from the acquisition. Common mistakes were the inclusion of full figures of the profit and loss items of subsidiary. In addition to it, following item-wise observations were made:

- Revenue: The amount of goods sold to parent by subsidiary was required to be eliminated. Examinees did not carry out the elimination.
- Cost of Sales: In addition to above (elimination of sales between parent and subsidiary), the effect of unrealized profit of Rs.20,000 was to be added to the cost of sales. Examinees failed to add the same.
- Operating Expenses: In addition to proportion of subsidiary's expenses additional depreciation of Rs.5,000

relating to the fair value adjustment of the machine was to be added here. Examinees mostly calculated the amount correctly but failed to include it in the operating expenses.

- Share of Profit of Associate: Examinees mostly calculated this amount correctly.
- Income Tax Expenses: Since no adjustments other than addition of subsidiary's tax for the 4 months was required, examinees did it correctly.
- Profit Attributable to NCI: The effects of unrealized profit and FV depreciation was to be deducted from the four month's profit of the subsidiary to arrive at the adjusted profit and thereafter, the % age of NCI (35%) was to be applied to determine the profit attributable to NCI. The same procedure was to be followed to determine the total comprehensive income attributable to the NCI. Examinees had the concept of arriving at the figures but since necessary adjustments were not carried out, the answers did not tally.

#### **Question No. 4**

##### **(a) Share Appreciation Rights:**

The problem required the calculation of amounts to be shown as liability in SFP and expenses charged to Profit or Loss for three years given the estimated number of employees leaving the company and the fair & intrinsic values of shares and other relevant data. Examinees were not able to show the grip on the subject and hence made a number of mistakes:

- The common mistake was the incorrect calculation of number of employees to be used in the calculation of liability and expense figures for three years.
- A few examinees also used the intrinsic values instead of the fair values of the share appreciation rights. The portion of examinees, who correctly calculated the figure of rights exercised was average as only half of the examinees attempting the question arrived at the correct figure.

##### **(b) Basic and Diluted Earnings per Share:**

The problem required calculation of basic and diluted earnings per share for the subsidiary and the group. Overall, the figures of Basic and Diluted EPS were calculated correctly for the subsidiary. However, while computing the diluted earnings per share of the subsidiary, the common mistake was inclusion of 0.6 million incremental shares on account of warrants while actually the warrants when exercised would have resulted in increase of 0.3 million shares only.

It was the calculations of basic and diluted EPS for the group where none of the examinees could produce the desired solutions. For basic EPS, the profit of parent was to be increased by Rs.6 million (the portion of dividends of preferred shares @ Re. 1 for 0.375 million shares and EPS for ordinary shares i.e., Rs. 6.25 per share for 0.90 million shares held). Hence the figure for consolidated profit was Rs.31 million. The calculation for Diluted EPS was even more complicated where profit of the parent was to be adjusted for amounts of the profits in relation to the instruments of the subsidiary held by the parent. None of the examinees could calculate the figures correctly.

#### **Question No. 5**

##### **(a) Employees Benefits:**

In this question, specific data relating to a defined benefit plan was given and the examinees were required to calculate the asset /liability to be shown in the SFP at year-end. A good proportion of the examinees was able to attempt this problem correctly ,however, very few could conclude that the amount of asset recognized is lower of Rs.300,000 (PV of future refunds and /reductions in future contributions) and Rs.700,000 (Excess of FV of plan assets over the PV of obligations at year-end). In addition to this, the examinees missed out on the interest at both sides while computing the amounts of present value of pension liability and fair value of plan assets at June 30, 2012.



**(b) Impairment of Financial Instrument:**

Hardly any of the examinees could attempt this part properly, which required calculation of PV of recoverable amount which was the value of PV of cash flow of Rs. 7.5 million using rate of 9% i.e., Rs. 5.791 million. The impairment loss is Rs.4.209, the difference between the carrying amount (Rs.10 million) and the recoverable amount of Rs. 5.791.

**Question No. 6**

**(a) Operating Segments:**

Examinees were asked to describe the characteristics of operating segments as prescribed by IFRS 8. It seems that examinees did not study the IFRS and hence produced wrong replies. A few did mention that operating segment results are reviewed by CEO, but remaining contents were not produced.

**(b) Management Commentary:**

Here the requirement was the meaning of 'management commentary' and the content thereof as per the practice statement published by the IASB. Mostly the replies did not match the correct answer although a few did mention objectives and strategies to meet the objectives.

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**EXAMINERS' COMMENTS**  
**FALL 2012 (FEBRUARY 2013) EXAMINATIONS**  
**RISK MANAGEMENT AND AUDIT**  
**Semester-5**

**Question No. 2**

**(a) Risks Associated with the Project:**

In this question, the examinees were required to prepare a presentation defining the six different types of risks associated with the project. Majority of the examinees poorly attempted this question and dealt the topic in general. Instead of defining the risks, they presented unnecessary lengthy details not relevant due to lack of proper study.

**(b) Identification of Further Risks Associated with the given Situation:**

This part was related to identification of specific risk associated with the given situation. Many of them were confused and tried to define different type of risks without specific context. Some of the examinees guessed and could not identify specific risks with reference to the given situation.

**(c) Definition of Interest Rate Risk and Methods of Reducing Interest Rate Risk:**

Performance of the examinees was not good in this part. Following shortcomings were noted:

- Vast majority of the candidates failed to correctly define the interest rate risk and discussed the definition in a very general way.
- Not even a single examinee completely listed down the methods of reducing interest rate risk. They were unfamiliar with methods like netting, Smoothing, Matching, Pooling etc.
- Majority of the examinees stated that the appropriate method of reducing the risk would be either to change the borrowings amount or stop the borrowings. They failed to realize in-order to attain business objective the entity has to borrow funds and the cost associated with such borrowings can be reduced/minimized by adopting the suitable method.

**Question No. 3**

**(a) Form and Content of the Audit Engagement Letter:**

Over all examinees were familiar with the contents of engagement letter, however very few examinees stated specifically with reference to ISA 210. Following common mistakes were identified:

- The examinees were confused and wrote engagement letter instead of specifying forms and contents of audit engagement letter.
- Majority wrote few contents instead of discussing maximum number of contents of audit engagement letter mentioned in the relevant ISA.
- Some of them repeated the same points in different words.

**(b) Conditions where 'Going Concern' Assumption may not be Appropriate:**

Almost all examinees attempted this part but in a very general way. Moreover, following shortcomings were also observed:

- Mostly examinees discussed the conditions without categorizing them into three broad areas i.e., financial, operating and others.
- Since examinees did not categorize the conditions therefore, they missed some points.
- Some examinees state different modes of dissolution or winding up of the company.
- Some of them were confused and wrote unnecessary points such as bankruptcy, liquidation, winding up of the company.

Over all the performance of the examinees in this part of the question was far from satisfactory level. It is recommended that the examinees should refer the text book as well as other reading material to prepare them for the professional examination.

#### **Question No. 4**

**(a) Records and Documents that the Auditor may Inspect during Audit of Related Party Transactions:**

Examinees failed to answer with reference to ISA 550 and a vast majority has simply written the irrelevant points. The most pertinent record for ascertaining the related party relationship is the shareholders registers and entity's investment record. Not single examinees stated this aspect. Few examinees wrongly elaborated the related party in detail. Majority of the examinees failed to mention the important records and documents i.e. entity income tax returns, third party confirmations, information's supplied to the regulatory authorities, shareholders and investment record and statement of conflicts of interest from the management etc..

**(b) (i) Anomaly (ii) Tolerable Misstatement (iii) Statistical Sampling:**

It was a general question but most of the examinees have not clear concept about the aforesaid terms. The examinees defined the terms in a very general way. Mostly examinees failed to state that "statistical sampling refers to the random selection of the sample items and use of probability theory to evaluate sample results, including measurement of sampling risk".

#### **Question No. 5**

**(a) Significant Control Procedures regarding Purchase and Sales:**

Examinees failed to understand the requirement of the question. Some of them discussed the audit steps to verify instead of stating significant control procedures. Further observation are as under:

**(i) Unauthorized Purchases:**

Instead of stating the control procedures the vast majority of the candidates had written the vouching steps. Controls like authorization of purchase requisition, limits of authority for approval, pre-numbered purchase orders to ensure the completeness of purchases over a period were not mentioned.

**(ii) Misappropriation of Inventories:**

Key control procedure like secured warehouse, maintenance of perpetual inventory records and reconciliation with physical balance should be in place. Examinees failed to answer these procedures.

**(iii) Dispatch of Goods to a Bad Credit Risk:**

Majority of the examinees failed to describe the controls like acceptance of customers having good credit worthiness, dispatch of goods against approved sales orders, setting of credit limits for all customers. Long irrelevant answers in shape of internal audit steps were stated.

**(iv) Teeming and Lading:**

Comparison of the date of receipt of cash and date of deposit of cash are the key controls procedure but these were completely missing from the answers stated by the examinees. General and vague answers were stated. The examinees were actually unfamiliar with the term quite often used in auditing language. Proper study could remove such deficiencies

**(b) Adequate Planning Benefits during Audit of Financial Statement:**

Most of the examinees have a general idea of adequate planning benefits. Some of them described purpose of audit planning and mixed up the matter with adequate planning benefits during the audit of financial statements. This reflects their lack of proper study of the relevant International Audit Standard.

#### **Question No. 6**

**(a) Powers and Duties of Cost Auditor:**

This part was attempted well by the examinees. Few of them were confused and provided answers by mixing up the functions and responsibilities of the cost accountant. However, some examinees correctly mentioned the contents of the said Section of the Ordinance.

**(b) Particulars to be Included in Cost Audit Report to the Directors of the Company:**

A considerable number of the examinees performed good in this part of the question. Some examinees were confused due to lack of study of Cost Audit Rules and described contents of Auditors Reports on the financial statement. Few examinees described the opinion of Cost Auditor given in his Cost Auditors' Report which were not asked in the question.

**Question No. 7**

**(a) Reliance on the work done by the internal audit department:**

Examinees were required to state the factors enabling the auditor to place reliance on the work of internal auditor. Majority of the examinees were failed to comprehend the question. Very few examinees had correctly stated the key aspect of the answer i.e. objectivity of the internal audit function, technical competence, due professional care and communication. The examinees explain how and what work internal auditor carries out instead of specifying the factors for placing reliance on the work of the internal auditor. Majority covered few aspects, repeated their points and described irrelevant matters.

**(b) Identification of component of audit risks:**

Very few examinees correctly identified the control, detection, inherent risk in each of the stated case. Understanding of examinees regarding component of audit risk was not clear. They were failed to tag each case in the question with correct component of audit risk and reply in a general way. Most of them interchanged these components of audit risks with each other which showed their lack of understanding and confusion.

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**EXAMINERS' COMMENTS**  
**FALL 2012 (FEBRUARY 2013) EXAMINATIONS**  
**STRATEGIC FINANCIAL MANAGEMENT**  
**Semester-5**

**Question No. 2**

**Preparation of forecast income statement and statement of financial position:**

The overall average performance was observed in this question, though almost all the examinees attempted this question. Few mistakes committed by the examinees are as under:

- The examinees were required to calculate the depreciation of building and depreciation of existing as well as new plant and machinery. However, many examinees did not calculate the depreciation of new plant and machinery purchased at the beginning of the year. A large number of examinees also did not deduct the depreciation from the gross profit along with the operating expenses. Resultantly, they could not find the correct figure of EBT, EAT and dividend.
- The examinees were required to show the building and plant and machinery at cost less accumulated depreciation. However, many examinees either showed the non-current assets at net book value or depreciation of the current year deducted from the net book value of building and plant and machinery amounting to Rs. 40,000 and 50,000 being shown in the question.
- Most of the examinees could not find the correct figure of receivable, bank overdraft, trade payable and long-term loan. The examinees could not find the correct figure of trade payable due to incorrect calculation of purchase of Rs. 384 million for the year (closing inventory Rs. 42 million + cost of sale Rs. 420 million – opening inventory of Rs. 78 million).

**Question No. 3**

**Calculation of weighted average cost of capital (WACC):**

Most of the examinees attempted this question. However, overall average performance was observed. Most of the examinees could not correctly calculate the pre-tax cost of debt, after-tax cost of debt, cost of preference shares and cost of equity using the various methods. Resultantly, they were not able to correctly calculate the weighted average cost of capital (WACC).

**(a) Pre-tax and after-tax cost of debt:**

Most of the examinees could not find the pre tax cost of debt because they did not show the cash flow of Rs. 930 at year 0 after deducting the discount of Rs. 50 and flotation cost of Rs. 20 from Term Finance Certificate (TFC) of Rs. 1,000. They also incorrectly calculated interest payment as Rs. 52 {Rs. 80-(1-t)} instead of Rs. 80 and mentioned the incorrect discount factor at a particular rate.

**(b) Cost of preference shares:**

A substantial number of examinees did not correctly calculate the cost of preference shares. They incorrectly divided the preference dividend of Rs. 10 by market value of Rs. 114 instead of Rs. 111.10 (Rs. 114 – Rs. 2.90 flotation cost).

**(c) Estimated cost of equity using CAPM, discounted cash flow (DCF) approach and the bond-yield-plus-risk-premium method:**

Many examinees could not correctly calculate the cost of equity. A few mistakes committed by the examinees are as under:

- In CAPM approach, the examinees were required to multiply the 6% estimated market risk premium 6% ( $R_m - R_f$  i.e., 11%-5%) with the beta of 1.5 and add it into the 5% risk free rate. However, many examinees incorrectly twice deducted the risk free rate from the estimated market risk premium. Resultantly, they could not find the 14% cost of equity.

- In the discounted cash flow approach, many examinees did not use Gordon's model correctly. They either incorrectly used D instead of  $D_1$  or did not take the correct common share market price of Rs. 70.
- In the bond-yield-plus-risk-premium method, many examinees could not calculate the cost of equity due to incorrect calculation of debt in part (a) of the question. A few examinees also could not find the correct cost of equity due to using post-tax cost of debt instead of pre tax cost of debt. A few examinees, instead of using the 4% point risk premium, incorrectly used the market risk premium of 6% in calculating the cost of equity.

**(d) Weighted average cost of capital (WACC) using the discounted cash flow (DCF) approach:**

Many examinees could not correctly calculate the weighted average cost of equity (WACC) due to using incorrect cost of preference shares and cost of debt calculated earlier or using pre tax cost of debt instead of post tax cost of debt.

**Question No. 4**

**(a) Expected Break-even EBIT as a result of restructuring:**

To increase the existing 9% debt of Rs. 160 million to Rs. 250 million, the examinees were required to arrange Rs. 90 million loan @ 12% and purchase/ retire Delta Textile Ltd.'s own common shares of 1.2 million at the market price of Rs. 75 per share (Rs. 90 million/Rs. 75) using the additional loan. However, most of the examinees did not perform well in this part of the question and committed the following mistakes:

- Most of the examinees could not understand how to formulate the problem as under:

$$\text{Breakeven EBIT} \quad \frac{\text{EBIT} - 14.4}{12} = \frac{\text{EBIT} - 25.2}{10.8}$$

- The examinees were required to deduct the newly purchased shares of 1.2 million from the existing shares of 12 million making the outstanding shares 10.8 million as a result of capital restructuring. However, most of the examinees incorrectly did not deduct the purchased shares from the existing shares.
- Many examinees also calculated the interest @ 9% instead of 12% on additional debt of 90 million loan.

**(b) (i) Effect of use of leverage on value of the Ravi Ltd., and its equilibrium market price of a share:**

The overall performance of the examinees remained below average in this part of the question. A few common mistakes committed by the examinees are as under:

- Most of the examinees incorrectly calculated the weighted average cost of capital (WACC) of Ravi Ltd., although it was clearly stated in the question that cost of equity would increase to 11% due to increased risk as a result of mixing 30% debt into capital structure based on market value.
- Most of the examinees either did not calculate the original value of firm before incorporating the debt using 10% cost of equity or incorrectly calculated the original value of the firm using EBT instead of EAT.
- Many examinees did not calculate the correct figure of interest. They also did not add the value of debt in the value of equity calculated using 11% cost of equity while ascertaining the value of the firm with financial leverage. Resultantly, they also could not correctly calculate the increase in firm's value due to financial leverage.

**(ii) Calculation of equilibrium market price of a share:**

Most of the examinees incorrectly divided the value of the firm with financial leverage by 140,000 shares instead of 200,000, as shares could only be repurchased at the equilibrium market price that prevails after the announcement of mixing 30% debt into capital structure.

**Question No. 5****(a) Calculation of Pay back period, net present value (NPV) and per share increase or decrease in the wealth of the share holders:**

Most of the examinees performed very well in this part of the question and secured good marks. However, a few mistakes committed by the examinees are as under:

- Many examinees did not calculate the payback period correctly. They did not take into account year 1 as it was showing cash outflow.
- A few examinees also could not calculate the present value (PV) of year 5-10 due to using the incorrect cumulative discount factor. Resultantly, they could not correctly find the NPV and per share decrease in the wealth of the share holders by Rs. 0.24 (NPV Rs. 235,600/1,000,000 shares).

**(b) Acceptance of the project based on evaluation reports of technical manager, logistic manager and finance manager:**

The overall performance of the examinees remained good in this part of the question. Almost all the examinees attempted this part of the question and secured good marks. However, a few mistakes committed by the examinees are as under:

- Most of the examinees calculated the NPV of Cat. 'A' Cat. 'B' and Cat. 'C' correctly. However, many examinees could not calculate NPV calculated by managing director based on proposal of technical, finance and logistic managers due to the incorrect weightage to the each proposal.
- Many examinees even could not calculate the NPV of Cat. 'A' Cat. 'B' and Cat. 'C' due to incorrect use of discount factor or incorrectly using discount factor @ 10% for year 1, discount factor @ 13% for year 2, and discount factor @ 16% for year 3.

**Question No. 6****(a) Risks of the overseas investment faced by the multi-national companies:**

The average performance was observed in this part of the question. Most of the examinees did not mention the problems of management control due to geographical separation, risk of different legislation and regulations covering the products and risk of loss of goods in transit.

**(b) Computation of the range of valuation for the Best Company using net asset basis, price/earning method and the dividend growth model:**

The examinees performed well in this part of the question and secured good marks. However, few mistakes committed by the examinees are as under:

- In net asset basis method, examinees were supposed to add the increase in valuation of building amounting to Rs. 3,000,000 into net assets at book value of Beta Company. Moreover, the examinees were also required to deduct the decrease in value of inventory of Rs. 200,000 and deduct the additional allowance for bad debts amounting to Rs. 1,500,000 from net assets of acquired company. However, few examinees either incorrectly deduct the value increase of the building or add the decline in the value of inventory and additional allowance for bad debts.
- In the price/earning method, many examinees incorrectly calculated the EPS of Alpha Ltd., and Beta Company taking the figure of EBT instead of EAT.
- In the dividend valuation model, the examinees were required to calculate the Alpha Ltd.'s cost of equity taking the market value per share,  $D_0$  and growth rate of Alpha Ltd., and market price of Beta Company's was required to calculate using cost of equity of Alpha Ltd., and  $D_0$  and growth rate of Beta Company in dividend growth model. However, a large number of examinees incorrectly used the  $D_0$  and growth rate of Beta Company for calculating the cost of equity to be used to find the market price of Beta Company.

### Question No. 2

The examinees were required to define/ explain the linear programming. However, most of the examinees could not mention that linear programming is the use of series of linear equations for obtaining an optimal solution of a complex operational problem. Moreover, a substantial number of examinees incorrectly mentioned the steps of constructing the mathematical model instead of penning down the requirements (conditions) to formulate a problem of linear programming.

Objective Function: Minimize:  $20x_1 + 40x_2 + 5x_3$   
 where  $x_1$  = number of kilos of Item 'A'  
 $x_2$  = number of kilos of Item 'B'  
 $x_3$  = number of kilos of Item 'C'

The examinees were required to re-calculate the contribution margin calculated in Q. No. 2 (b) (i) considering the alternative arrangement i.e., target prices less 10% plus Rs.9,000 per hour for each unused machine hour. However, most of the examinees were not able to correctly calculate the unused Auto Tech and Auto Sign machine hours and payment to be received from the contractor for unused machine hours. The main cause of committing this mistake was not to correctly calculate the maximum number of parts for Car-A and Car-B could be produced using the Auto Tech and Auto Sign machine hours.



### Question No. 3

**(a) Make the spindles for washing machines or buy them from an outside vendor:**

It was comparatively an easy question of “make or buy” decision. However, examinees did not perform well in this part of the question because they could not calculate the correct cost of purchase of a spindle amounting to Rs. 431.25. Resultantly, the examinees also could not correctly find the per unit loss of Rs. 75 in case of buying the spindle from outside purchaser. The mistake committed by the examinees was not to include the direct labour retention cost of Rs. 100 and allocated fixed overhead of Rs. 31.25 respectively in the bid price of Rs. 300 quoted by the vendor.

**(b) Make or buy decision if upgrade the washing machines:**

The examinees performed comparatively well in this part of the question. Most of the examinees were able to calculate the incremental profit of Rs. 83.33 per unit ( $\text{Rs. } 2,000,000 \div 24,000$  spindles) due to upgraded washing machine. However, most of the examinees could not calculate the correct figure of profit per unit in case of purchasing the spindles from outside vendor due to incorrect per unit loss calculated in Q. No. 3 (a).

**(c) Viability of making the spindles for washing machines in the batch size of 4,000 units:**

The examinees did not perform well in this part of the question. Most of the examinees correctly calculated cost saving of Rs. 300,000 due to decrease in the number of batches and increase the batch size from the 2000 units to 4,000 units. However, the examinees could not find the correct net saving of Rs. 170.83 due to mistakes they committed in the earliest parts of the question.

### Question No. 4

**Evaluation of various proposals to increase the profitability:**

The overall poor performance was observed in this question, although it was a comparatively easy question and one could secure maximum marks by attempting it properly. It was quite evident that most of the examinees even at the verge of qualifying ACMA do not know the presentation techniques of attempting a question in the examination. The examinees were required to arrange the data of each proposal as per the following columns:

| Proposal (a) | Present<br>Shaikhupora | Present<br>Faisalabad | Additional<br>Faisalabad | Total<br>Faisalabad | Group<br>Total |
|--------------|------------------------|-----------------------|--------------------------|---------------------|----------------|
|--------------|------------------------|-----------------------|--------------------------|---------------------|----------------|

However, most of the examinees presented the data under the just one heading of Faisalabad or Shaikhupora and Sialkot under each proposal. Resultantly, they lost their valuable marks. The mistakes committed by the examinees are given as under:

**(a) Closing down the Sialkot factory and expand the operation of the Faisalabad factory:**

- In the question, it was clearly stated that variable selling cost of the additional units would be increased by Rs. 600 per unit. However, many examinees increased the variable selling cost of 150,000 units (120,000 units + 30,000 units) to be manufactured by Faisalabad Factory.
- Most of the examinees also did not apportion the head office expenses amounting to Rs. 225 million to Faisalabad factory previously charged to Sialkot Factory.

**(b) Closing down the Sialkot factory and expand the operation of the Shaikhupora factory:**

- Many examinees could not correctly calculate the additional 32,000 units to be manufactured by the Shaikhupora factory. Although, one could easily find it by dividing the increase in sales revenue of Rs. 1,200 million by Rs. 37,500 per unit.
- In the question, it was clearly stated that variable selling cost of the additional units would be increased by Rs. 750 per unit. However, many examinees increased the variable selling cost of 192,000 units (160,000 units + 32,000 units) to be manufactured by Shaikhupora.

**(c) Closing down the Sialkot factory and enter into long term contract with an independent manufacturer:**

Most of the examinees did not calculate the correct figure of royalty. They calculated the royalty on 40,000 units instead of 30,000 units ( $40,000 \text{ units} \times 0.75$ ), although it was clearly mentioned in the question that the sales of the area served by the Sialkot factory will fall by 25%.

**(d) Closing down the Sialkot factory and discontinue serving the present customers:**

Most of the examinees did not apportion the home office expenses to Sialkot factory under the proposal of its closing down.

**Question No. 5**

**(a) Flexible budget and variances:**

In the question, the budget of one month at the capacity level of 40,000 hours, departmental overhead absorption rate of Rs. 66 per hour and actual factory overhead were given. The examinees were required to calculate the variance for each overhead item, considering the actual hours of 36,000 during the month. This question was comparatively easy one. However, the overall performance of the examinees remained poor in this part of the question. The following mistakes committed by the examinees clearly shows that they do not even have a fair idea about the topic:

- The examinees incorrectly calculated the variable expenses at the capacity level of 40,000 hours instead of 36,000 hours actually worked during the month. A few examinees incorrectly ignored the fixed factory overhead while preparing the flexible budget.
- A few examinees incorrectly considered that normal capacity is of 36,000 hours and they are required to prepare the flexible budget of 40,000 hours. The fixed factory overhead remain fixed irrespective of the capacity level. However, a few examinees incorrectly reduced the fixed overhead to Rs. 1,620,000 ( $\text{Rs. } 1,800,000 \div 40,000 \text{ hours} \times 36,000 \text{ hours}$ ).

**(b) (i) Calculation of overhead absorbed rate:**

Most of the examinees did not correctly calculate the overhead absorption rate of Rs. 71 ( $\text{Rs. } 2,556,000 \div 36,000 \text{ hours}$ )

**(ii) Calculation of under/over spent total amount:**

Most of the examinees also could not calculate the correct figure of overspent overhead of Rs. 49,500 ( $\text{Rs. } 2,605,500 - 2,556,000$ ) by deducting the flexible budget from the actual factory overhead due to mistakes committed in the earlier part of the question.

**Question No. 6**

**(a) Preparation of cost of production statement for total and per tonne of output:**

The overall average performance was observed in this part of the question. Most of the examinees did not calculate the per tonne cost of production at HUB and SITE factories and total production cost of Texchem Corporation, though they calculated the total production cost of each factory.

**(b) Determining the quantity of production that could be transferred between the two divisions:**

Most of the examinees were able to calculate the short or excess raw material of HUB and SITE factory.

**(c) Preparation of revised cost of production statement for Texchem Corporation based on transfer of quantity between both divisions:**

The examinees did not perform well in this part of the question. Most of the examinees were not able to calculate the correct figure of variable cost of HUB and SITE factory due to ignoring the fact that variable cost at each division is constant per tonne of output and required to be increased/ decreased according to the revised production schedule.

**EXAMINERS' COMMENTS**  
**FALL 2012 (FEBRUARY 2013) EXAMINATIONS**  
**INVESTMENT ANALYSIS AND PORTFOLIO MANAGEMENT**  
**Semester-6**

Examiners' Comments on this subject could not be given as the examinees were totally unprepared for the examination and left their answer scripts almost blank. Suggested answers may be referred for guidance.

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**EXAMINERS' COMMENTS**  
**FALL 2012 (FEBRUARY 2013) EXAMINATIONS**  
**STRATEGIC MANAGEMENT**  
**Semester-6**

**Question No. 2**

**(a) Transaction Cost Approach - Markets and Hierarchies:**

Most of the examinees did answer the question but few were able to explain transaction cost approach and the problems faced by the management with contracts and hierarchies. They must have a clear idea about this topic because in real business life this has important contribution to thinking about the nature of business and has important implication for both business strategy and business structure. They must also be able to clearly differentiate between problems with contracts and problems with hierarchies.

Transaction cost analysis is an aspect of economics that deals with the way resources are organized for production. It is an important contribution to thinking about the nature of business and has important implication for both business strategy and business structure.

Transaction cost analysis compares the relative cost advantage of organizing production on either a market or a hierarchy basis. It suggests that asset specificity may drive vertical integration and that outsourcing every activity that is not a core competence should be considered.

**(b) Internal/Connected/External Stakeholders:**

This was a simple question asking about details of stakeholders. A good number of examinees answered the question satisfactorily. However, it was noted that many examinees could not differentiate internal stakeholders, connected stakeholders and external stakeholders and mixed up the answer. Moreover, the question also included to describe 'interest to defend' and 'response risk'. A number of examinees replied interest to defend but omit to cover answer to 'response risk'. This resulted in loss of marks. There are three broad types of stakeholders:

- Internal stakeholders (employee, management)
- Connected stakeholders (shareholders customers, supplier, financiers)
- External stakeholders (the community, government, pressure groups)

**Question No. 3**

**(a) Strategic Management Accounting – Role of Strategic Management Accountant:**

This was straight simple question and it was noted that mostly the examinees were able to understand not only traditional management accounting and strategic management accountant but also they are well aware of the role of strategic management accountants. The understanding of roles will help them in finding out what steps, techniques and methods may be used to hit the target.

Strategic Management Accounting is a 'form of management accounting in which emphasis is placed on information which relates to factors external to the entity, as well as non-financial information and internally generated information'.

The role of the strategic management accountant can be analyzed by:

- Financial analysis
- Financial planning
- Financial control

**(b) Goals for Markets and Marketing and for Products and Services:**

Examinees must be fully conversant about the mission and goals and objectives derived from it. It is the base and starting point of professional career. In this question many examinees jot down goals for markets and marketing correctly, however a number of examinees identify the functions of corporate objectives in very general and vague manner. They should answer in a precise and specific manner.

Goals and objectives derive from mission and support it. Goals for markets and marketing will involve the following types of decisions:

- Market leadership
- Coverage
- Positioning
- Expansion

Goals for the products and services are:

- Labour productivity
- Capital productivity
- Quality objectives

Functions of objectives are:

- Planning
- Responsibility
- Integration
- Motivation
- Evaluation

#### **Question No. 4**

##### **(a) Resource Audit – 9Ms of Resources:**

Examinees know that every country has limited resources thus it is our duty to make optimum use of the same. Moreover in case of tough competition careful use of limited resources becomes most important. Many examinees did explain the resource audit and mentioned 9Ms correctly. However, it was noted that many of them were unable to mention all 9Ms and did not mention the use of resources “EFFICIENTLY AND EFFECTIVELY”. This was the requirement and part of question.

A resource audit identifies any gaps in resources and limiting factors on organizational activities. Firms do not have unlimited resources so they have to do the best from limited factors.

The Ms model categories the limiting factors are follows;

- Machinery
- Make-up
- Management
- Management Information
- Markets
- Materials
- Men and women
- Method
- Money

##### **(b) Organic Growth – Potential Disadvantages of Organic Growth:**

Most of the examinees did answer the meaning of organic growth correctly, however, they were unable to explain why a firm pursue organic growth and disadvantages of organic growth. Only few examinees replied suitably and covered all parts of question. This is a subject of final semester and at this stage the examinees should have a clear idea and knowledge of these terms and methods. This will help them to make good decision otherwise inadequate data and knowledge will be a winning point for the competitors.

Organic growth is a popular method for many organizations. It is achieved through the development of an organization's own internal resources, rather than combining with any other firms. Expansion of a firm's size, profits, activities achieved without taking over other firms.

Potential disadvantages of Organic Growth are:

- Time. It will take longer for a firm to grow organically, than by acquiring another firm.
- If the firm is looking to break into new markets, it may lack the access to key suppliers or customers which established players have.
- The firm has to bear all the risk of any new product development or market entry strategies.

#### **Question No. 5**

##### **(a) Gap Analysis:**

A number of examinees mentioned that the planning gap is the gap between the current position of the organization and the desired future position which is not correct. Some of them mentioned that it is the gap between the position forecast from continuing with current activities, and the desired future position. Gap analysis is a comparison between an entity's ultimate objectives and the expected performance of projects both planned and underway. This was correct explanation. Moreover, the reply was not well designed thus the purpose was not achieved. The question required to precisely analyze an existing gap in sales, the demand gap, the distribution gap, product gap and competitive gap and the profit gap. Examinees missed to cover explanation to these types of gaps.

##### **(b) Risk and Uncertainty:**

Most of the examinees were able to differentiate risk and uncertainty correctly. They also successfully explained "who suffers risk and different types of risks". It was noted that few examinees failed to answer last part of the question suitably. They mentioned different types of risks in a very general manner. The types of risks include physical risks, economic risks, financial risks, business risks, political risks, exchange risks, competitor risks. They should have jot down the above mentioned risks with a brief explanation.

Though the terms risk and uncertainty are used interchangeably but there is a distinction between both.

Risk is sometimes used to describe situations where outcomes are not known, their probabilities can be estimated.

Uncertainty is present when the outcome cannot be predicted or assigned probabilities.

#### **Question No. 6**

##### **(a) Resistance to Change – Six Approaches to Deal with Resistance to Change:**

Many examinees explained the two choices for how to deal with resistance viz. Overcoming resistance through strengthening the driving forces for change and reducing resistance by weakening the forces that currently hold down output. However, only some examinees successfully explained six approaches to deal with resistance to change as highlighted by Kotter & Schlesinger. The examinees did guess work and gave their own headings and explanation. The question was specific which in fact requires precise reply.

When the management is faced with resistance to change, they have two underlying choices for how to deal with that resistance:

- i. Overcoming resistance through strengthening the driving forces for change, e.g. increasing management pressure, increasing fears of dismissal etc.
- ii. Reducing resistance by weakening the forces that currently hold down output, i.e. through job redesign, adoption of a more people centered management style.

Six approaches to deal with resistance to change as highlighted by Kotter & Schlesinger are:

- Education and communication:
- Participation and involvement:
- Facilitation and support:
- Negotiation and agreement:

- Manipulation and co-optation:
- Coercion, implicit and explicit:

**(b) Turnaround Strategy – Seven Elements of Turnaround Strategy:**

Mostly the examinees briefly explained Turnaround strategy in a befitting manner. However, only some of the examinees indicated elements of turnaround strategy correctly. All the examinees must be clear about these elements which include crisis stabilization, management changes, communication with stakeholders, attention to target markets, concentration of effort, financial restructuring and prioritization. The application of this strategy depends upon knowing the details of all the elements as mentioned above.

**Question No. 7**

**(a) Numerical Question - Financial Ratio Analysis:**

It was observed that most of the examinees were able to find Discounted Cash Flow (DCF) Net Present Value (NPV) correctly. However, few examinees were successful to find Return on Investment (ROI). “c” part of the question requires the comparison of results of “a” and “b” and its interpretation. As ROI was not correctly calculated thus answer to “c” was interpreted wrongly. Only few examinees answered all parts of question correctly. The examinees must know that Financial and ratio analysis should be carefully carried out as these help in decision making.

**(b) Performance Indicators for Measuring Manufacturing Performance, Four Over-arching Measures:**

There are several measures to check manufacturing performance. The question required to briefly describe useful ratios to assess operations and asks for four over-arching measures for manufacturing environments. Many examinees missed to answer to describe useful ratios. These ratios includes machine down time, customer rejects/return/components rejects, late deliveries and value added time. The examinees must remember the application of these ratios improve the position of operation and bring wastage and rejection to minimum. The second part of the question was regarding four over-arching measurers for manufacturing environments. The answer should have been based on explanation of elements like Cost, Quality, Time and Innovation. However, it was noted that many examinees wrote many measures to check operation and said nothing on the above mentioned over-arching measures for manufacturing environments.

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