

EXAMINERS' COMMENTS
SPRING (AUGUST) 2012 EXAMINATIONS
FUNDAMENTALS OF FINANCIAL ACCOUNTING
Stage – 1

Question No. 2

(a) (i) Going Concern:

This part required examinees to explain the term 'going concern'. The examinees generally answered the question well. However, some examinees referred the definition as given in different books/IAS without showing clear understanding of it.

(ii) Application of Going Concern:

In this part, the students were asked to state whether the "going concern" assumption was appropriate in a case where book value of a non-current asset was Rs. 29,500 and the business was going to be closed within next six months. In case of forced sale, the non-current asset was expected to realize only Rs. 11,250. The examinees were also required to state at what amount the non-current asset should be reported in the statement of financial position. The examinees generally answered correctly that in this case, 'going concern' assumption was not appropriate. However, they made a mistake regarding the value of the asset to be shown in the statement of financial position. Majority of the examinees chose book value of Rs. 29,500 as their answers instead of Rs. 11,250.

(b) Journal Entries:

This part of the question supplied various financial transactions to the examinees and they were supposed to pass relevant journal entries. Following shortcomings were witnessed in the answer scripts:

- The first transaction was in relation to purchase of motor vehicle. Some examinees considered it as purchase of merchandise and made the entry accordingly.
- For the withdrawal of goods for personal use, some examinees made the entry correctly debiting the drawings account but credited cash instead of purchases/inventory account.
- Upon taking delivery of non-current asset as final settlement, *accounts receivable-Hamid account* was debited and non-current asset was credited instead of debiting non-current asset account and crediting *accounts receivable-Hamid account*.
- On returning office furniture to the vendor, mostly, 'purchases return account' was credited instead of crediting 'office furniture account'.

Question No. 3

(a) Periodic and Perpetual Inventory Systems:

This part of the question required the examinees to distinguish between periodic and perpetual inventory systems. Examinees generally attempted this part satisfactorily.

(b) FIFO Method under Perpetual Inventory System:

Examinees were provided with the data of purchases and sales of LCD monitors during a month relating to a trader and were expected to calculate the value of closing stock and the value of cost of goods sold under FIFO method of perpetual inventory system. Examinees have the concept and vast majority calculated the required values correctly. Nevertheless, following common mistakes were seen in the scripts:

- Some examinees could not solve this question correctly by making a major mistake of treating unit's sale price as unit's cost price.
- Further, examinees did not mention cost of inventory and cost of goods sold separately.
- Column of cost of goods sold was not totalled or miscalculated.

(c) Provision for Bad Debts:

Requirement of this part was preparation of accounts of 'allowance for doubtful debts', 'bad debts', and recording relevant transactions relating to bad debts. In addition, they were required to make provision of bad debts at the end of the year on the basis of given information. The examinees generally lacked concept. Hardly any examinees could make correct journal entries in the above accounts. The most common mistake committed was that they could not clearly understand the requirement of the question and prepared journal entries for all the transactions instead of preparing two separate T-accounts; one each for 'allowance for doubtful debts' and 'bad debts' and showing the relevant entries therein.

Question No. 4

(a) Definitions of Research and Development:

This part of the question required the examinees to define the terms (i) research and (ii) development as per IAS-38. The answers were mostly irrelevant and based on their general knowledge, which reflected inadequate knowledge of IAS-38.

(b) Correcting Journal Entries:

This part of the question required the examinees to pass correcting journal entries to rectify the errors made during the recording of various transactions. This part of the question was very well attempted by the examinees. In spite of this, following shortcomings were observed:

- For purchase of computer for personal used, examinees debited computer account with Rs.29,500 instead of debiting drawings account.
- For purchase of van, which was wrongly recorded as purchases, examinees credited accounts payable account with Rs.833,350 instead of crediting purchases account.
- For reversing the error of insurance expenses charged to profit and loss account, relating to personal house of the owner, they debited profit and loss account with Rs.65,250 instead of debiting drawings account.

(c) Bank Reconciliation Statement:

Examinees were asked to prepare a bank reconciliation statement. They were given the balances of cash book and bank statement and other data for adjustments. Responses by the examinees were encouraging. Nonetheless, they made some minor mistakes as follows:

- Title of bank reconciliation statement was not correctly written.
- Date of preparation of bank reconciliation statement was missing.
- Sub totals were also not given.

Question No. 5

(a) Depreciation and Amortization:

This part of the question required examinees to differentiate between depreciation and amortization. Examinees generally had good understanding of the topic and answered the question correctly.

(b) Depreciation and Accumulated Depreciation:

In this part of the question, examinees were tested regarding their knowledge of depreciation and revision of economic life of a non-current asset. They were asked to (i) determine the amount of depreciation to be charged to the income statement and (ii) calculate the amount of accumulated depreciation to be included in the statement of financial position. Although, the question was attempted by the majority but most of the examinees did not understand the requirement of the question since they lacked relevant theoretical knowledge and its practical application in case of revision of useful life and residual value of a non-current

asset. Consequently, they failed to compute the value of the depreciation charged to income statement and accumulated depreciation to be shown in the statement of financial position.

(c) Capital and Revenue Expenditures:

Examinees were given a list of various expenditures and asked to classify them between capital and revenue expenditures. The question was very simple and easy and most of the examinees answered correctly except some examinees that treated “legal cost of collecting debts” as capital expenditure perhaps because of the words “legal cost”.

Question No. 6

Financial Statements:

Preparation of financial statements is a regular part of the *Fundamentals of Financial Accounting* paper. Once again, examinees were required to prepare (i) Income Statement and (ii) Statement of Financial Position. As expected, they were found to be well prepared for the task. Yet, a number of common errors were observed, which required attention of the examinees.

As regards the requirement (a), following common errors were noticed:

- Many examinees deducted discount allowed from the sales and discount received from the purchases instead of putting these discounts in the operating expenses.
- Title of the income statement was not correctly written. Some left out the name of the firm, others could not write “for the year ended”.

As regards the requirement (b), following common errors were noticed:

- Most of the examinees did not mention heading correctly in respect of name of the business, date of preparing statement of financial position.
- Current and non-current assets were not segregated properly.

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EXAMINERS' COMMENTS
SPRING (AUGUST) 2012 EXAMINATIONS
BUSINESS ECONOMICS
Stage – 1

SECTION "A"

Question No. 2

(a) Supply Curve of a Product:

This part required examinees to discuss factors which determine the supply curve of a product. Majority of the examinees avoided this part and some showed poor understanding of the concept mentioning few points like price, weather, imports, transportation etc. Very few examinees drawn diagram regarding rise and fall of supply curve. Some of them were confused between supply curve of a product and law of supply and wrote law of supply instead of factors which affect supply. Some of them wrote assumption and exception of determinants. None of the examinees could describe time factor, objective of firms or number of producers. Some of the important factors of supply are:

- Price of the good
- Production technology
- Prices of factors
- Prices of other commodities
- Objectives of the firm
- Number of producers
- Time
- Government policy
- Future price expectations

(b) Law of Supply:

In this part of the question examinees were required to enumerate the law of supply with a numerical example and graphical presentation but they answered it in a poor way. Some of the examinees were confused it with demand and unaware that supply increases after increase of demand. Some of them were also confused between independent variables and dependent variables. They wrote that first supply increases and then price increases and so on. Some of them also gave the answer that first supply increases then price decreases which increases demand etc. It may be noted that the law of supply explains the functional relationship between price and quantity supplied. According to this law an increase in price of a commodity causes an increase in its quantity supplied and a decrease in its price causes it quantity supplied to fall.

(c) Difference between Fixed Cost and Variable Cost:

The difference between fixed cost and variable cost was pointed out without mentioning the important points. Some of them drawn figures but majority of them were found incorrect. Some of them wrote that variable cost is that which varies and fixed cost is that which does not change. Some of them gave the difference of time variation and time constant, place variation and place constant. Examinees should not that fixed cost is the cost which remains fixed regardless the volume of production. It is incurred even if there is no production. Examples are rent, insurance, interest etc.

Variable cost varies directly with the level of production. It is not incurred if there is no production. Examples are labour, raw-materials, electricity etc.

Question No. 3

(a) Utility, Marginal Utility and Law of Diminishing Marginal Utility:

Examinees were required to explain utility, marginal utility and law of diminishing marginal utility with an example and graphical presentation. This part of the question was of basic nature and attempted by all the

examinees. Some of them seemed to be confused in understanding the terms utility and marginal utility due to misconception. Figures drawn by some examinees were not clear. Few of them confused marginal utility with total utility. Utility denotes satisfaction and it refers to how consumers rank different goods and services. The expression “marginal” is a key term in economics and always means “additional” or “extra”. Marginal utility denotes the additional utility one gets from the consumption of an additional unit of a commodity. The law of diminishing marginal utility states that the amount of extra or marginal utility declines as a person consumes more and more of a good.

(b) Difference between Perfect Competition and Monopolistic Competition:

Examinees were required to explain the difference between perfect competition and monopolistic competition. Most of the examinees were confused between monopoly and monopolistic competition. They described the monopolistic competition, as a single seller. In perfect competition, also some of them wrote substitute or close substitute although it is a perfect substitute. While the term close substitute is used for monopolistic competition and not for perfect competition. They gave wrong examples of monopolistic competition like WAPDA and KESC monopolistic. Some of them also ignored the important points like ‘homogeneous product’ ‘differentiated product’ etc. Overall, this question was not done well by the majority of the examinees. Student should not that a market characterised by perfect competition is one in which no individual buyer or seller influences the prices by his purchases or sales. Monopolistic Competition is an intermediate market structure that is characterized by a large number of firms with differentiated products. These products are heterogeneous but substitutable.

SECTION “B”

Question No. 4

(a) Main Sources of Revenue Budget:

The sources of revenue budget – a mixture of direct and indirect taxes was required to be discussed in this part of the question. This question proved to be difficult for most of the examinees. Some of them seemed to be confused in explaining the requirement of the question. Very few examinees described non-tax revenue as source. In non-tax revenue, they mentioned water tax, gas tax etc. Only a few described revenue from railway, or telecommunication. However they correctly mentioned sales tax, income tax, property tax etc as tax revenue. They secured poor marks mainly due to inappropriate knowledge of non-tax revenue. Main sources of revenue budget are tax revenue such as tax on income, profit and wealth, tax on goods and services.

The Federal Government also obtains revenue from the non-tax sources such as income from property and enterprises, profits from post office, trading profit, interest and dividends and minor heads.

(b) Fiscal Policy of Pakistan:

This part of the question was attempted by almost all the examinees but in a very poor way. This part of the question was also proved to be difficult for most of the examinees. Only a few of them wrote three or four objectives of fiscal policy. Very few examinees gave the instrument of fiscal policy. Some of them wrote ‘government revenue’ and ‘government expenditure’. They avoided ‘public debt’. They did not describe details of public expenditure and details of public revenue. Very few could point out shortcomings of our fiscal policy only one pointed out ‘rising prices’ only. Very few of the examinees described foreign debt. While explaining the objective of fiscal policy, some of them mixed up monetary policy with fiscal policy. Fiscal policy is one of the important methods of fine tuning the economy of the country. It is defined as changes in government expenditure and taxation so as to influence the pattern and level of economic activity in the country. Some of the objectives of fiscal policy are (1) to encourage economic growth in an atmosphere of stability, (2) to achieve greater equality in the distribution of income, (3) to provide incentives for increased savings and

investment in the country, (4) to achieve desirable level of prices in the country, (5) to regulate resource allocation and increase export to earn foreign exchange.

Shortcomings of Fiscal Policy of Pakistan are defective tax structure, inflation, negative return of the public sector, rising poverty and inequality in income and instability.

Question No. 5

Money Market:

Explanation of money market along with its functions and instruments were required in this part of the question. This question was also very difficult for most of the examinees. Mostly they took it only 'banking system' or to some extent 'stock exchange'. They wrote properties of 'paper money' or 'money' as compared to 'barter system'. A fairly large number of examinees wrote instruments of money – 'market as bills of exchange or treasury bills'. Very few of them wrote promissory note as instrument of money market and defined money market correctly as market where short-term credit is available. Mostly they wrote as market where money is available to buy goods or goods are available on credit. Few could consider money market as money and functions of money. Concept on the topic was not clear even for instruments of money market. Although functions of money are other than instrument.

The term money market refers to institutional arrangements and facilitating for borrowing and lending of short-term funds. Three Most Important Instruments of Money Market are: promissory notes, bill of exchange; and treasury bills.

SECTION "C"

Question No. 6

(a) Main Sources of Energy:

Sources of energy in relation to the needs, resources and production of various sectors of economy was required in this part of the question. Very few examinees, described them although in brief. They misunderstood the concept of energy and mentioned the copper, salt etc as energy. A majority of the examinees pointed out towards coal, oil, natural gas and hydel power and ignored important resources like nuclear energy, solar energy, and wind energy.

(b) Main Measures of Economic Development:

This part of the question comprised two parts. One is 'measurement of development' and the second is 'difficulties in measurement of economic development'. In first part, most of the examinees took the right approach. They describe GDP and per capita income in answering the second part and ignored "basic need approach" as a problem in measuring economic development. But some of them also described education, health and employment. In second part, most of them were confused. They took it as difficulties in economic development rather than difficulties in measuring economic development. They wrote in details shortage of electricity, shortage of water, shortage of transport etc. While Measures of Economic Development are increase in real GNP, increase in real per capita income, rise in overall wellbeing of the people, basic needs approach and human Development Index.

Question No. 7

(a) Main Causes of Industrial Sickness in Pakistan:

Discussing the causes of industrial sickness in Pakistan was the requirement of the question. Most of the examinees wrote the general obstacles for industries like use of outdated machines, shortage of technical persons, shortage of electricity, law and order situation etc., but they did not pointed out financial problems, marketing problems, standardization problems (brand names) etc. In the second part i.e., how the sick industries can be rehabilitated, most of them repeated the same problems. However, no one pointed out SME,

taxation problem, import duties etc. However, the overall performance of the examinees was average.

(b) Green Revolution:

This subpart of the question required examinees to explain factors, which are instrumental for green revolution in agriculture. Very few of the examinees could attempt this part correctly. They could explain only two to three points of the given topic. Some of them understood that green revolution had taken place in Pakistan and they indicated those factors, which brought green revolution in Pakistan. Some other examinees took it as Pakistan was underdeveloped in agriculture and they had to point out those factors, which would bring green revolution in Pakistan. In both cases, they pointed out correctly such factors like scientific seeds, farm mechanization, fertilizers, storage etc., but they did not explain support prices, marketing facilities etc. However, this question was easy question and they obtained good marks.

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EXAMINERS' COMMENTS
SPRING (AUGUST) 2012 EXAMINATIONS

BUSINESS LAWS
Stage – 1

Question No. 2

(a) Difference between Common Law and Equity:

This question framed to test the knowledge of the examinees regarding 'common law' and 'equity' but majority of the examinees did not attempt this question. Very few examinees differentiated it clearly and properly with specific characteristics while the rest of those who attempted this part were not very clear in concept. Generally, the following shortcomings were observed:

- Many examinees defined the two terms separately instead of differentiating the two.
- Some mixed up the differentiating points of the terms.
- Differentiation seemed to be based on general perception of the examinees without regard to the pertinent legal context.

(b) Precedent and Type of Precedents:

This part was answered partially correct by most of the examinees. Following common mistakes were committed while answering the question:

- Instead of describing the type of 'precedent' most of examinees defined/ explained the types of court.
- Some defined each type whereas they had to just list the types of precedents.
- Many defined the term 'binding precedent' instead of 'precedent'.

Overall performance of the majority of examinees in this question was not good.

Question No. 3

(a) Definition of Contingent Contracts and its Performance Rules:

Almost all the examinees answered this question but some of them were unable to give the proper definition of 'contingent contracts'. The second part regarding the rules relating to performance of contingent contracts could be comprehensively discussed by few examinees. Following weaknesses were noted:

- Many examinees discussed the features of contingent contracts instead of the requirement to discuss rules relating to performance of contingent contracts.
- Many were confused regarding performance of contingent contracts in 'happening' and 'non-happening' situations.
- Some examinees unnecessarily discussed the features of contracts of 'insurance', 'guarantee' and 'indemnity' without any such requirement mentioned in the question.

(b) Provision regarding Minor in a Partnership and His Rights:

Majority of the examinees demonstrated good performance in it. However, in some cases, following shortcomings were highlighted:

- Examinees defined partnership which was not required.
- Some repeated same points in different words.
- Many examinees did not clearly identify that a minor can be admitted to the benefits of an existing partnership firm with express consent of all the existing partners.
- Some discussed obligations of the minor whereas the question was about his rights.
- A few discussed minor's right to become or not to become a partner on attaining the age of majority after admitting him to the benefits of a partnership.

(c) Case-1:

- The situation of undisclosed principal was not picked up by most of the examinees.

- Some said 'Amir cannot sue' and others choose either agent or principal whereas anyone of them or both could be sued.

Case-2:

- Many examinees misconstrued that contract has been made and Asghar can file suit and succeed.
- Some simply replied 'no' without mentioning the underlying reason.
- A few were able to identify that offer was not accepted but counter-offer was given by Asghar in the case.

Case-3:

- Many examinees wrongly believed that one cannot become partner without contributing capital or taking part in management of business.
- Some examinees ruled out Kashif's admission as partner on the ground that he is getting fixed amount in lieu of profit and some even declared that he is an employee of Rahim.

Question No. 4

(a) Price and Modes of Determination of Price:

Most of the examinees attempted this part. The term 'Price' was defined correctly by majority but various modes of the price fixing was based on general information and knowledge.

- Some examinees discussed 'sale of goods' and 'agreement to sell' without any need to do so.
- Some misconstrued that 'price' must be fixed at the time of sale whereas it is not essential.
- Many were not aware of various modes of fixing the price. Some even discussed how seller can evolve price.

(b) Rules regarding Presentment for Payment:

The performance of examinees in this question was not good. Following shortcomings were observed:

- Most of the examinees differentiated 'promissory note' 'bill of exchange' and 'cheques' instead of explaining the rules regarding presentment for payment of such negotiable instruments.
- Some discussed how the instruments should be drawn, which was also not asked in the question.
- Many of them failed to discuss when the presentment becomes unnecessary.

(c) Essential Elements of Contract of Sale:

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

- Some examinees explained agreement to sell, sale and contract of sale instead of direct explaining the essential elements of contract of sales.
- Some mentioned presence of incomplete elements of a valid contract e.g. offer or acceptance rather than mentioning that all elements of a valid contract must be present.

Question No. 5

(a) Discussion on (i) Go-Slow, (ii) Tickets and (iii) Group Incentive Scheme:

It was a simple question and just brief discussion was required of three terms but most of the examinees failed to properly discuss which showed their poor preparation. The shortcomings were noticed like:

- Many examinees attributed go-slow as working area where machines can be harmful or where working area is risky so employee should go-slow.
- Some examinees were not able to properly explain tickets and discussed it as ticket for travelling or promotion, benefits for remuneration and tickets of cinema house.
- Group incentive scheme was discussed in general term without mentioning the legal provision like when this scheme is announced or in which form.

(b) Provision regarding Restrictions on the Working Hours, Notice Period and Register of Child Workers under Factories Act, 1934:

Performance of the examinees in this question was poor. Most of the examinees could not answer the

question properly due to lack of practical knowledge about Factories Act, 1934. Following mistakes were identified:

- Some mentioned the wrong child working hours allowed for work.
- Some examinees went beyond the scope of the question and unnecessarily explained restricted area/ working areas for child workers which was not the requirement of question.
- Provision regarding the notice of child working hours was not clear to the examinees and majority elaborated the notice as given to child workers instead of providing the correct provision in the light of Section 76 of the Factories Act, 1934.
- Examinees while discussing the register of child workers, highlighted the registration with registrar rather than expressing the contents of register which an employer is bound to maintain for child workers.

Question No. 6

(a) Definition of (i) Seaman and (ii) Dependent:

This part of the question was not attempted by majority of examinees. Those who attempted were unable to define the above terms correctly under the provisions of the Workmen's Compensation Act, 1934. Definitions provided by the examinees showed lack of knowledge and preparation of subject. Few shortcomings are as follows:

- Some examinees defined 'seaman' as worker in fishing industry; and workman appointed to take security measures for workers employed in fishing firm.
- In some cases, examinees defined 'dependents' as the relatives of a worker; some of them perceived relatives of injured worker who is still working in a factory.

(b) (i) Provisions related to Maternity Benefit:

Majority of the examinees were unable to attempt this part properly. It seems that examinees had ignored this area from their studies because the answers of the majority was based on their guess and layman's language. Some shortcomings were noticed are:

- Most of the examinees attributed 'maternity benefits' as benefits provided by employer for marriage expenses, compensation of disablement or on death of employees, accommodation and medical etc.
- Provisions regarding the entitlement of such benefits and time length were not discussed.
- Time period of leaves during confinement was wrongly indicated.
- Some misconstrued that the benefit would be available throughout the pregnancy and some others believed that benefits would also extend to husband.

(ii) Provisions related to Medical Care of Dependents:

Again the provisions discussed by the examinees regarding 'medical care of dependents' under Social Security Ordinance, 1965 were not comprehensive. Very few examinees discussed it correctly. Following provisions were ignored while answering:

- Continuous/ Permanent and seasonal employment concept for entitlement of such benefits to dependents.
- Time period, how long this medical care would be provided to dependents of deceased secured person.
- Many examinees misconstrued the facility is available to the worker himself or to dependents when worker is alive.
- Many did not mention the condition of contribution for eligibility of the facility and the period of its admissibility.

EXAMINERS' COMMENTS
SPRING (AUGUST) 2012 EXAMINATIONS

BUSINESS ENGLISH
Stage – 1

SECTION "A"

Question No. 2

(a) Completion of Sentences with could, was/were able to, or couldn't:

Examinees were asked to complete the sentences with appropriate word as given. Unsatisfactory performance was noted which reflected poor preparation/ comprehension skills on the part of examinees. It was difficult for most of them to identify the appropriate word(s) to fill in the blank space.

(b) Correct Preposition and Correct Form of verb:

This part of the question comprised six sentences and required examinees to provide, in each case, to write correct preposition in blank space and to put the verb (shown in parenthesis) into correct form. Given verbs were very simple i.e., (find), (stay), (break), (get), (go) and (be). Examinees were unable to put appropriate preposition using the correct form of verb given at the end of each sentence. Examinees need to study about use of preposition and learn how verb changes its form in a certain context.

Question No. 3

(a) Selection of Paired Words from Four Given Alternatives to Gilt the Blanks:

This part of the question required examinees to select the pair of word out of the four given alternatives A, B, C and D which can fill the blanks well in the same sequence. Majority performed well and accurately identified the appropriate pair for each option.

(b) Opposite Genders of the given Nouns:

In this part of the question, six nouns were given with stated genders and examinees were required to write opposite genders in each case. Majority failed to point out opposite gender correctly in all the cases, simply because of lack of understanding of the requirement of question, insufficient practice and lack of knowledge, which should be overcome. Examinees are advised to learn about genders by making reference of any book on the subject.

Question No. 4

(a) Idiomatic Expressions:

This part of the question required examinees to give the correct meaning of the given five idiomatic expressions and to them in sentences. This part of the question proved too difficult for the examinees. Majority failed to comprehend the given expressions and failed also to make meaningful sentence for each of them. The examinees should know that when a group of words conveys quite different meaning from the one that each word generally conveys, the group, or expression, is termed as idiomatic expression. Such expression serves to emphasise the meaning and improve the tone of the expression itself. More study about idiomatic expressions is advised for which any standard book may be consulted to gain knowledge and to acquire workable skill.

(b) Special Group Names used for Animate (Living) and Inanimate (Non-Living) Things:

This part of the question required examinees regarding writing of the special group names used for given six animate (living) and inanimate (non-living) things. Given words were simple in meaning. Performance reported by examinees was very poor. Most of the examinees failed to write the required special group names. Their vocabulary needs to be enhanced in this regard.

SECTION "B"

Question No. 5

Comprehension Passage:

Comprehension of a simple passage and identifying the correct answer for four questions from given four options for each was the given simple task in this question. Giving meanings of two simple words used in the passage was also required to be reported. A careful reading was needed to follow the message of the text. Those who read it mindfully and followed its message succeeded in identifying correct option and earned good marks. On the whole, the performance was found to be satisfactory. They did the MCQs part well, but it was difficult for them who gave the correct meanings of given words 'trigger', and 'volatile'.

Question No. 6

Letter Writing:

This question was comprised two parts. In part (a), the examinees were required to write an informal letter to a friend explaining the benefits of women education, and in part (b), they were required to write a formal letter of congratulation. The layout and display of material conceived as answer for the exercises was very poor and unattractive carrying many inaccuracies of language and spelling errors. Some did well in real sense and earned good marks for their composed answers. Poor penmanship was cited as distinct feature of majority of scripts. Construction of sentences was weak and faulty.

Question No. 7

Essay Writing:

For this question five topics listed as: (i) the challenges of new generation, (ii) qualities of a good citizen, (iii) devaluation of Pakistani currency, (iv) transport problem in urban areas, and (v) importance of solar energy were prescribed asking the examinees to write an essay of about 250 words on a topic of their choice. The examinees composed the essay on the topic of his/her choice and almost all the topics were considered for composing essay by different examinees. The expressions were, however, found poor in content relevance, language used and display of conceived material. The examinees need to know that an essay is evaluated as a whole. The essays attempted showed weak syntax, grammar and tense usage as well as incorrect application of subject-verb agreement. The contents indicated surface level analysis and demonstrated that examinees do not have reading the habits and literature and common share with the latest current affairs. Poor penmanship, disregard for spelling properly, use of word short forms (SMS style), punctuation mistakes and grammatical errors were rampant and are reported as common faults of examinees.

Question No. 8

Presentation of Marketing Plan:

This question comprised a presentation for marketing plan for the management of 'Super Burger'. Examinees did not know how to make a presentation. Majority did not know how to make presentation although material written was good. They used report/memo format for it. Very few of them could write a proper presentation. Few do well because of lack of understanding of question, as they did not read the question carefully.

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EXAMINERS' COMMENTS
SPRING (AUGUST) 2012 EXAMINATIONS
FUNDAMENTALS OF COST AND MANAGEMENT ACCOUNTING
Stage – 2

Question No. 2

(a) Cost Accounting System:

A number of examinees could explain the term "Cost Accounting System" and tried to answer the same in the context of cost accounting and missed the role of the same in decision making and a basis for management information system. However, majority answered comfortably the required benefits of Cost Accounting System.

(b) (i) Actual Conversion Cost:

In this part of the question, examinees were asked to determine actual conversion cost per unit where almost all the candidates could not calculate the overhead rate i.e. fixed and variable rate and hence failed to determine per unit conversion cost. Examinees failed to determine the factory overheads rate which were provided at budgeted capacity level and were required to be converted at actual capacity to determine per unit conversion cost.

(ii) Cost of Goods Sold

In this part of question the cost of goods sold statement was required to be prepared where examinees got confused in the application of fixed and variable overheads rates at correct activity level.

(iii) Statement and Income Statement:

Since the cost of goods sold was not correctly calculated so the gross profit and net profit figures could not be reached by majority of the candidates. However, the sales figure was correctly calculated.

Question No. 3

(a) Perpetual inventory costing methods:

(i) First-in, first-out (FIFO):

Majority of examinees calculated cost of material used and ending inventory under FIFO method of perpetual inventory and performed well in this part of the question. However, good number of examinees skipped to give the ending balance of inventory and cost of material used/ issued.

(ii) Last-in, first-out (LIFO):

Majority of examinees determined cost of material used and ending inventory under LIFO method of perpetual inventory and performed well in this part of the question.

(b) Payroll sheet:

Examinees were required to prepare payroll sheet with calculations and showing net disbursements to the workers after making certain adjustments. Overall performance in the question was good however, some candidates made calculations for income tax on net disburseable salary after deducting other provisions (education fund, health and hospitalisation) which was conceptually wrong. Income tax should have been calculated on gross earnings of the employees.

Question No. 4

(a) Planned and applied factory overheads:

This question was solved by the examinees reasonably well and managed to calculate variable overhead rate, fixed overhead and applied factory overheads. However, normal capacity hours created trouble for the examiners and could not apply the formula; fixed cost divided by fixed cost rate to arrive at normal volume/normal capacity hours.

(b) Process costing:

(i) Quantity schedule:

Significant number of students solved this part of the question quite comfortably and correctly prepared quantity schedule of different departments taking into account the normal loss and units transferred to the next department.

(ii) Equivalent production schedule:

Some candidates could not calculate the equivalent production units with respect to material and conversion cost and seemed confused with percentage of completion of conversion cost and treated labour and overhead completion separately; instead of collectively and resultantly units of equivalent production relevant to conversion were overstated.

Question No. 5

(a) Job order cost sheet:

In this question examinees were asked to prepare job order cost sheet with total factory cost and was comfortably done by majority of the examinees. However, some candidates faced difficulty in calculating the profit margins. Profit margin was calculated on total factory cost rather than after adding selling and admin expense in the total factory cost.

(b) Standard cost card:

Significant number of students could not explain the term "Standard Cost Card" precisely that shows lack of knowledge on the part of the students. Among those who answered this question could not draw sketch of the sample cost card prescribing the contents like standard materials, labour, overheads, admin and marketing overheads and profit etc.

Question No. 6

(a) Variance analysis:

This was among the favourite questions of the students and majority of students answered this question correctly.

(b) Breakeven analysis:

(i) Breakeven point in units and rupees before and after hiring of new machine:

In this question candidates were required to calculate break-even points before and after hiring of the machine. This was most difficult question which could not be answered properly as examinees could not determine the relevant costs to be used in the formula. Candidates, who managed to attempt this by writing correct formula, could not solve beyond calculation of break-even in units and in Rupees before hiring of the machine.

(ii) Number of units to be sold to achieve the same profit:

In this part examinees were required to calculate the number of units to achieve the profit of last year. Examinees could not ascertain the profit and hence could not put it in the formula to determine the number of units to achieve the profit equal to last year.

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EXAMINERS' COMMENTS
SPRING (AUGUST) 2012 EXAMINATIONS
MANAGEMENT AND MARKETING
Stage – 2

Question No. 2

(a) Encouraging Ethical Behaviour:

In this part of question examinees were required to explain five ways a manager can encourage their employees to be ethical. Majority of the examinees discussed general behaviour of managers in a way which was not related to the topic. Most of them covered the question partly by covering code of ethics and decision rules. Majority missed to discuss the points like "hire employees with high ethical standard, doing business ethically requires a commitment from top management, contribution of ethics in job goals and performance appraisal. Moreover, protective mechanism was not clearly described that it helps employees who face ethical dilemmas". The examples quoted to support ethics were not in accordance with the demand of question.

(b) Contemporary Organizational Design:

Examinees did not perform well in this part of the question. Organization needs to be flexible and innovative in today's dynamic and complex environment which requires continuous change and creative ways to structure and organize the work. Most of the examinees did not comprehend the question and explained contemporary organization designs in general terms and gave details of traditional organizational designs which were not required. Some examinees explained about team structure, matrix structure, project structure and the boundary-less organization structure but missed the virtual organization and network organization. This shows partial preparation for examination which is not good at the stage of professionalism.

(c) Management Roles:

Almost all the examinees explained the management roles which are 'interpersonal', 'informational' and 'decisional'. Nevertheless, the explanation of the roles was not properly given. Others who attempted this part discussed general management roles performed by managers which again was not the demand of the question. Lack of in-depth study resulted irrelevant details of answers.

Question No. 3

(a) Managing Global Teams:

The overall performance was found unsatisfactory. Most of the examinees had no clear concept about managing global teams by managers. Several examinees discussed common challenges instead of issues associated with managing global teams while other tried to explain cultural issues in a general way. The examinees must be aware of these challenges and methods faced by managers.

(b) Selection Process and Tasks associated with Selecting Competent Employees:

This question was explained well by most of the examinees. Selection of an employee requires number of selection tools however, examinees ignored necessary factors in selection mechanism. Most of the examinees defined selection, explained application forms, written and performance tests, interviews and background investigation, physical tests and references which was just a part of the question but several were unable to discuss "Validity and Reliability", "Realistic Job Preview" which were also very important points to be taken care off.

(c) Motivation:

Almost all the examinees narrated the definition of 'motivation' well but failed to explain the three key elements of the 'motivation' i.e., energy, direction and persistence. Many who elaborated the details of elements were not exact but rather vague and unclear. The examples quoted to justify their description were not enough to clarify motivation and its aspects. This phenomenon is mainly attributed to lack of knowledge and misconception about the topic.

Question No. 4

(a) Brand Development Strategies:

This part of question required to describe various brand development strategies which are used by marketers to develop their brands but most of the examinees merely wrote down business strategies in general. They even failed to elaborate the mechanism needed to develop a brand. Many examinees wrote details about brands which were not asked. The examples referred to support their answers were incorrect and reflected lack of understanding and the concept of the topic.

(b) Major Logistics Functions:

Majority of the examinees attempted this question required explanations of major logistic functions like warehousing, inventory management, transportation and logistics information management. Majority of the examinees particularly defined marketing logistics functions but did not elaborate the mechanism of these factors nor support their explanations with proper examples. Moreover, the explanations were not found enough to the requirement of the question.

(c) Definitions of (i) Franchise, (ii) Product Bundle Pricing, (iii) Online Social Networks and (iv) Brand Personality:

Majority defined properly the terms i.e., franchise, product bundle pricing, online social networks. However, almost all the examinees narrated incorrect definition of brand personality which showed insufficient study and understanding of the topic. Some examinees were confused about the correct definitions. However, product bundle pricing and online social networks were explained well with examples.

Question No. 5

(a) Selecting Advertising Media:

Advertising consists of two elements i.e., creating advertising message and selecting advertising media which is further classified into functions of reach, frequency and impact goals. Most of the examinees attempted this part with more or less correct description. The examples mentioned to illustrate the types of classification of media which were not relevant hence depicted unsatisfactory understanding on the subject and could not fulfil the need of the requirement.

(b) Public Policy and Ethics in Marketing Research:

Most of the examinees defined the misuse of marketing research and ethical issues prevalent in marketing research but failed to explain the true sense of intrusion on consumer privacy. Those who explained were neither relevant nor justify the importance of ethical matters related to consumers in marketing context which clearly reveals improper study and inadequate knowledge on the subject.

(c) Major Public Relation Tools:

Many examinees could not list down the public relation tools which are used by the companies to build relations with consumer, investors and media to promote their brand in different segments of market. The description and elaboration were poor to identify the factors which are required to maintain a relation with consumers. Others who attempted this part of question described in detail instead of list down the public relation tools.

EXAMINERS' COMMENTS
SPRING (AUGUST) 2012 EXAMINATIONS
BUSINESS MATHEMATICS & STATISTICS
Stage – 2

Question No. 2

(a) Marginal Cost Function:

Majority of the examinees attempted this part and tried to solve it but an average number of them could solve it properly. Overall performance of the examinees was satisfactory, however, following shortcomings were observed:

- The marginal cost is the rate of change i.e., the derivative of total cost with respect to the number of units produced. Examinees perhaps do not have this concept and hence mostly failed to answer it as $TC(x) = \int MC(x) dx + C$.
- Some examinees did not take account of 'C', the constant of integration. Some of them who tried to find the value of 'C', could not obtain its correct value by imposing the given condition.

(b) Breakeven Analysis:

Examinees were given the data of variable cost per unit, the fixed cost and price per unit in relation to a product and were required to (i) determine the number of units that must be produced and sold in order to break even and (ii) determine the expected profits at the production level of 15,000 units and price of Rs.1,000 per unit. Majority of the examinees attempted to solve this problem, however, average performance was noted and following shortcomings came to light:

- In sub-part (i) prior to set condition $R(x) = C(x)$ or $P(x) = 0$ it would have been visibly easier to find first $R(x)$, $C(x)$ and $P(x)$ but this technique was not followed by many examinees.
- Sub-part (ii) depended on finding the profit function. Those who could not construct the profit function in sub-part (i) correctly, failed to find the total profit at 15,000 units and price of Rs.1,000.

(c) Present Value:

This was a very simple question about a commodity, price of which had been increasing at a certain annual rate for the last five years. Examinees were asked to find out the price of the commodity five years ago on the basis of its current price. Majority of the examinees attempted this part and provided proper solutions. In spite of this, one common shortcoming was noted as follows:

- Formula $A = P(1 + i)^n$ is not set as $P = A(1 + i)^{-n}$ in order to find the required past value. Instead, in $A = P(1 + i)^n$, 'P' has been substituted by Rs.500 instead of substituting 'A' by Rs.500.

Question No. 3

(a) Mortgage of an Annuity:

It was a very simple question in which present value of 60 equal payments of Rs.15,000 paid at the end of each month, was required to be determined. Applicable interest rate was 18%. As expected, the majority attempted this part and performed satisfactorily with the exception of the following common mistakes that were committed by the examinees:

- Most of the examinees did not use the correct formula i.e., $A = R\{(1 + i)^n - 1\} \div i(1 + i)^n$.
- Even those who applied correct formula, could not substitute the manipulated values of 'n' and 'i' in order to have the right figure of affordable loan. They used the value of 5 instead of 60 (12 x 5) for 'n' and 18% instead of 1.5% (18 ÷ 12) for 'i' in the formula.

(b) Cramer's Rule:

In this part examinees were asked to solve a set of equations by means of Cramer's Rule. Examinees demonstrated average performance in this part. Some of the shortcomings that were noted are given below:

- It was clearly mentioned in the question to solve it by Cramer's Rule, yet some examinees tried to solve it through other methods.
- Some examinees did not know the basic rules of determinants.

(c) Product Rule of Differentiation:

Examinees were required to find out the product of two functions. It was a simple question based on the product rule of differentiation. A large number of examinees attempted this question. Overall performance of the students was satisfactory. Following observations were made:

- Examinees were supposed to apply the rule: $f'(x) = u'(x).v(x) + v'(x).u(x)$ but some of them tried to solve the problem by their own self-created methods.
- Some examinees just used one part of the above rule i.e., $f'(x) = u'(x).v(x)$ only.

Question No. 4

(a) Measurement of Central Tendency:

In this part, incomes of 100 families were given in the form of a frequency distribution with two missing frequencies. Median of the distribution was also given. Examinees were asked to find out the missing frequencies. It was a technical and conceptual question requiring good understanding of the topic. Performance remained poor and following shortcomings were observed:

- They used wrong formula of 'mode' instead of 'median' and calculations were also wrong in a large number of instances.
- A few examinees were able to find the missing frequencies even though they used correct formula of median for grouped data.

(b) Probability Theory:

This part tested the knowledge of the students regarding hyper-geometric distribution, i.e., a method of selection in which each trial is not independent (sampling without replacement). The majority was not conversant with this method of solving such problems. Response was very poor.

Question No. 5

(a) Binomial Probability Distribution:

This part tested the knowledge of the examinees with respect to binomial probability distribution. The majority failed to respond satisfactorily and a few of them could provide the correct answers.

- The majority did not understand the question and hence could not identify the proper method / formula to solve the problem.
- Meaning of 'at most 2 matches' and 'at least 2 matches' was misunderstood. For example, for finding the probability of winning 'at most two matches', they should have added the probabilities of winning 0, 1 and 2 matches but they ignored probability of winning 2 matches in their calculations.
- Table of binomial distribution was given in the question therefore there was no need to solve the problem using binomial distribution formula.

(b) Paache's Index Number:

Examinees were supplied with the data of prices and quantities of four commodities for two years (2005 and 2011) and were supposed to find out the Paache's Index Number. The examinees gave satisfactory performance. Nevertheless, following areas need attention of the examinees:

- A number of examinees failed to identify current time and base time correctly. Some examinees even failed to apply correct formula, which is:

$$\text{Paache's Index Number} = (\sum P_n Q_n / \sum P_o Q_n) \times 100$$

- Due to lack of clear understanding or otherwise some examinees unnecessarily obtained the value of $\sum P_n Q_o$ and attempted to use it leading to incorrect Paache's index number.

Question No. 6

Linear Programming:

This question required examinees to (i) formulate the linear programming model, which maximizes the total profit and (ii) solve the above problem using the Corner-Point method. For solving the problem examinees needed to identify feasible region after drawing respective straight lines, identify/compute the corner points in the feasible region, compute value of 'Z' (objective function) for each corner point and identify the maximum value. Most of the examinees ignored the above procedure and committed following mistakes:

- A good number of students failed to include the non-negativity constraints i.e., $x_1, x_2 \geq 0$ in their formulation of linear programming model.
- In part (ii), the examinees faced problems in constructing the graph and showed lack of presentation techniques.
- Some examinees failed to identify the area of 'feasible' solution, 'corner points' and then arriving at the 'optimal solution'. Some of them who did identify the 'feasible' region, failed to arrive at the optimal solution since they were unable to identify the corner points correctly.
- Some examinees showed inequalities as ' \geq ' instead of ' \leq ', which is a usual case for a maximization problem with limited resources.

Question No. 7

Network Analysis:

This question provided a network diagram and the examinees were asked to calculate the earliest start time (EST), latest start time (LST), earliest finish time (EFT), latest finish time (LFT) and the 'slack' for each activity as well as to identify the 'critical path' and the duration for the project. A good number of examinees attempted this part and showed good performance with the exception of following errors committed by the examinees:

- Some of the examinees who succeeded in finding the values of EST, LST, EFT and LFT, failed to determine 'slack' for the given activities.
- Some of them unnecessarily reproduced project diagram to find the values of EST, LST, EFT and LFT, which could easily be given in the form of a table.

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EXAMINERS' COMMENTS
SPRING (AUGUST) 2012 EXAMINATIONS
INTRODUCTION TO INFORMATION TECHNOLOGY (THEORY)
Stage – 2

SECTION "A" – HARDWARE

Question No. 2

(a) Clock Speed:

A very few examinees could properly answer this part of the question. The quality of answers given by most of the examinees was very poor. A large number of examinees had no idea what is clock speed of a computer and how does it influence the overall speed of a computer system. All Controlling Units (CU) and Arithmetical Logical Units (ALU) operations are usually synchronized by a system clock. This clock speed measures in MHz or GHz. Computer speed is directly related to its clock speed. A CPU operating at 500 MHz can process data five times as fast as one operating at 100 MHz.

(b) Multi-Core Processors:

In this part of the question, the examinees were asked to define multi-core processor and the difference between simple and multi-core processor. Most of the answers were given with shallow knowledge and therefore, were not upto the mark. A multi-core processor is a single computing component with two or more independent actual central processing units (called 'cores'), which are the units that read and execute program instructions. A multi-core processor chip has more energy – efficient processing cores instead of one increasingly power core. A dual-core chip running multiple applications is about 1.5 times faster than a chip with just one comparable core. Majority of the examinees discussed multi-core processor as it performs multitasking while single core processor performs only single task which was wrong concept. A single-core processor will have to divide its frequency among each process when running multiple programs, which tends to slow down the overall speed of the operating system.

(c) 8-Bit, 16-Bit and 32-Bit Computers:

Progress of entire group remained average in this part. 8, 16 & 32 bits computers refer to the word length of memory of a computer in terms of its total number of bits per memory word. Hardly one could explain what is meant by the 8-bit, 16-bit and 32-bit computers and their relationship with the computer word size. More bits means a more rapid flow of electronic signals, in other words a faster computer. Majority of examinees knew the speed difference among 8, 16 and 32 bits computer but discussed irrelevant details like discussion on DOS 16-bits or windows 32-bits operating system. Answers should be precise and relevant which was lacking in most replies.

Question No. 3

(a) Hard Disks:

Poor performance was observed in this part of the question. Most of the examinees misunderstood the question and gave wrong answers while describing the types of hard disks. Some examinee discussed internal, external, USB type hard disks and different parts of hard disk like sectors, cylinders, platter etc. However hard disks are normally categorized into following three types:

Zip Disk: It consists of a single hard disk platter encased in a plastic cartridge. It can be easily loaded/unloaded in zip drive.

Disk Pack: It consists of multiple hard disk platters mounted on a single central shaft.

Winchester Disk: It consists of multiple hard disks platters mounted on a single central shaft. However, unlike a disk pack, Winchester disk drive is of fixed types. It has larger storage than disk packs.

Overall, concepts of majority of the examinees were weak in this subpart of the question.

(b) Types of Optical Disk:

In this part of the question, the examinees were asked to describe four types of optical disks. Only few examinees could adequately explain the four types of compact disks. Some examinees mixed up magnetic disks with optical disks while explaining the types of optical disks, which indicated that they even did not know the difference between the magnetic and optical types of disks. The overall performance in this part of the question remained below average. Some examinees discussed magnetic disk, floppy disk, USB disk and hard disk rather than optical disks. All optical disks are round platters. They come in different sizes and capacities. Commonly used types of optical disks are CD-ROM, WORM, CD-RW and DVD disks.

(c) Input Devices:

Examinees were asked in this part of the question to briefly discuss the following three input devices:

(i) Data Scanning Device:

Examinees showed good performance in defining data scanning devices, which are used for direct entry into a computer system from source documents. Bar code reader, optical mark reader, optical scanner etc., are of its some applications. Some examinees discussed computer scanning softwares instead of data scanning devices, which was not related to this question.

(ii) Digitizer:

A large numbers of examinees were found confused about contents and the function of digitizer. A digitizer is an input device used for converting/ digitizing pictures, maps and drawings into digital form for storage in computers. It consists of graphics tablet associated with a stylus. Majority of the examinees had weak concept while explaining digitizer and its applications. Digitizers are commonly used in the area of Computer Assisted Designing (CAD), GIS etc., for designing purpose.

(iii) Speech Recognition Devices:

Besides the quality of answer, which was not upto the mark, most of the answers were conceptually correct. Mostly examinees were known to the functions of these type of input devices that allow person to input data to a computer system by speaking to it. Currently these systems have limited scope because correct interpretation by a machine of large number of words in the vocabulary of a language is difficult.

SECTION "B" – SOFTWARE

Question No. 4

(a) Open Source Software and its Advantages as Compared to Conventional Commercial Software:

In this part of the question, the examinees were asked to describe the concept of open source software (OSS) and its advantages over conventional software. The overall performance in this part remained average. A very few examinees had the concrete and in-depth knowledge of OSS. Hardly very few examinees mentioned the important advantage that user can modify the source code of an OSS under a licensing system. Mostly examinees knew that OSS is public domain software, which usually allows a user to download, view, modify and distribute source code to others. Majority of the examinees could not appropriately describe the advantages and limitations of OSS over conventional softwares like OSS free availability but their support was not good as compared to commercial software.

(b) Advantages and Limitation of Machine Language:

This was the simplest question but examinees could not understand what was asking about. Majority of the examinees explained features of different types of high-level/ low-level languages like COBOL, BASIC, Assembly etc., rather than focus on disadvantages of machine language. Writing a program in machine language has some disadvantages like (i) machine dependent, (ii) difficult to program, (iii) error prone, (iv) difficult to modify etc. Examinees are advised to first read the question thoroughly and ascertain what would be

the answer and then answers as per the requirement of the question.

(c) Intermediate Language Compiler and Interpreter:

In this subpart, the examinees were asked to enumerate the advantages of intermediate language compiler and interpreter. Besides very few examinees, majority of the examinees even did not know that it is a new type of compiler and interpreter that combines the speed, ease, and control of both compiler and interpreter in the same package and provides other features such as machine independence. In this approach, the compiler first compiles the source program to an intermediate object program, then the interpreter takes the intermediate object program and converts it into machine language program and executes it on the desired computer. Mostly examinees discussed function of compiler and interpreter. Most of the examinees mentioned the conventional types of interpreter and compiler, which was not asked in the question.

Question No. 5

(a) Selection of a Language for Coding an Application:

In this part of the question, it was asked to explain the factors that generally influence selecting a language for coding an application. Majority of the examinees completely misunderstood the question and despite of mentioning the factors for selecting a particular language, they explained the types of language etc. The overall performance of majority of the examinees remained poor. Generally they discussed irrelevant details in this part. The factors generally influence the selection process of appropriate computer programming language are: (i) nature of the application, (ii) familiarity with language, (iii) ease of learning the language, (iv) availability of program development tools, (v) execution efficiency and (vi) features of a good programming language.

(b) Measurement of System Performance:

This question was also completely misunderstood by most of the examinees. Despite of describing the parameters used to measure the efficiency of an operating system, majority of the examinees mentioned the types or functions of operating system, which was not asked. Majority of the examinees did not have proper concept of parameters used to measure the efficiency of operating system i.e. Throughput, Turnaround Time, Response Time.

SECTION "C" – NETWORK & SECURITY

Question No. 6

(a) Data Transmission Services:

A sizeable number of examinees could not correctly describe the services provided by the data transmission service providers (carriers), that are dial-up line, ISDN, VAN etc. Some of the examinees, however, explained one or two carriers, but with quite shallow knowledge.

(b) Data Transmission Media:

In this part of the question, the examinees were asked to discuss following three transmission media:

(i) Twisted Pair Wire:

Most of the examinees correctly describe the twisted pair wire. However, the quality of the answers in majority of the cases was not upto the mark. Twisted pair wire consists of two bunches of thin copper wires i.e. UTP and STP.

(ii) Coaxial Cable:

Most of the answers contained the layman concept of the term, without the technical details. Coaxial cable consists of a central copper wire surrounded by a PVC insulation over which there is a sleeve of copper mesh.

(iii) Optical Fibers:

Most of the examinees had at least the proper concept of optical fiber but the technical details, like the

difference between optical fiber and other physical transmission media, were missing. Optical fibers are hair-thin threads of glass or plastic used as data transmission medium. Optical fiber has much higher speed with no significant losses, as compared to other types of transmission medias. Overall progress was relatively satisfactory in this subpart of the question.

(c) Key Characteristics for differentiation of Network Types:

In this part of the question, the examinees were asked to elaborate the key characteristics that differentiate local area network (LAN) and wide area network (WAN), that include geographical distribution, data rate, error rate, communication link, communication cost, ownership etc. A very few examinees could properly attempt this question. Most of the answers contained only two of the above-mentioned characteristic. The quality of answers was remained very poor.

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EXAMINERS' COMMENTS
SPRING (AUGUST) 2012 EXAMINATIONS
FINANCIAL ACCOUNTING
Stage – 3

Question No. 2

Consignement Accounting:

In relation to a consignment, examinees were required to calculate cost of unsold stock and prepare abnormal loss, insurance receivable and consignment accounts. It was an easy question. Mostly, examinees attempted this question and performed well except a few examinees. However, following shortcomings were observed:

- Consignment account was credited with insurance claim rather than abnormal loss.
- Commission was calculated on cost rather than on sale value.

Question No. 3

Branch Accounting:

In this question, examinees were required to prepare (i) branch inventory account and (ii) branch accounts total receivable. Many candidates were found good in requirement (ii) but not in requirement (i). They committed following mistakes:

- Branch inventory account was needed to be prepared with memoranda columns but many examinees ignored it.
- Branch and head office journal entries were produced which were not required.

Question No. 4

Income and Expenditure Account:

Examinees were asked to prepare (a) income and expenditure account and (b) statement of financial position. Poor performance was seen in preparation of income and expenditure account. Some examinees even did not attempt this question. Following weaknesses were witnessed:

- Most of the students prepared income and expenditure account like a balance sheet. They also included irrelevant items in it.
- Payment to supplier was shown as an expense.
- Closing balance of medicine stock was shown as liability.
- Interest on long-term investment was deducted from investment and, in some instances, added back to the investment rather than crediting it to revenue account.
- Building and equipment were shown as expenditure instead of fixed assets.
- Charity proceeds shown as liability rather than revenue.
- Life membership fund shown as an 'asset' instead of 'accumulated fund'.
- Accrued honorarium subtracted from paid honorarium rather than adding.
- Most of the students did not calculate subscription revenue properly as they did not transfer Rs. 20,000 from life membership fund to subscription.

Question No. 5

(a) Cost of Machine under IAS-16:

In this part, examinees were required to calculate the cost of a machine under IAS-16, which was imported and installed after dismantling the old one. Few examinees were able to answer this question according to IAS-16. Some examinees even avoided to attempt this question, other who attempted it, made following errors:

- Examinees committed the mistakes in the amounts of 2% import duty and 1% purchase tax. They wrongly

applied these percentages on the list price of the machine (Rs. 1,000,000) rather than cash price (Rs. 950,000).

- Lack of study and application of IAS-16 were observed.
- Refundable purchase tax was also included in the cost of machine.
- The sale value of sample production was not deducted from engineer's charges for testing and operation to arrive at net cost of machine.

(b) IAS-10:

Examinees were given a list of events that took place after the balance sheet date and they were required to separate adjusting events from non-adjusting events. Many candidates were found unable to do the required task perhaps due to lack of in-depth study of relevant IFRS/IAS. In addition, inadequate practice was evident in most of the scripts.

Question No. 6

Financial Statements:

From a given trial balance and other adjustment data, examinees were expected to prepare (a) income statement, (b) statement of financial position, (c) statement of changes in equity and (d) schedules of various expenses. It is a core topic of the course, and is asked in the question paper regularly. Poor performance was observed in terms of presentation in accordance with the legal framework. Mistakes committed by the examinees were as follows:

- Some examinees did not consider the depreciation on machinery (Rs. 1,600,000) as manufacturing expenses and did not add it to prime cost of goods manufactured. Resultantly, correct cost of goods sold and gross profit could not be computed.
- In balance sheet, 8% long-term financing amounting to Rs. 10,000,000 was to be presented under long-term liabilities, but a few examinees presented it under the head of non-current assets.
- Examinees wrongly reported capital work in progress, Rs. 500,000 in equity side of the balance sheet, while this was to be reported under the head of non-current assets.
- Capital work-in-progress was not added to building after completion.
- Carriage inward on material was included in selling expense.
- Direct wages were taken in factory overhead.
- Depreciation on machine taken in administrative expenses rather than including it in factory overhead.
- Financing charges on long-term loan was calculated for full year instead of half year.

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EXAMINERS' COMMENTS
SPRING (AUGUST) 2012 EXAMINATIONS
BUSINESS TAXATION
Stage – 3

Question No. 2

(a) Credentials Required to be Furnished with Filing of Income Tax Return:

Only few examinees attempted this question well and secured good marks. Majority answered this question by mere guessing whereas required credentials are given in sub-section (2) of section 114 of Income Tax Ordinance 2001. Examinees are advised to give proper time in filing the Income Tax return related clauses of the law as these are very useful.

(b) Carry Forward of Speculation Business Losses:

It was a simple question. However, many examinees failed to answer correctly about that period of carry forward the loss arising out of speculation business in six years at maximum. Majority answered the question according to their own judgment ranging from 3 years to 5 years.

(c) Admissible or Inadmissible Expenditures:

This was relatively easy question which required the specific knowledge of the provisions of the law. Majority of examinees secured good marks. However, some of them showed poor understanding of the law and simply replied 'admissible' or 'inadmissible' expenditures without mentioning correct or accurate reasons.

Question No. 3

(a) (i) Conditions for the Deduction of Entertainment Expenditures (ii) Benchmark for the Allowability of the Entertainment Expenditures (iii) Entertainment:

Only few examinees attempted this question properly and secured good marks. Majority of the examinees tried to define 'entertainment' listing down the conditions for deduction of entertainment expenditure as laid down in Rule 10 of the Income Tax Rules, 2002. Most of them guessed the benchmark for the allowability of the entertainment expenditures in percentages like 14% or 15% of the total taxable income. Those who gave some correct concepts also mixed up all three parts of the question. Only few examinees provided complete definition of 'entertainment' by stating the key points tradition/norms/customs of the business. Many examinees made repetition of answers of one sub-part to that of another sub-part.

(b) (i) E-intermediary (ii) Digital Certificate (iii) Computerized Payment Receipt:

It was a very simple question based on the basic terminologies of the Income Tax Rules, 2002. Examinees attempted the question poorly and guessed all the definitions. Mostly answered in a general way while some of them confused about these terms and defined it in the context of information technology. Others tried to state specific meaning of the words used in these terms. It shows lack of interest in study of the topic/subject.

Question No. 4

(a) Zero-Rated Goods:

Mostly guessed by stating the names of different perishable/non-perishable goods, goods imported for flood affected peoples, etc. Many of examinees failed to correctly refer correct schedule and reference to the zero rating by FBR through general order. A very generalized approach followed by examinees.

(b) Time Limitation of Passing an Order related to 'Assessment of Tax' under Section 11 of the Sales Tax Act, 1990:

Almost all the examinees failed to attempt this question correctly. They were unaware of time limitation of passing an order related to assessment of tax. Majority of the examinees guessed by stating either, 15 days, 90 days, etc. instead of stating 120 days of issuance of show cause notice and further 60 days in case of extended period.

(c) Computation of Sales Tax Liability:

Majority of the examinees calculated output tax correctly. However, majority failed to calculate the Input tax allowed based on the ratio of taxable supplies to total supplies. Few examinees stated notes for allowability of output tax. Examinees should practice numerical questions on sales tax with complex situations and must write the maximum notes (explanation) to support their calculation.

Question No. 5

Computation of Taxable Income and Tax Liability:

It is again a very simple and marks scoring question. Almost every examinee attempted this question.

Despite the good performance in general, following common mistakes were identified:

- Minimum tax on turnover was not calculated.
- Minimum tax was not compared with tax calculated @35%.
- Examinees did not treat un-vouched entertainment as inadmissible expense.
- Examinees failed to correctly treat the expenditures charged on account of Unrecognized Provident Fund, depreciation and dividend received.
- Examinees failed to correctly calculate the total statutory depreciation and written down value of plant and machinery.

Question No. 6

(a) The Adjustment of Duty:

The performance of the majority was worst in this part of the question. Majority answered on the basis of their guesses without any knowledge of Federal Excise Act, 2005. Answers of examinees reflected that they do not study provisions of Federal Excise Act, 2005.

(b) Goods, Master and Coastal Goods:

It was a very simple question based on the basic terminologies of the Federal Excise Act, 2005. Examinees failed to define properly and hence lost the opportunity to secure good marks.

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EXAMINERS' COMMENTS
SPRING (AUGUST) 2012 EXAMINATIONS
COST AND MANAGEMENT ACCOUNTING—PERFORMANCE APPRAISAL
Stage – 3

Question No. 2

Process costing:

The examinees made the following mistakes while solving this question:

- Equivalent units of production for Department-4 were taken as 5,000 in units completed during July 2012 instead of giving weightage to the stage of completion of opening work-in-process, closing work-in-process and the units started and completed.
- Due to wrong calculation of equivalent production units for Department-4, the conversion cost per unit was wrong. Furthermore, some examinees incorrectly included material cost for calculation of conversion cost per unit.
- The examinees were required to work out total and unit cost of Product-A started in prior period i.e., 1,000 units but the examinees instead of taking cost of 1,000 units wrongly took the cost charged to work-in-process during July 2012.
- 4,000 units were started and finished in July 2012 but the examinees wrongly took the cost charged to work-in-process for the month of July 2012.
- Goods transferred to finished goods included 1,000 units started in prior period and 4,000 units started and finished in July 2012 but the examinees took different figures.
- Work-in-process closing inventory was 700 units. It was 100% complete as regard to material and 50% as regard to conversion cost. The examinees wrongly took the unit in ending work-in-process inventory and the stage of completion.
- The examinees wrongly took the quantity 4,800 units sold at a flat rate of Rs.240, which was applicable to the finished goods closing inventory only.

Question No. 3

Throughput accounting ratio:

This question on the topic was not attempted by most of the examinees and those who attempted delivered incorrect answers. The examinees seemed to have ignored this topic while preparing themselves for examinations.

Following mistakes were also noted:

- Few examinees though worked out throughput per day (units) and throughput contribution but no one could work out throughput accounting ratio correctly.
- Almost all examinees could not work out feasibility of spending on equipment to improve the throughput of Process No.2.
- Revised throughput accounting ratio could also not be worked out by the examinees.

Question No. 4

Standard costing and reconciliation of budgeted profit:

The performance of examinees was generally good in this question on variance analysis but the following mistakes were made:

- Budgeted profit i.e., 20% of sale price was wrongly applied on cost and arrived at sale price of Rs.1,920 instead of Rs.2,000.
- Due to wrong sale price mentioned above actual sales was wrongly calculated.
- For material usage and efficiency variances standard quantity was wrongly taken as 10,000 units instead of

9,500 units produced and sold during the month.

- Sales margin volume variance was wrongly calculated at sales price of Rs.2,000 instead of sales margin of Rs.400 per unit.
- Due to wrong calculation of variances, reconciliation of budgeted profit with actual profit was wrong.

Question No. 5

Functional budgets:

The examinees made the following mistakes while solving this question:

- Production budget was wrongly prepared due to incorrect calculation of closing inventory of finished goods which was 30% of the budgeted sales for the next quarter.
- Quantity of material purchased was wrong due to calculation of ending inventory of raw material which was 10% of the following quarter.
- Schedule of expected cash payments of raw material was wrong due to wrong calculation of purchases of raw material.

Question No. 6

(a) Different types of responsibility centres:

Four different types of responsibility centres were wrongly expressed as production centre, marketing centre, finance centre, research and development centre and social responsibility centre etc., instead of cost, revenue and investment centre.

(b) Residual income:

The examinees committed following mistakes in calculating the residual income:

- Instead of calculating residual income, examinees calculated the rate of return on investment and/ or presented it as the difference between actual return and required residual income.
- Some examinee correctly calculated residual income before new project but failed to calculate residual income after new project either due to mistake in calculations of revised average operating assets or revised net operating income.

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EXAMINERS' COMMENTS
SPRING (AUGUST) 2012 EXAMINATIONS
PRESENTATION & COMMUNICATION SKILLS
Stage – 3

Question No. 2

(a) Main Idea of Business Message:

Most of the examinees were unable to explain situations where it is difficult for sender to communicate main idea of a message. Mostly explained that difficulties because of receivers' unfamiliarity with the contents. Examinees were also unable to give sufficient examples of techniques for generating creative ideas.

(b) Choosing the Best Approach:

Examinees were able to distinguish between direct and indirect approaches and describe the pattern for writing a message using both. However, they were unable to correctly list the situations (in most cases) when it is appropriate to use either approach for a bad news message. Instead they gave examples of good news messages for direct approach and bad news messages for indirect approach.

Question No. 3

(a) Making Messages More Receptive:

Most examinees listed stages involved in receiving a message, rather than the elements necessary for an audience to receive a message. Most of the examinees misconstrued the question and discussed seven C's of effective communication instead of discussing five principles which can make the message more receptive to the audience when they encounter hundreds of message on a busy streets.

(b) Report on Evaluation of Presentations:

Most examinees did well on this question but committed, grammatical and spelling mistakes. Many examinees wrote in haphazard manner and mixed up all the sections of the report, while few missed certain sections. Some of them did not highlight the strengths and weakness of the students and some were unable to provide any suggestion to improve the performance of examinees.

Question No. 4

(a) Writing to Business People from Another Culture:

Majority of the examinees attempted this part in a very general way. Mostly, examinees discussed about national cultural variables (i.e., education, law and regulations, politics etc.) instead of writing about recommendations that should be followed by the company when writing to business people from another culture to meet their expectations such as simple and precise language, cite numbers and dates carefully, avoid slang, idiomatic phrases etc.

(b) Letter of Nomination:

Most of the examinees did well on this question and covered all the reasons for nomination of 'Staff of the Year' mentioned in the question. However, examinees seemed confused about to whom the letter is addressed, hence, examinees either addressed it to HR manager, all employees or Amjad Khan himself.

Question No. 5

(a) Measures to Solve Conflicts:

Most of the examinees listed either stages for resolving conflict or ways of avoiding conflict in a team rather than list different ways of resolving a conflict. Many examinees could not apprehend the question and wrote a letter to team members about group conflicts.

(b) Memo for Cancellation of the Event Due to Heavy Rain:

Most of the examinees attempt this question well. However, some of them mentioned their own reasons for cancellation of event while it was clearly mentioned in the question that 'there was a heavy rain and head of organizing committee had not arranged the shelters for the event'. Few examinees wrote in a letter format instead of memo format. Examinees are advised to learn proper formatting for memo writing.

Question No. 6

(a) Principles to Become more Effective Visual Communicator:

Many examinees did not answer correctly. Most of them listed principles of an effective presentation while some listed different kinds of visuals that can be used in a presentation.

(b) Letter to Collect the Amount Which has Become Overdue:

This question was well attempted by majority of the examinees. Some of them misapprehend the terms and conditions written in the question and assumed "wrong expiry period" of contract and percentage of extra charges. Moreover, following shortcomings were also observed:

- Improper format of a formal business letter.
- Subject of letter was not written
- Improper grammar and sentence structure
- Spelling mistakes.

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EXAMINERS' COMMENTS
SPRING (AUGUST) 2012 EXAMINATIONS
ADVANCED FINANCIAL ACCOUNTING & ANALYSIS
Stage – 4

Question No. 2

Consolidated Financial Statements:

This question was based on the topic of consolidated financial statements. Examinees were required to consolidate the income statements, statements of changes in retained earnings and statements of financial position of a parent and its subsidiary with inter-company sales and dividend transactions. This question was well attempted by the examinees. Nevertheless, following common mistakes were found:

- Some of the examinees did not compute correct figure of group sales, Rs.113 million (85 + 38 – 10). Many students just added up the sales of two companies and ignored inter-company sales of Rs.10 million from SK Ltd. to PK Ltd., which should have been deducted from group sales. They repeated the same mistake while computing the group cost of sales figure.
- Many candidates, unnecessarily, produced the procedures to calculate 'non controlling interest' (NCI) and 'consolidated retained earnings'.
- Many candidates wasted a lot of time in making journal entries against requirement of the question.
- The majority could not calculate the profit attributable to NCI (Rs.1.750 million) since they did not take into account the effect of unrealised profit (Rs. one million) in unsold inventory. Consequently they could not calculate the correct amount of profit attributable to the parent (Rs.26.250 million) as well. For the same reason of ignoring the unrealised profit, they did not arrive at the correct figure of consolidated figure of current assets.
- A good number of examinees even produced the figures of goodwill although investment made and net assets acquired in the subsidiary were the same. They invariably included the figure of retained earnings in their calculations of goodwill although the subsidiary was acquired at its incorporation.

Question No. 3

(a) Basic and Diluted Earnings per Share:

This part of the question required the examinees to (i) calculate basic earnings per share (EPS), (ii) determine which of the two loans were dilutive and (iii) diluted EPS. Performance of the examinees in this part was very poor. Some common mistakes were as follows:

- Some examinees failed to calculate incremental EPS for 12% and 15% loans, which was the ratio of the incremental earnings and incremental shares.
- Some examinees, though, calculated incremental EPS on both loan correctly, however, they failed to compare them with the basic EPS to determine as to which loan was dilutive.

(b) Operating Cycle:

From the given income statement and closing balances of accounts receivable and accounts payable, examinees were asked to calculate operating cycle. A large number of the candidates misunderstood the requirement of this part of the question. It was very disappointing that very few students actually knew the meaning of the operating cycle, which could be calculated by adding inventory turnover period and accounts receivable period and then subtracting the accounts payable period from the resultant figure. Only a small number of the examinees were able to produce the required figure. Following observations were made:

- Some of the candidates wrongly calculated the 'cash flows from operating activities' instead of operating cycle.

- Some of the examinees reproduced the income statement (which was given in the question) against the requirement.
- Interestingly, some examinees even prepared vertical analysis of the income statement.

Question No. 4

(a) Operating Lease:

This part of the question was on the topic of operating leases, which began on 1st. July of the current year. Examinees were given the details of operating lease transaction and were asked to (i) prepare journal entries relating to the lease transaction and (ii) show extracts of financial statements for the two years, which end on December 31, 2011 and 2012. This question was very poorly attempted by the examinees who committed following common mistakes:

- Many candidates did not understand whether entries and calculations were required from the point of view of the lessor or the lessee, hence, the majority wrongly treated the Bestway Leasing Limited (Lessor) as lessee and made all entries in the lessee's books instead of the lessor's books.
- A large number of students ignored the time period for which the lease remained effective each year. For instance, the lease commenced in the middle of 2011 but they computed the values of depreciation and lease rental for full year leading to incorrect values that were incorporated in the extracts of financial statements.

(b) Deferred Tax:

This part of the question tested the knowledge of the examinees regarding the topic of 'deferred tax'. They were required to (i) calculate deferred tax liability balance to be shown in the statement of financial position (SFP), (ii) calculate deferred tax charge / (credit) to the income statement, (iii) give necessary journal entries to adjust the deferred tax liability account for the current year and (iv) prepare extracts of income statement and statement of financial position in relation to the accounting year of a company which ends on 30th June, 2011. A good number of the examinees attempted this part but, overall, performance remained poor. Following errors were commonly made:

- While computing the deferred tax liability to be shown in the SFP, they just added the opening deferred tax liability (Rs.18,000) and deferred tax liability for the year (12,500). They ignored the effect of change in tax rate from 30% to 25%, which has reduced the opening deferred tax liability to Rs.15,000.
- Since the majority failed to correctly compute the value of deferred tax liability (Rs.27,500) to be shown in the SFP as at June 30, 2011, they could not find the correct figure of the deferred tax charge (Rs.9,500), which was the difference between Rs.27,500 and opening deferred tax liability (Rs.18,000).

Question No. 5

Investment in Bonds:

This question was based on the topic of 'investment in bonds', which provided the examinees with the data of the bonds i.e., face value, purchase price, interest rate, interest yield, interest payment date and maturity date. Examinees were required to (i) prepare schedule of interest revenue and bond discount amortization (ii) give journal entries and (iii) prepare extracts of the income statement and statement of financial position for two years that ended on December 31, 2010 and 2011 in the books of the purchaser. This question was very poorly attempted by the examinees. Majority of the students did not have the clear concept of the topic and hence committed following errors:

- Many candidates misunderstood the requirement and treated this question related to issuance of long-term bonds, hence, calculated the interest expense in their answers instead of interest income as a result of investment in bonds.

- They wrongly treated Rs.100,000 as full investment value (instead of Rs.93,134), hence they were unable to draw up the proper schedule of interest revenue and bond discount amortization. This error was also reflected in the journal entries and extracts of financial statements.

Question No. 6

(a) Prudential regulations:

Examinees were asked to define prudential regulations and explain its purpose/scope. Performance of the examinees remained satisfactory.

(b) Contract Accounts:

Examinees were supplied with specific information regarding a construction contract, which was currently in its second year. On the basis of this information, examinees were asked to (i) prepare extract from the income statement and statement of financial position and (ii) determine amount due to/ from customers for the current year. A large number of candidates performed satisfactorily in this question. However, following mistakes were committed by the examinees:

- Lack of proper presentation was seen in this question and candidates were unable to provide correct sequence of calculations in their answer.
- Majority of the candidates were not able to calculate current year revenue and cost correctly since they calculated revenue and cost to date correctly but failed to subtract previous year's revenue and cost from these figures. Consequently, they were not able to compute the correct amount of the current year's profit as well.

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EXAMINERS' COMMENTS
SPRING (AUGUST) 2012 EXAMINATIONS
INTEGRATED MANAGEMENT
Stage – 4

SECTION "A"

Question No. 2

(a) Mintzberg five broad essential activities in "strategic management process":

Examinees were required to explain five activities to craft strategy in strategic management process. Overall performance in this part remained unsatisfactory. However, few students did mention the name of the activities but their explanation was sub standard. This was a simple straight question and it is felt that students' examination preparation was not up to the mark. Suggested by Mintzberg i.e. managing stability, detecting discontinuity, knowing the business, Managing patterns and reconciling change and continuity.

(b) Cross-functional implications of strategy implementation :

Majority of the students could not define Cross-functional implications correctly. It was noted that they had a vague idea about different points which could identify cross functional implications. The interests of the functional areas do not automatically coincide. As each function pursues efficiency and effectiveness in its particular sector, as a result cross functional conflicts may arise. Cross functional strategy can be identified and resolved by considering its formulation, communication, participation, close lateral relations, multifunctional experience and coordination.

Question No. 3

(a) Defensive strategies :

In this part of the question, examinees were required to explain various defensive strategies. Most of them explained the defensive strategies correctly but it was unfortunate to observe that they did not explain the circumstances under which each defensive strategy could be effective. This was the major requirement of the question which either they omitted or they did not study properly. Defensive strategies usually are chosen as a short-term solution or when no better alternative exists. Defensive strategies include turnaround, divestiture, liquidation, filing for bankruptcy, and becoming a captive.

(b) Corporate objectives:

Most of the examinees were able to explain the long term or short term corporate objectives correctly. However, few students simply mentioned the normal duration of long term and short term goals/objectives without giving brief explanation that companies suffering from recession in their core industries and making loses in the short-term might continue to have a primary objective in the long-term of achieving a steady growth in earnings or profits but in the short-term their primary objective might switch to survival.

(c) Three phases of strategy development:

Most of the examinees were able to explain three phases of strategy development. Nevertheless, some students had no idea about the requirement of the question and produced irrelevant answers. Three phases of strategy development are strategic options generation, strategic options evaluations and strategy selection.

SECTION "B"

Question No. 4

(a) Project management software :

In this part of the question, examinees were required to explain project management software with its advantages and disadvantages. The overall performance of the students was observed satisfactory. However, some of them listed advantages and disadvantages of project management software but missed to discuss the

purposes of project management software which was a major part of the question. The students must understand the requirement of the question and then plan to answer. Project management software can be used for a number of purposes like planning and scheduling, estimating and controlling the costs, monitoring, and reporting.

(b) Four methods used for constructing a project network diagram:

In this part of the question examinees were required to illustrate four methods for constructing a project network diagram. They were supposed to explain Precedence Diagramming Method (PDM), Arrow Diagramming Method (ADM), Conditional Diagramming Method and Network Templates. Only a few examinees were able to answer this question correctly and majority of the students showed very poor performance.

Question No. 5

(a) Elements that make a project successful and failure:

In this part of the question, examinees were asked to discuss the elements that make project successful and the factors that make a project failure. Majority of the examinees were successful to answer this question correctly. Quality, cost and time are normally regarded as the yardsticks against which project success is measured. Project failure may be among the variety of reasons like unproven technology, changing client specifications, politics, poor project management.

(b) Strategies evaluation criteria :

Few examinees were able to explain three evaluation criteria and their answers were satisfactory. They were able to explain common accepted evaluation criteria as "suitability, feasibility and acceptability". It was noted that majority of the students showed very poor performance. Their answers showed hit and trial approach for getting pass marks.

SECTION "C"

Question No. 6

(a) Two main approaches for managing ethics in organizations :

Majority of the examinees had vague idea on the given topic. They just wrote whatever came to their mind. It seemed that they had not read the book recommended for the subject. They were supposed to mention "Compliance base and Integrity based" approaches to the management of ethics. Most of the students failed to fulfil the desired requirement of the question and lost marks.

(b) Matrix structure of an organization;

Majority of the examinees were not able to explain matrix structure with its advantage and disadvantages properly and many of them did not explain situation when matrix structure is suitable. Their answers were clearly indicating towards the lack of study on the topic. Matrix organization is a structure which provides for the formalization of management control between different functions, whilst at the same time maintaining functional departmentalization. It can be a mixture of functional, product and territorial organization.

Question No. 7

(a) Aspects of organizational politics:

In this part of the question, examinees were required to discuss several aspects of organizational politics. Some of the students did explain competition, and rivalry and different aspects of organizational politics. This is one of the important topic and the students must fully understand all the aspects of political behaviour. Most of the students did answer but not up to satisfactory level.

(b) Approaches characterized by political behaviour by a manager:

It was very simple and easy question which required examinees to list approaches characterized by political behaviour. Majority of the examinees was successful to answer this question. There are a number of approaches a manager can take like increase the power base, build coalitions, expand network, constrain the decisions, withhold information and present information in a distorted manner etc.

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EXAMINERS' COMMENTS
SPRING (AUGUST) 2012 EXAMINATIONS
CORPORATE LAWS & SECRETARIAL PRACTICES
Stage – 4

Question No. 2

(a) (i) Shareholder and Member:

Most of the examinees did have proper understanding of 'shareholders' but were confused or unaware about the term 'member'. Many of them misconstrued that 'members' means sponsors, founders or even employees of the company. Few examinees also described members as staff member e.g. CEO and CFO etc. A few were able to identify the 'member' with reference to companies limited by guarantee only. Some of them also failed to mention the basic requirement of a member i.e., his name is entered in the Register of Members.

(ii) Chief Executive:

The definition of the chief executive is mentioned in the Ordinance which was reproduced by the examinees in its language. Following common mistakes were observed:

- Most of the examinees answered the eligibility and procedure for appointment of chief executive although they were supposed to state the responsibilities of the chief executive.
- Many examinees believed that a chief executive is required to be a director on the Board of the company whereas he may or may not be a director. Some examinees wrongly assumed chief executive is elected by shareholders.

(iii) Redeemable Capital:

Examinees failed to make distinction between redeemable capital and ordinary share capital of the company and treated them as same kind of equity instrument. Following shortcomings were also observed.

- Examinees could not define redeemable capital specifically but they defined it as a capital to be redeemed giving wrong examples i.e. debentures and bonds, etc., instead of Participation terms certificate (PTC), terms finance certificate (TFC), or musharika certificate.
- Many examinees treated redeemable capital as buying back of shares.
- Many examinees failed to mention power of Federal Government to declare any other instrument for the purpose.

(b) Procedure for Filing of Casual Vacancy in Board of Directors (BOD):

Majority of examinees ignored the requirement of the question regarding steps to be taken as a Company Secretary in filling the casual vacancy of board of directors. Many examinees thought that casual vacancy is to be filled by shareholders or the same procedures would apply as required for the regular election of directors. Some identified the matter lies within competency of board but could not point out other requirements such as obtaining consent of incoming director, filing of return and recording of particulars of new director in the register of directors and other officers.

(c) Appointment of Another Person as Director in his Absence:

Majority of examinees gave conceptually correct answer. However, some of them could not point out that alternate director could be appointed only when a director is away from Pakistan. Some examinees wrote the absence period of a director as four (4) months instead of three (3) months and some examinees could not clear that alternate director would vacate his office on returning the director from leave.

(d) Provisions Related to Demand for Poll:

Few examinees could state all provisions related to the demand of poll at shareholders' meeting. However,

following incorrect points were observed in answers of examinees:

- Demand of poll can be made by directors only.
- Demand of poll can be made only at the time of election of directors.
- Some examinees discussed the way of conducting the meeting or the proceedings.
- Most of them had wrong perception that the poll is ordered by the board of directors (BOD) instead of the chairman of the meeting on his own motion or the members.
- The examinees also missed to state that the poll may be withdrawn at any time by the person who made the demand.

Question No. 3

(a) Course of Action Available to the Members in Case of Refusal of Holding EOGM:

Most of the examinees addressed this situation appropriately in the light of the relevant section. However, some examinees could not reproduce all provisions of the section. Some of them proposed to file a petition before court while few examinees discussed the penalty or punishment for the directors refusing to call the requisitioned Extra Ordinary General Meeting (EOGM). Some examinees mentioned incorrect conditions that 50% meeting expenses would be reimbursed to shareholders who incurred such expenses.

(b) Names of Statutory Books/ Registers to be Maintained by Every Company:

Due to lack of knowledge examinees made a long list of many irrelevant books/registers such as different ledgers, accounts and financial statements and even taxation records. Some of them also mentioned the retention period for the books of accounts.

(c) (i) Term of Office of Directors:

Some examinees made their answers unnecessarily long while some of them failed to mention correct office period of director which is three (3) years.

(ii) Appointment of Subsequent Chief Executive:

The knowledge of the examinees was very poor in respect of appointment of subsequent chief executive. They tried to explain the procedure for appointment of first chief executive.

- Many examinees wrongly discussed that chief executive is to be appointed by shareholders and some even claimed that he is appointed in the AGM.
- Many examinees failed to mention correctly the tenure of first chief executive. Most of them could not specify the correct time period within which subsequent chief executive is appointed after the retirement of the first one.

(iii) Issue of Securities Outside Pakistan:

Most of the examinees answered this question correctly. However, some of them answered that only guaranteed share capital securities can be issued outside the country. Some examinees confused about the issue of security outside Pakistan as a foreigner spending money in buying shares locally. Some replied in affirmative but without mentioning that approval of Securities and Exchange Commission of Pakistan is must for such issue. Some examinees answered only yes or no after reproducing the statement of the question. Some examinees mentioned that there is no restriction of any kind.

(iv) Mode of Forming a Company:

Many examinees attempted this part satisfactorily. Some of the examinees did not have proper knowledge about minimum number of persons required to form a public company i.e., three (3) or more.

Question No. 4

(a) Insider Trading:

This was the worst replied question of this paper. Examinees explained insider trading wrongly as “trading of goods and shares within the company premises” and “trading among the key executive and employees of the

company”.

- Most of them have a wrong perception that employees, spouse, relatives and friends of the directors cannot do the business of the company without the prior approval.
- Many examinees focused on the insider rather than insider trading.

(b) Functions and Powers of the Securities and Exchange Policy Board:

Many examinees could not understand the difference of the two authorities i.e. the Securities & Exchange Policy (SEP) Board and SECP (the Commission), and expressed them as two different names of single authority, hence explained functions and powers of the Commission instead of the SEP Board. Some examinees also mixed up the SEP Board with board of directors of the company and explained the functions and powers of the board of directors.

Question No. 5

(a) Closed-End Scheme:

Generally, examinees had concepts that closed end scheme falls under Non-Banking Finance Companies (NBFC) definition and a trust is required to start the scheme. Most of the examinees were not able to identify the main features of closed-end scheme. They particularly could not highlight that issuer does not continuously offer certificates entitling the holder of such certificates, to receive, on demand, his proportionate share of the net assets of the closed-end scheme.

(b) Contingent Liabilities:

Most of the examinees defined it partially. However, some examinees demonstrated different definitions e.g., liability that may be expected in future and a hidden liability that company does not like to show in balance sheet etc. They seldom discussed that “a present obligation that arises from past events but is not recognized on the books of the NBFC and Collective Investment Scheme because:

- (i) It is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or
- (ii) The amount of the obligation cannot be measured with sufficient reliability and includes letters of credit, letters of guarantee, bid bonds or performance bonds, advance payment guarantees and Underwriting Commitments.”

Question No. 6

(a) Functions of a Company Secretary Prior to the Incorporation of Company:

Few examinees succeeded to list down the required functions but in raw form. Many of the examinees discussed the functions of a company secretary in the usual course rather than prior to incorporation. Some of the examinees attributed the functions and role of sponsors to the secretary, who works as employees rather than investor. A few of them were successful to specify that secretary has to obtain certificate of incorporation.

(b) (CDS) Accounts Structure:

Examinees could not realize the difference between bank account and CDS account; consequently they explained different types of bank accounts.

Majority of the examinees could not mention required name of account (i.e. Main Account, House Account, Group Client Account, Cash Account) except few examinees who could hardly mention two to three name of such account; as concern to description of account which was far from reality.

(c) Notice of the Extraordinary General Meeting:

Most of the examinees replied correctly and mentioned the appropriate format for a notice of meeting. However, following mistakes were observed in many answer scripts.

- Date of the notice was omitted.

- Venue of meeting was also omitted while examinees could have mentioned 'registered office' conveniently.
- The names of existing directors were wrongly mentioned as proposed candidates or as if they had filed their nominations whereas it had to be mentioned just as 'retiring directors eligible for re-election'.
- New agenda items were included out of the context.
- Such notice was drafted in a way as minutes of the meeting were drafted.

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EXAMINERS' COMMENTS
SPRING (AUGUST) 2012 EXAMINATIONS
FINANCIAL REPORTING
Stage – 5

Question No. 2

Consolidated Statement of Financial Position:

In this question, the examinees were required to prepare consolidated statement of financial position (CSFP) of 'A' Co. Ltd. as at June 30, 2012. Majority of the examinees attempted this question and a few could answer the entire question correctly. Following common mistakes were noted:

- A good number of examinees failed to calculate the correct percentage of interest acquired by 'A' Limited in 'C' Limited {40% direct interest + 20% (80% x 25%) indirect interest = 60%}.
- Majority of the candidates could not calculate the correct amount for property, plant and equipment (Rs. 2,350 million), mainly due to ignoring or wrong adjustment for the trade discount (Rs. 10 million).
- The majority failed to calculate the goodwill to be shown in the CSFP. Most of them were able to compute the correct amounts of goodwill relating to 'A' Limited in 'B' Limited and 'C' Limited (due to direct investment by 'A' Limited in 'C' Limited). They, however, failed to compute the goodwill relating to 'B' Limited's investment in 'C' Limited mainly due to treating Rs. 100 million (instead of Rs. 80 million) as investment and wrong calculation of 'A' Limited's indirect interest in 'C' Ltd., i.e., 20% (80% x 25%).
- A large number of candidates could not calculate the correct amount of group retained earnings because they did not calculate the correct amount of post-acquisition retained earnings of 'B' Limited due to no / wrong adjustment for fair value realization of current assets (Rs. 80 million) and trade discount of (Rs. 10 million).
- Likewise, a good number of examinees were unable to calculate total Non-Controlling Interest (NCI) amount (Rs. 262 million), which was the total of NCI in 'B' Limited and 'C' Limited. Mostly, examinees computed the NCI in 'C' Limited but failed to do so in case 'B' Limited due to no or incorrect adjustments for trade discount and investment of 'B' Ltd. in 'C' Limited.

Question No. 3

Statement of Cash Flows:

The candidates were required to prepare statement of cash flows of a single company along with reconciliation of cash and cash equivalents using indirect method as per the requirements of IAS-7 (Statement of Cash Flows). The question was well attempted by majority of the examinees. However, following common mistakes were observed:

Cash flows from operating activities:

- A few candidates, started calculation with operating profit (Rs. 1,598,000) but they made adjustment for interest income (Rs. 90,000) and financial charges (Rs. 150,000), which was not required in this case.
- Some of the examinees did not make adjustment in the profit before tax amount for the provision of gratuity expense (Rs. 130,000). They also did not calculate the correct amount of gratuity paid during the year (Rs. 136,000) or did not mention the same at all.
- A good number of candidates could not calculate the correct amount of depreciation (Rs. 272,000) mainly due to no/wrong adjustment for disposal of plant and machinery (Rs. 92,000).

Cash Flows from Investing Activities:

- Surprisingly, a large number of candidates were not able to calculate the cash outflow for purchase of plant and machinery (Rs. 1,013,000) because they did not take into their calculations the effects of either the depreciation for the year (Rs. 272 million) or book value of disposal (Rs. 143 million) or both. Some of them wrongly included sale value of disposal (Rs. 157 million) in their calculations instead of the book value.

Cash Flows from Financing Activities:

- Some of the examinees could not calculate the correct amount of cash outflow against dividend paid (Rs. 595,000) to the shareholders during the year.

A few candidates did calculate the relevant figures correctly but were unable to identify whether it is cash inflow or outflow. Likewise, some examinees did not prepare sufficient workings to show calculation of cash flows.

Question No. 4

Post Employment Benefit Plan:

This question required the candidates to calculate the amounts (i) of liabilities and assets to be shown in the statement of financial position (ii) to be recognized in the profit and loss account and (iii) to be recognized in the other comprehensive income. Majority of the candidates attempted this question. Overall performance was satisfactory. Nevertheless, following shortcomings were observed in the answers:

- For the year 2011, some candidates did not adjust the amount of settlement against plan assets (Rs. 45,000) and liabilities (Rs. 50,000). Hence, they were not able to calculate correct amounts of the actuarial gain / loss on obligation (Rs. 204,000) and return on plan assets (Rs. 271,500) correctly.
- Some candidates included the actuarial gain / loss on the obligation and the return on plan assets in the profit and loss account instead of other comprehensive income, which showed that candidates did not have clear concept of treatment for actuarial gain / losses and return on plan assets.

CASE STUDY

Students were required to write report to the Board of Directors of Raja Limited enabling them to make a decision regarding purchase of Rani Limited on the basis of ratio analysis in the form of a letter, of not more than a page, stating following:

- The purpose of the study and areas to be examined.
- The approach adopted in carrying out the study.
- Findings on the important areas examined.
- Any caveats in making the decision on the basis of the study alone.
- All facts which make it easier for the Board to arrive at a decision.

The objective is to highlight the crucial areas and comment on them in the briefest and strongest manner. The ratio analyses must be given in the form of an annexure. It should be remembered that students are being checked regarding their presentation skills and not for their knowledge of ratio analysis. Following observations were made:

- Horizontal and vertical analyses were not required but many examinees did so.
- The format of one-page letter followed by the ratios was seldom seen. Students made the common mistake of writing 10–20 pages reports giving the findings at the end. Students must realize that directors have limited time and would like the report to be brief and precise. The outcomes were lost in lengthy write-ups and were not highlighted.
- Since these are not scientific calculations students may round off the ratios.
- Students lacked the confidence and were reluctant in forming an opinion.

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EXAMINERS' COMMENTS
SPRING (AUGUST) 2012 EXAMINATIONS
MANAGEMENT ACCOUNTING-DECISION MAKING
Stage – 5

Question No. 2

(a) Differential cost:

Very few examinees give correct and concise reply. Following shortcomings were noted:

- Responding without correct comprehension of the question and gave irrelevant explanations of fixed and variable costs.
- Instead of clear reply, write paragraphs on irrelevant text.

(b) CVP analysis:

Majority of the examinees successfully attempted this part of the question, however, some make calculation mistakes.

(c) CVP assumptions:

Following were the mistakes common in the answer scripts:

- Described sales mix that give optimum profit.
- Explained it as combination of items produced.

Question No. 3

Make or buy from outside supplier:

Following common mistakes were observed that lead to an incorrect decision:

- Supervisor's salary in total was treated as fixed cost ignoring the word 'traceable'.
- Entire fixed cost was treated as irrelevant.
- Supplier's offer was compared with total cost including fixed cost.

Question No. 4

Decision with limited labour hours:

Following common mistakes were committed by majority of the examinees:

- A significant number of examinees failed to concentrate on contribution margin per labour hour and could not suggest optimal decision.
- Some of the examinees ignored limiting factor and wrongly suggested that product 'P' should be produced first as it had highest per unit contribution margin.

Question No. 5

Rate of return, present value (PV) payback and internal rate of return (IRR):

Following mistakes were generally noted in this part:

- Depreciation was not accounted for in calculating the simple rate of return.
- Instead of initial investment, average investment was taken in calculation.
- Significant number of examinees either separately calculated PV and simple payback period or calculated PV of cash inflow dividing it by initial investment.
- Several examinees successfully calculated net present values under various assumptions but others failed to comprehend the assumptions.
- Discussion on the usage of data by examinees was disappointing as significant number of examinees considered these scenarios as separate options/ alternatives.

Question No. 6

(a) Concept of learning curve:

Only few examinees concisely and correctly described learning curve. Among the examinees who correctly described learning curve, with few exceptions, could not describe models of learning curve.

(b) Average unit cost of 4 and 8 equipments and minimum price of repeat order:

Examinees who applied formula reached at correct cost as compared with those who attempted it using tabular format. Even those examinees who calculated correct direct labour cost, committed following mistakes:

- Calculated cumulative average cost was considered as total cost.
- Overheads of Rs.4.8 million were considered for each unit.
- For repeat order they could not calculate correctly the additional hours required.
- For repeat order fixed cost was accounted for once again.

A significant number of examinees who correctly calculated cost, did not calculate per unit cost. It shows they did not carefully read requirements of the question.

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EXAMINERS' COMMENTS
SPRING (AUGUST) 2012 EXAMINATIONS
RISK MANAGEMENT AND AUDIT
Stage – 5

Question No. 2

(a) Methods of Identifying Possible Risks:

This question was poorly attempted by majority of examinees. Instead of describing common methods of identifying possible risks they describe approaches of risk identification i.e. exposure analysis, environment analysis and threat scenarios. Many examinees presented unnecessary lengthy details. Some of them address the topic in general instead of specifically describing the methods like analogies to similar operations etc.

(b) Risk Factors may be Commonly Found:

Majority of examinees failed to describe correctly three types of risk factors which are subjective, objective and calculated. Examples required for each risk factor were not clearly stated.

(c) Participation rules of brainstorming:

Most of the examinees failed to demonstrate the participation rules of brainstorming in the capacity of a leader. Majority of the examinees defined the unrealistic observations. They failed to reveal parts like no comments, criticism, or judgements are allowed during the storming phase etc.

Question No. 3

(a) Internal Audit:

Examinees at this stage have not clear concept about such basic topic of the subject. Except a very few examinees, majority of examinees describe it as external audit arrangement which was wrong. Some presented unnecessary details and explanations.

(b) Continuous Audit:

Most of the examinees identified it correctly but there were two important aspects of the scenario firstly, it was continuous audit and secondly, it was external audit due to appointment of auditors at AGM. Some examinees covered one aspect and missed the other.

(c) Kind of Service and the Report of Factual Findings:

(i) Most of the examinees identified it as special audit assignment. Some of them described it as external audit.

(ii) Examinees failed to describe factual findings to include in report. Most of them discussed about current assets, revenues and expenses instead of important contents like identification of specific areas where agreed upon procedures have been applied, a statement that procedures performed to certain agreed areas, list of certain procedures performed, and defining purpose of such engagement etc.

Question No. 4

Responsibilities of Auditors:

(i) Majority attempted it correctly.

(ii) Some of the examinees expressed wrongly that auditors cannot be held responsible even if auditors failed to prove that they did not commit negligence in order to detect the fraud, it is management responsibility to detect fraud.

(iii) Majority of the examinees performed good in this part of the question that auditors could not be held responsible as they proved that fraud was not committed for the year(s) they audited.

(iv) Majority of examinees wrongly replied that auditors will not be held responsible as they have communicated the fact to the management in the management letter as well as in notes to the accounts.

- (v) Most of the examinees explained the auditors' responsibilities and role in the given scenario. Few examinees stated that auditors will not be held responsible for past three years while lapse of any period does not release from their responsibilities.

Question No. 5

(a) (i) Comments on Working Papers:

Most of the examinees expressed in a general way that "representation letter is important" but they failed to mention that auditors have responsibility to obtain representation letter which is required by ISA 580. Few examinees were able to demonstrate that "financial statements do not constitute written representation for the satisfaction of the requirements of ISA 580".

(ii) Actions of Auditor:

- (I) Majority of the examinees attempted this part of the question satisfactorily. However, some of them put unnecessary details instead of giving steps in case management refused to provide written representation.
- (II) Few examinees mixed auditor responsibilities and internal control system about the reliability of written representation provided by the management. They remained abortive to mention points like competence, integrity, ethical values, or diligence of the management that would be assessed by the auditors if the matter could not be resolved etc.

(b) (i) Test of Controls; (ii) Substantive Procedures; (iii) Effect of the given Factors on the Sample Size:

- (i) Few examinees were unable to define the "test of control" that evaluate the operating effectiveness of controls in preventing, or detecting and correcting, material misstatements at the assertion level.
- (ii) Majority of examinees remained failed to express that substantive procedures as an audit procedure designed to detect material misstatements at the assertion level which comprises on (a) tests of details (of classes of transactions, account balances, and disclosures); and (b) analytical procedures.
- (iii) Significant number of examinees did not respond well relating to the effect on the sample size for test of controls. However, they responded relatively well to the effects on the sample size for test of details.

Question No. 6

(a) Necessary Information in Performing Effective Cost Audit:

Examinees mixed and mentioned items of portion (a) and (b) interchangeably. They elaborated items giving unnecessary details. They confined themselves to few points and could not cover as many aspects as were required. Repetition of some points was also observed.

(b) Areas at a Board Category:

Examinees failed to mentioned areas/items like loose tools and financial position. They also mixed the points with requirement of (a).

(c) Examination of the Sales:

Examinees describe examination verification process of "Sales", taking few elements of such examination. They remained abortive to mention points like files of orders/ delivery notes etc.

EXAMINERS' COMMENTS
SPRING (AUGUST) 2012 EXAMINATIONS
STRATEGIC FINANCIAL MANAGEMENT
Stage – 6

Question No. 2

Working capital requirement, forecast income statement and balance sheet:

The overall performance was just an average in this part of the question though almost all the examinees attempted it. A few mistakes committed by the examinees are as under:

- Examinees were not able to calculate the correct figures of work in process, finished goods and accounts receivable. Many examinees incorrectly include the depreciation expense in finished goods and selling and administrative expenses in accounts receivable.
- Many examinees did not deduct the interest on term finance certificates (TFCs) from earnings before interest and taxes (EBIT) while calculating the net profit.
- Most of the examinees could not correctly prepare the forecast balance sheet. The figure of accounts receivable was shown at cost instead on the basis of sales value. The examinees also could not calculate the correct figure of retained earnings and owners' equity. Though, owner's equity could easily be calculated by deducting the accounts payable and 10% TFCs from the total assets.

Question No. 3

(a) Preparing the cash budget:

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

- A substantial number of examinees were not able to correctly calculate cumulative surplus cash or total loans at the end of each month to maintain target cash balance of Rs.12,000.
- There was hardly any examinee that recommended the effects of new credit policy on loan requirement.

(b) Computation of annual cost of financing arrangement associated with commercial bank loan and factoring accounts receivable:

The examinees did not perform well in this part of the question though almost all the examinees attempted this part of the question. The mistakes committed by the examinees are as under:

- The examinees were required to deduct from commercial loan of Rs.400,000 the interest of Rs.4,000 and compensating balance of Rs.60,000 to ascertain the amount received and short fall in working capital. The examinees could not calculate correctly short fall in working capital of Rs.64,000 due to non deduction of interest from the commercial loan. Resultantly, they also could not correctly calculate the interest on shortfall in working capital.
- In the question, it was clearly stated to calculate the annual cost associated with commercial bank loan and factoring of accounts receivable. However, many examinees incorrectly calculated the processing fee, factor's commission, bad debts and credit department expenditure on monthly basis.

Question No. 4

(a) Earnings per share (EPS) under debt, preference shares and ordinary shares expansion programme:

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

- Many examinees did not deduct the interest on new debt of Rs. 8 million from earnings before interest and taxes (EBIT) under the debt option.

- A few examinees incorrectly deducted the dividend on preference shares from earnings before taxes (EBT) instead of earnings after taxes (EAT).
- A few examinees did not calculate the correct EPS under the ordinary share option due to incorrect calculation of number of ordinary shares. They deducted the newly issued shares from existing ordinary shares instead of adding into it.

(b) & (c) Determination of indifference point between the debt and ordinary shares option:

Some examinees showed very good performance in this part of the question. However, many examinees could not correctly workout the indifference point between debt and ordinary shares. Many examinees were not able to mathematically solve the indifference point and ended up to incorrect solutions. Resultantly, substantial number of examinees failed to mention that EBIT would need to increase by Rs.2,424,000 (Rs.5,424,000 – Rs.3,000,000) before an indifference point with debt is reached.

Question No. 5

(a) NPV associated with lease and buy alternative using after tax cost of debt:

The overall average performance was observed in this part of the question. Some mistakes committed by the examinees in general are as under:

- Many examinees did not correctly calculate the annual lease and annual loan payment.
- A few examinees did not correctly calculate the PV of annual lease payment for the years 1 to 5. They calculated the PV of cash outflow without taking into account the cash inflow due to tax savings.
- A large number of examinees did not correctly calculate the interest expenses and refund of principal under the loan option. Resultantly, they were not able to correctly calculate the tax savings, after tax cash outflow and PV of cash outflow.

(b) NPV and IRR of the project:

The overall excellent performance was observed in this part of the question. Almost all the examinees attempted this question and secured good marks. A few mistakes committed by the examinees are as under:-

- It was clearly stated in the question paper that 20% profit to joint venture partner would be paid one year after the profit earned. However, some examinees incorrectly paid the profit to joint venture partner in the same year. Resultantly, they could not correctly calculate the NPV of the project.
- Many examinees also did not calculate IRR due to incorrect figure of NPV at 5% discount rate calculated earlier.

Question No. 6

(a) Building the manufacturing plant abroad instead of at home by multinational companies:

An average performance was observed in this part of the question although almost all the examinees attempted it. There was hardly any examinee that mentioned the non-profit behavioral and strategic consideration, such as maximizing market share and enhancing the prestige of corporate officers for building the manufacturing plant abroad.

(b) Present value in dollars of equity ownership of the British subsidiary:

Many examinees did not attempt this part of the question and most of the examinees could not comprehend the requirement of the question. A few mistakes committed by the examinees are as under:

- Most of the examinees did not correctly calculate the 5% net growth rate to be used in Gordon's dividend model (10% growth in dividend 5% depreciation in pound sterling) for calculating the present value in dollars of US Corporation's equity ownership in its subsidiary.
- A large number of the examinees also incorrectly used D1 instead of D in the perpetual growth valuation formula.

(c) Money market hedge, forward market hedge, and lead payment option to hedge the foreign account payable:

The overall poor performance was observed in this part of the question. It was quite evident that most of the examinees have not prepared the topic. Therefore, they could not understand the requirement of the question and tried to solve it haphazardly.

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EXAMINERS' COMMENTS
SPRING (AUGUST) 2012 EXAMINATIONS
INFORMATION SYSTEMS & I.T. AUDIT
Stage – 6

SECTION "A"

Question No. 2

(a) Major Components of Expert System and Combination of Forward and Backward Chaining:

Majority of the examinees failed to answer this part of the question, even they could not identify correctly the five major components of an idealized expert system and could not explain forward/ backward chaining. An expert system is a computer system that emulates the decision-making ability of a human expert. Expert systems are designed to solve complex problems by reasoning about knowledge, like an expert, and not by following the procedure of a developer as is the case in conventional programming. The five major components of an idealized expert system are knowledge base, inference engine, database, interface and explanation modules. Very few examinees had knowledge regarding different components of an expert system. However, few of them found well regarding of forward and backward chaining and prepared flow charts.

(b) Database and Data Modeling:

The question was very easy but very few examinees could attempt it correctly. They could not properly differentiate between database vs. data modeling. The term database refers to a structured collection of electronically stored data that is controlled and accessed through computers based on predefined relationships between the types of data items of a specific business, situation or problem. While data modeling is the process of defining what data is used or produced in an information system and how that data is organized. Entity Relationship Diagram is used as a technique for data modeling. Majority of the examinees explained (ERDs), which help in identifying the data in a system and making sure it is represented properly. In illustrating this diagram, some examinees did not use correct notations for one to one, one to many and many to many relationships.

Question No. 3

(a) Phases in Building and Maintaining the Systems:

Overall performance of the examinees in elaborating the different phases in building and maintaining the system. However, reasons of project failure in each phases was in correctly described. The systems in organizations are built and maintained in four phases i.e. Initiation, Development, Implementation and Operation & Maintenance.

(b) Business Intelligence (BI), its Area of Application and Main Factors to Increase its Use:

Most of the examinees had not clear concept of BI and its different areas of application. BI encompasses the collection and dissemination of information to assist decision-making and assess organizational performance. BI is a broad category of applications and technologies for gathering, storing, analyzing, and providing access to data to help enterprise users for better decisions making. BI applications include the activities of decision support system, query and reporting, online analytical processing (OALP), statistical analysis, forecasting, and data mining. The interest in BI as a distinct field of I.T. activity is being spurred by a number of factors. Some of which are increasing size and complexity of modern organizations, pursuit of competitive advantage, legal requirements etc. Majority of the examinees had failed to elaborate this part correctly and focused on irrelevant details.

SECTION "B"

Question No. 4

(a) Elements of a Software Testing Process and Various Types of Testing:

Not a single examinee could provide the correct answer of this question. Various 'general testing' concepts were illustrated by the examinees. Second part of the question i.e., elements of software testing process was also difficult for most of the examinees. They should note that software testing is not related to substantive testing, preventative, corrective testing etc. Testing is an essential part of the development process that verifies and validates that a program, subsystem or application performs the functions for which it has been designed. While defining elements of software testing process majority of the examinees were unable to elaborate it. The key elements of software testing process are test plan, conduct and report test results, address outstanding issues etc. Very few examinees had concepts regarding different types of testing like alpha and beta testing, pilot testing, white/black box testing, parallel testing etc.

(b) Steps for a Successful Data Conversion:

Examinees were required to discuss necessary steps for a successful data conversion. Very poor and irrelevant answers were provided by many examinees. Only few examinees attempted this part of the question correctly. Either conversion task was not identified or not sequenced properly. Especially, steps were not related to analysis, design and planning. Various answers related to data recording/ copying/ transferring to other media were provided. Performance of entire group was below average.

Question No. 5

(a) Recovery Alternatives:

This question was attempted by many examinees and majority of them, although, wrote the names of alternatives correctly but could not explain them properly. In general, examinees were able to mention what are the recovery alternatives when the normal production facilities become unavailable. Some common recovery alternatives in case of any disaster are cold sites, hot sites, mobile sites, warm sites, reciprocal sites agreements, mirrored sites, and duplicate information processing.

(b) General Controls:

Most of the examinee wrote different controls. Some could not understand the requirement of the question correctly and mentioned physical security and control instead of general controls for I.T. infrastructure. The performance of the majority of the examinees in this part of the question was not upto the mark. General controls apply to all areas of the organization including I.T. infrastructure and support services. General controls includes internal accounting control, operations control, organization security policies and procedures, physical and logical security policies, and over all policies for the design and use of adequate documents. Mostly examines did not highlight importance of general controls. Majority gave irrelevant answers to this part.

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EXAMINERS' COMMENTS
SPRING (AUGUST) 2012 EXAMINATIONS
MANAGEMENT ACCOUNTING–BUSINESS STRATEGY
Stage – 6

Question No. 2

(a) Intensive Strategies:

An average performance was observed in this part of the question though almost all the examinees attempted it. A few mistakes committed by the examinees are as under:

- Many examinees did not mention the correct conditions when market development and product development may be the effective strategies.
- Many examinees have no fair idea of intensive strategies and elaborated the irrelevant strategies like integration, diversification and defensive strategies, instead of intensive strategies. A few examinees incorrectly mentioned the conditions, which are effective for “market development strategy” under “product development strategy” and vice versa.

(b) Illustrating the Strategic-Management Model:

The overall performance of the examinees was just an average in this part of the question. A few mistakes committed by the examinees are as under:

- Most of the examinees did not mention the impact of global/ international issue and business ethics, social responsibility and environmental sustainability on the strategic decisions. Many examinees also produced irrelevant material while explaining the strategic-management model.
- Most of the examinees were also not able to mention that effectiveness of strategic management was also depended on managers gaining the understanding of all the stakeholders of the business world.

Question No. 3

(a) Some vital aspects and variables of social, cultural, demographic and environmental changes on all products, services, markets and customers:

The overall performance was just an average in this part of the question. Some mistakes committed by the examinees are as under:

- Most of the examinees just mentioned few vital aspects and variables. They also incorrectly elaborated the economic, political, governmental and legal and competitive variables that were not asked in the question.
- Most of examinees were also not able to state that small, large, for profit making and non-profit organizations in all industries were being challenged by the opportunities and threats arising from changes in social and cultural, demographic and environmental variables.

(b) Most useful elements in linking culture to strategy:

Most of the examinees did not perform well in this part of the question. Again, the examinees did not prepare the topic well. A few mistakes committed by the examinees are as under:

- Many examinees have no fair idea of the topic, tried to elaborate the topic and produced irrelevant arguments.
- Most of the examinees either just defined the “culture” or mentioned two or three elements useful in linking culture to strategy. They were also not able to mention that most strategies are often market driven and strategist should identify and change the aspects of existing culture that are not supporting the proposed strategy because changing the firm’s culture to fit a new strategy is usually more effective.

Question No. 4

(a) Key financial ratios, their purpose and significance to measure organization performance:

The examinees did not perform well in this part of the question. A few mistakes committed by the examinees are as under:

- Most of the examinees incorrectly elaborated all ratios fall under the category of liquidity, activity, solvency, market and profitability ratios. Though, they were just required to mention a few profitability ratios besides the sales growth and assets growth of an organization.
- There was hardly any examinee that mentioned the three components of quantitative criteria i.e., comparing the firm's performance with its competitors, with industry averages and with firm's own performance over different time periods. Moreover, no examinee stated the potential problems associated with the quantitative criteria for evaluating the strategies.

(b) Hierarchy of policies and some issues that may require a management policy:

The examinees did not perform well in this part of the question. Most of the examinees could not grasp the requirement of the question and produced irrelevant and lengthy arguments. A few mistakes committed by the examinees are as under:

- Most of the examinees were not able to mention that policies must support a company strategy, a divisional strategy and production department's objectives and the policies that are appropriate to make the strategy successful at each level.
- Most of the examinees also could not mention the need of policies and where they could be applied.

Question No. 5

(a) EPS/EBIT analysis as central strategy-implementation technique and its limitations:

The performance of examinees was not good in this part of the question. Most of the examinees produced irrelevant arguments and did not justify their answers. A very few examinee were able to state the several considerations to be made while using EPS/EBIT analysis and how it could be vital in determining of an appropriate mix of debt and equity in a firm's capital structure to the successful strategy implementation.

(b) Eight key questions that revised external factors evaluation (EFE) matrix pose to strategists:

The overall poor performance was evident in this part of the question. Most of the examinees were not having any fair idea of the topic and they just produced irrelevant details and illogical arguments while explaining the topic. Most of the examinees incorrectly narrated the external factor evaluation (EFE) matrix used in industry analysis.

Question No. 6

Calculating the work done by Kaghan Limited in southern region and preparing the profitability under three options:

The overall performance was very poor in this part of the question. Most of the examinees could not grasp the requirements of the question. A few mistakes committed by the examinees are as under:

- A large number of examinees incorrectly calculate the cost of material. It was clearly stated in the question that the material supplied to Kaghan Limited is charged at cost+10%, Kaghan Limited further charges from customers at 25% over this price. Therefore, material was required to divide by 10 and multiply by 137.5%(100x110%x125%) to calculate the material cost. Resultantly, the examinees could not calculate the correct figure of work done by Kaghan Limited.
- Again, most of the examinees did not correctly calculate the material cost while preparing the profitability under three options. They also could not calculate the correct figure of income for each of the three options.
- The examinees were also not able to break up the income into big appliances and small appliances category under each of the three options.