

**EXAMINERS' COMMENTS
FALL (WINTER) 2008 EXAMINATIONS**

2005 SYLLABUS

**FUNDAMENTALS OF FINANCIAL ACCOUNTING
Stage – 1**

Question No.2

(a) Required Steps in an Accounting Cycle:

This part of the question asked the students to list the required steps in an *accounting cycle*. It was very simple question and as expected most of the students successfully attempted it. However, the following mistakes were observed:

- ✧ Very few examinees could write all the eight steps entailed in an *accounting cycle*. Most of them could mention only four steps i.e. *journalizing the transactions, posting the journal entries to the respective ledger accounts, preparing the trial balance and preparing the financial statements*, and missed the remaining steps i.e. *making end-of-year adjustments, preparing adjusted trial balance, journalising and posting closing entries and preparing an after-closing trial balance*.
- ✧ The examinees explained the steps with unnecessary detail that resulted into wastage of their precious time.
- ✧ Some of them stated only the definition of *accounting* instead.
- ✧ Standard of English was very poor.

(b) Definitions of Accruals and Prepayments:

Most of the students attempted this part and generally their performance was satisfactory. However as usual, they were found to be lacking in transferring their knowledge onto the answer scripts. Although, they had a good knowledge of *prepayments*, but when it came to explain *accruals*, they were not well prepared for the task.

(c) Adjusting and Reversing Journal Entries:

The students were asked, here, to prepare six adjusting and reversing (if required) journal entries. Although, they satisfactorily made first five journal entries, they could not understand the last one, which required them to prepare journal entry/entries in relation to *closing inventory* and *cost of goods sold* amounting to Rs.25,000 and Rs.185,000 respectively, given that the company was using *FIFO method* for inventory valuation and *perpetual inventory system*. In effect, no entry was required in this case. The following additional mistakes were also noted:

- ✧ For part **c (v)**, incorrect calculation of depreciation was made under *sum-of-the-years-digits method*.
- ✧ The students failed to mention whether the *reversing entries* were needed or not under each assumption, which was a requirement of the question.

Question No.3

(a) The Cost of the Stolen Inventory using Gross Profit Method:

The candidates were required to estimate the cost of the inventory that was lost by theft, using *gross profit method*. This part of the question proved to be an easy one and most of the examinees successfully attempted it. The following shortcomings, nevertheless, came under observation:

- ✧ They did not use the word *cost of goods sold*, although they correctly computed the amount.
- ✧ Some of them made mistakes in calculation.
- ✧ The examinees did not mention the title of the business.

(b) Computation of *Bad Debt Expense* and *Journal Entries for Allowance for Doubtful Accounts* and *Write off of a Specific Account*:

This part required the examinees to **(i)** compute the bad debts expense for the year, and **(ii)** prepare the journal entries to set up the allowance for doubtful accounts and *write-off* of a specific account. It was an easy question; however the responses were not as satisfactory as they should have been. In most cases, bad debt expense calculation was wrong because of haste and lack of understanding of the topic. Similarly, the entry for the *write-off* was mostly incorrect. The majority ignored the *specific bad debt expense* relating to a customer, while computing the total bad debt expense for the year. Some students calculated *bad debt expense* amounts on total sales value instead of outstanding balances.

Question No.4

Preparation of *Depreciation Schedules*:

The candidates were asked to prepare the *depreciation schedules* using the methods of **(a) straight-line**, **(b) units-of-activity**, and **(c) declining-balance** using *double the straight-line rate*. This was an easy question. As far as the part **(a)** and **(b)** were concerned, the examinees did well. However for the part **(c)**, they were not fully equipped with the required knowledge and consequently lost easy marks. The following shortcomings were noted:

- ✧ The majority overlooked to mention the title of the company.
- ✧ Most of them succeeded in calculating the depreciation for a particular year, as well as the accumulated depreciation correctly, but failed to prepare the complete schedules.
- ✧ In part **(c)**, the students used the mathematical formula to calculate the depreciation instead of using the given rate, which resulted in wrong answers. Even those who used the given rate, could not compute the correct depreciation for the last year, which required adjustment for the residual value.

Question No. 5

(a) *Upward and Downward Revaluation of Property, Plant and Equipment*:

The examinees were asked to state the requirement of IAS-16 relating to *upward* and *downward* revaluation of *property, plant and equipment*. This proved to be the most difficult topic for the examinees and barring a few of them, the majority was caught off guard. It also exposed their lack of knowledge regarding IASs. Those who attempted it, tried to write about depreciation and wear and tear of assets.

(b) *Computation of Goodwill* and *Recording the Purchase of a Business*:

The question required the students to compute the goodwills, to be paid by the purchaser to the seller if **(i)** the purchaser requires an average rate of return of 10% on net assets purchased. Excess average annual earning of four years is treated as goodwill, **(ii)** average annual earning is capitalized at 10% to determine the fair value of net assets and goodwill and **(iii)** preparation of journal entry in the books of purchaser to record this purchase under **(ii)** above. For part **(i)** and **(ii)**, the performance of the examinees remained below average. Most of them erred between average earnings and excess average earnings. Their lack of understanding of capitalization and determination of the fair value of the net assets also contributed to their poor showing. The part **(iii)** required a journal entry in relation to part **(ii)**, but with the exception of a few students, they could not produce correct journal entry. Some of the common mistakes that were observed included:

- ✧ Instead of using the term *purchase consideration* in the journal entry, they wrongly mentioned the accounts of cash, payable and capital.
- ✧ In addition, they omitted *liabilities* and included *net assets* in the journal entry.

(c) Preparation of Correcting Journal Entries:

The students were required to prepare the correcting entries to rectify four errors made in the previous year. The students responded very poorly to this part of the question. Only a few students were able to understand as to what was required. Most of them could not understand that these were prior year's errors and required adjustments in the retained earnings/capital. They treated them just normal adjusting entries and, hence, made adjustments in current year's expense and revenue accounts, which was uncalled for. Moreover, even the amounts of the entries were not correctly calculated.

Question No. 6

Cost of Goods Manufactured and Sold Statement, Income Statement, and Balance Sheet:

The requirement of this question was the preparation of **(a)** the *cost of goods manufactured and sold statement*, **(b)** the *income statement*, and **(c)** the *balance sheet*. Overall, the performance of the students was quite good. However, some shortcomings were noted, for future rectification by the examinees, as follows:

- ✧ Many students used *account form* instead of *statement form*.
- ✧ They erred in calculating the amount of, material consumed, manufacturing cost, cost of goods manufactured and cost of goods sold.
- ✧ In the balance sheet, they failed to classify the items into current assets, non-current assets, current *liabilities* and owner's equity etc.
- ✧ Some students wrote the non-current assets and their respective allowances for depreciation at the debit and credit sides respectively rather than showing the both on the debit side as net non-current assets.

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**EXAMINERS' COMMENTS
FALL (WINTER) 2008 EXAMINATIONS**

**BUSINESS ECONOMICS
Stage – 1**

SECTION "A"

Question No. 2

Mixed Economic System and its merits & demerits:

The question was not properly understood by majority of examinees. It required the description of "Mixed Economic System", by giving break up of structure into public, private, semi public or autonomous sector. Secondly the question asked for the merits and demerits to be explained. Large number of examinees did not adhere to the requirements. The examinees failed to discuss key characteristics of capitalism and socialism, cooperation among the three sectors, effectiveness of freedom, operation of fiscal and monetary policy, equal and unequal distribution of wealth and resources. The examinees could have earned good marks by adhering to the requirement of the question and explaining the three sectors of mixed economy along with their characteristics.

Question No.3

The causes for shift in demand and supply curves and effect on market equilibrium price:

The examinees were expected to state the causes of the shift in demand and supply curve and to differentiate from mere expansion and contraction of the curves which are due to price changes in accordance with law of demand. Moreover, easy marks could have been gained through graphical presentation of demand and supply and stating the revised equilibrium price with the help of an example.

SECTION "B"

Question No.4

(a) Differentiation of "Macro-Economic terms" with the help of an equation:

The examinees explained in details, the terms, but some did not use equation to illustrate their answers. Whereas, some tried but were not specific. For instance, in item (iii) where personal disposable income required deduction of "direct taxes". The examinees stated in general terms "Taxes". Very few explained correctly and obtained marks.

(b) Distinguish between Marginal Propensity to Consume (MPC) & Average Propensity to Consume (APC) and the relationship between MPC and Multiplier:

This was reasonably answered by majority of examinees with the exception of those who chose to offer comments only, instead of using formula to illustrate the concept.

Question No.5

(a) Advantages and disadvantages of direct and indirect tax system:

The majority of examinees instead of giving advantages and disadvantages of the direct and indirect tax system, gave their point of view about the "Tax System". It was surprised to note that the examinees were not aware of taxation as an important economic activity.

(b) 'Barriers' to free international trade:

The concepts of barriers was not clear, most of the examinees wrote on promotion of international trade, very few could muster, points like quota, custom duties etc.

SECTION "C"

Question No.6

(a) Explanation of "Agricultural Marketing":

The examinees showed poor knowledge, by stating the inputs and outputs of agricultural products like seeds, fertilizers and product like wheat, cotton etc. Minority of examinees showed know-how of total marketing concept, which explains the flow of goods and services from farm to customers and includes the activities like processing, storage, standardization, grading, chain of middleman, transportation etc.

(b) Problems of "Agricultural Marketing" in Pakistan and remedial measures:

The examinees focused their answers incorrectly by stating on "Problems of Agriculture" like storage of water, instead of "Problems of Agricultural Marketing" resultantly they discussed wrong remedial measures such as low yield per acre instead of availability of credit facilities to farmers, transportation from farms to market etc.

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**EXAMINERS' COMMENTS
FALL (WINTER) 2008 EXAMINATIONS**

**BUSINESS LAWS
Stage – 1**

SECTION "A"

Question No. 2

Explanation of legal terms (a) Plaintiff (b) Ratio Decidendi (c) Decree (d) Prima Facie evidence (e) Appeal:

It seems the examinees had ignored this area from their studies. The concept for these terms were virtually unclear and lacking miserably. With reference to item (b) above, some examinees related this to some mathematical concept and for item (d) the examinees thought the physical sense of the term as being "face to face" whereas legally it is "on the face of the case". It is hoped that examinees should have interactive sessions with their tutors, apart from descriptive learning.

SECTION "B"

Question No. 3

The question covered four separate aspects, namely:

(a) Distinguish "sale" and "agreement to sell":

Few examinees did explain clearly by comparing the two, others went on to define instead of furnishing the comparison between the two.

(b) Implied authority of a partner:

There were misconceptions about the implied authority with delegation of powers to a partner. Moreover, examinees were unaware of the section involved under the Partnership Act, 1932, which is S-19.

(c) Cheques vs. Bill of Exchange:

The examinees instead of differentiating the two went on to discuss common points or just defined these instruments.

(d) Definitions of Implied and Express Contracts:

These two types of contracts were not defined or illustrated through an example by the majority of examinees. Consequently the scripts depicted lack of knowledge as to the types of contracts on the part of examinees.

Question No. 4

There were four areas to be examined.

(a) Meaning of Exclusion clause in the Law of Contract:

The examinees knowledge of clauses and its interpretation in the Law of Contract Act, 1872 was not upto the mark, and requires further in-depth reading.

(b) Case problem involving arguments and legal concepts:

An approach of constructive arguments and common sense was missing. Moreover, the central idea of "notice of exclusion clause at the formation stage of contract" was not appreciated by many examinees.

(c) Case problem on formation of contract:

A practical question on the rules of offer and acceptance. The examinees were clearly unaware of the requirements to form a contract and as a result thereof, apart from few, gave incorrect answers on the rights of parties involved.

(d) Distinguish between “Bailment and Pledge”:

The examinees distinguished the features in general way, only few could properly plan their answers on specific characteristics.

SECTION “C”

Question No.5

Provisions for (a) Cleanliness (b) Over crowding (c) Total disablement under the statute:

Majority of examinees attempted this question but incorrect planning was seen, as more time and weightage was given to part (b) & (c) which had lesser marks as compared to part(a). The examinees showed lack of knowledge of various statutes.

Question No.6

(a) Conditions under the statute which allows the imposition of fines on negligent and wrongful acts of employees (b) Short notes on (i) Inspector of Factories and (ii) Certifying Surgeons:

The question was fairly attempted, however, generally the presentation by examinees was somewhat hasty and in summary form, showing improper time management due to incorrect allocation of time to each question. In part (a) examinees discussed “termination process” instead of required “imposition of fines” and in part (b) (i) & (ii) some used the term ‘Federal Government’ instead of ‘Provincial Government’.

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**EXAMINERS' COMMENTS
FALL (WINTER) 2008 EXAMINATIONS**

**BUSINESS ENGLISH
Stage – 1**

General Comments:

Instruction 'fresh question on fresh page' has been violated as usual by the examinees. This put the marker in hot water i.e., in totalling and posting of numbers.

Question No.2

(a) Change the voice:

Majority of the examinees failed to place the mark of interrogation at the close of the sentence. Examinees made many errors in writing of sentences as they did not know the basic rules of changing the voice. Often spelling was copied incorrectly, and the indefinite and definite articles were also used incorrectly. There were also subject-verbs agreement errors.

(b) Complete the sentences with the correct forms of verbs:

Majority of the examinees were not able to use the correct form of the verbs. The answers showed that basic rules of formation of tenses were not learnt and / or incorrectly applied. It is absolutely necessary that an examinee of English should know and practice tenses formation correctly. This would enable them to acquire skills to know, in any given context, the position of words in relation to each other, to make a sentence grammatically correct and meaningful as per intentions of the writer or speaker.

Question No.3

(a) Idioms:

Majority of the examinees had poor preparation in usage of idioms. Examinees tried to guess meanings from the words and ended up in giving a literal meaning or interpretation for example, "in black and white" examinees focused on the colour in their framed sentences. Moreover, the sentences, they made were grammatically incorrect. As Business English class examinees, these and other expressions should not have posed any problem. It was anticipated that satisfactory performance would be demonstrated as and when demanded. Proper usage of such expressions can be mastered after complete understanding during class room discussion and / or real life situations. It appeared that quite a few examinees had never learned the expressions given in this part of the question or they did not understand the meaning of some of the expressions.

(b) Synonyms & Antonyms:

This part of the question was a scoring one for examinees and majority of the examinees secured good marks. This simple exercise required linking of any five (5) words (out of given 8) from column 1 with their correct synonyms and antonyms listed in column 2 and 3 respectively. Given words were very simple. Here again, because of poor or incorrect understanding of meaning of these words, correct matching of chosen words was not reported by majority. Many examinees had linked more words than the required five. More and more of antonyms and synonyms should be learnt with complete understanding which may ensure correct usage in written and spoken English in given situations. Constant use of standard dictionary is also advised.

Question No.4

Complete the sentences with suitable words or phrases:

The performance of the examinees was very poor. The selected response items question proved difficult, since majority of the examinees provided incorrect responses. This was a unique question in the sense that the answers were before the examinees (as given in the question) and it was very easy to pick up the most appropriate answers from the choices given. The examinees are required to do much practice.

- (a) Making of most suitable choices of words / phrases for each of the five sentences from words listed against (a), (b), (c), (d) and (e) was the given task. Items were easy based on vocabulary structures, but examinees' performance was a clear evidence of their superficial language awareness and poor language usage with reference to all the four language skills.
- (b) The examinees revealed unfamiliarity with some common language expressions. Unsuccessful performance for this assignment is alarming. Examinees should know where do they stand with present performance.

Question No.5

Comprehension Passage:

Examinees' incorrect responses revealed that they did not get the meaning. Generally answers to questions 'a,b,c' were inappropriate. However, everyone managed to summarize the text but they could not stick to the required length. Their responses had syntactical errors and were not well thought or well constructed. Part 'd' was the most difficult question with most of the examinees attempted it wrong. The ones who managed to answer it, could not score good marks. Most of the answers reported poor and incomplete understanding of the passage. Similarly for (e) i.e., gist of making the passage could have been properly prepared and reported only when sound understanding of the passage acquired.

Question No.6

"Essay":

The question required examinees to write an essay of about 250 words on any one of the five given topics. The topics given were of wide range and variety. It was expected that examinees would produce meaningful writings of relevance and worth in this area of free composition. The answers produced, however, did not reflect relevant contents, coherence and / or logical development of matter. Paragraphing with correct syntax was also faulty. Spelling errors were many. Sentence structures were mostly weak. The three distinct parts: topics idea, supporting details and conclusions were not found in majority of scripts. Correct syntax, appropriate vocabulary and proper mechanics was not followed. Writing style did not match with the chosen topic mostly. Poor penmanship was demonstrated in majority of writings. Mostly the examinees selected topic (c) i.e., The impact of television cable channels on our society but a very few could do justice with the selected topic. While composing an essay, a writer must also apply rules of punctuation, sentence structure, conjunctions, verbs, active and passive formations, similies and metaphors etc. The skills that produce meaningful and relevant writing can be acquired through constant practice.

Question No.7

Letter writing:

The primary purpose of this question was to evaluate, through composed writings of examinees, ability and capability of examinees' skill in composing letters of different kinds in simple but correct form of expression. The scope and limitations for each given assignment was also determined in simple terms. Credit was to be earned for relevance and correctness of produced writings. In the letter written by the examinees the proper format of letter report writing was missing. In some of the letters proper salutation, content and subscription were also missing.

- (a) Majority of the examinees managed to point out the benefits of joint family system, which was the requirement of this part of the question. However, formatting and language style required more conscious focus.
- (b) Majority of the examinees did not understand the requirement of this part of the question. The given responses focused more on suggestions and recommendations. Punctuality and regularity was not emphasized as was needed in the question.

Question No.8

Letter to the friend:

Majority of the examinees could not perform well in this question. They could not develop proper story on the given theme. Some of the examinees instead of presenting a story, wrote letters to friends telling them stories. Organization, coherence and presentation of conceived material was distinctly poor. Poor penmanship, spelling faults, ignoring rules of punctuation, spacing and margin made these writings poor. The examinees are reminded once again that the message of a letter is, in effect, a theme, and as such it must be governed by requirement of good theme writing: clarity, force, correctness and appropriateness.

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**EXAMINERS' COMMENTS
FALL (WINTER) 2008 EXAMINATIONS**

**FUNDAMENTALS OF COST AND MANAGEMENT ACCOUNTING
Stage – 2**

Question No.2

(a) Benefits of costing system to the management:

The comments on the performance of examinees are as under:

The clarity of the concept was lacking. Some examinees only tried to explain the nature of a costing system instead of the benefits which it provides to the management. They tried to prove that “costing system” is for calculating unit cost of a product and it gives benefits to the company but failed to describe/ list out those benefits e.g., it indicates the reasons of increase and decrease of cost.

(b) Budget as essential cost planning tool:

Overall performance of the examinees was unsatisfactory. The contents of their answers were irrelevant. Most of the examinees presented the definition of budget. Different types of budget were explained which was not the requirement of question instead budgets are required to be described as a tool of forecasting, planning and controlling the activities accordingly.

Question No.3

(a) Departments for proper accounting and control of salaries & wages:

Majority of the examinees wrote irrelevant materials in their answers. Most of the examinees explained production and service departments instead of departments required for proper accounting and control of salaries and wages i.e., personnel, production planning and control, timekeeping, payroll and cost departments.

(b) Saving due to most economic lot sizes:

Overall performance of the examinees in this part of the question was quite unsatisfactory. Few examinees attempted the question successfully while majority restricted their answers to work out the Economic Order Quantity only and failed to comprehend other requirements of the question such as number of orders per year and ordering/ carrying cost in both cases of present and economic lot sizes, thus saving could not be determined.

Question No. 4

(a) Steps to establish departmental factory overhead (FOH) rates:

With few exceptions all answers were irrelevant. The examinees, instead of stating the steps required/ followed in establishing/ setting FOH rates, they explained the various bases available for working out the FOH rates or they gave formulae for calculating factory overhead rates. Few examinees got the crux of the question and mentioned the procedure of calculating FOH rates.

(b) Cost of the job:

This part of the question was wrongly answered by the majority. Some worked out the **total cost** using the data of previous month as given in the question paper instead of calculating the **cost of the job** for which the price had to be quoted while some committed casting mistakes in their calculations.

Question No.5

(a) Job order cost accumulation procedure:

Most of the examinees failed to describe the job order cost accumulation procedure i.e., allocating Job Order Number, assigning the costs as they incur to each job and described the areas (industries) of job order and process costing instead.

(b) Equivalent production units using FIFO and average costing:

Most examinees attempted the part but few were able to give the right answer. Determination of Equivalent Production is very important step of process costing. As such examinees are advised to study the topic of process costing carefully.

Question No.6

(a) & (b) Calculation of variances:

Some of the examinees did not know the difference between material usage and price variance while some could not explain or identify the variances as favourable or unfavourable which is serious omission and should be avoided in future attempt(s).

(c) Cost behaviour and profitability:

The question contained very brief data just to check analytical abilities of the examinees. Majority performed well, the others who failed to attempt it correctly are advised to study such basic concepts of the syllabus carefully.

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**EXAMINERS' COMMENTS
FALL (WINTER) 2008 EXAMINATIONS**

**MANAGEMENT & MARKETING
Stage – 2**

SECTION 'A' "MANAGEMENT"

Question No.2

(a) Critics on basic assumptions of planning:

Most of the examinees explained benefits of planning instead of criticizing the assumptions. This reflects two things, either examinees failed to understand the requirement of the question or had no idea of arguments. They wrote about planning, formal and informal planning, also its importance which was not asked. This was practical question calling for identifying the basic challenges of the assumptions of planning which may include:

- Planning may create rigidity.
- Plans cannot be developed for dynamic environment.
- Formal plans cannot replace intuition creativity.
- Planning focuses attention on today's competition not tomorrows survival.

(b) Key components of 'Human Resource Management (HRM) ':

Most of the examinees could not identify the skills that require upgrading an organization. This shows that examinees tried to memorize the key components of Human Resource Management (HRM) and did not focus on its application. The examinees were required to give the key components of human resource process for instance recruitment and derecruitment, selection, orientation, training, employee performance management, compensation and benefits, career development and current issues in Human Resource Management.

(c) 'Learning Organizations' and 'Knowledge Management':

Most of the examinees focused on explaining Learning Organizations and Knowledge Management, and ignored the second demand of this part of the question that was both these concepts are asset and bring positive results in dynamic environment. Constant innovations in information and computer technologies make the managers learn and respond quickly. These will help to manage the organization knowledge base and make needed changes. To be successful and to face dynamic environment one has to be ready for continuous learning and enhancing knowledge. The explanation of Learning Organizations and Knowledge Management was also not correct in most of the cases. This reflects that examinees had very weak concepts of these two concepts. Systemic gathering of knowledge and its sharing with others is very essential for companies' growth. This was very important question because innovation are coming up continuously and lack of awareness may result in business failure.

Question No.3

(a) Framework and characteristics of Job Characteristics Model (JCM):

Most of the examinees did not explain the Job Characteristics Model (JCM) framework, rather focused on explaining its characteristics only. This shows that the examinees had no concepts of JCM framework and had memorized the characteristics of it. The requirement of this part of the question was five dimensions of Job Characteristics Model (JCM) which include skill variety, task identity, task significance, autonomy and feed back. Very few examinees were able to answer it correctly.

(b) Organizational Selection Process; Importance of 'validity' and 'reliability' in the selection process:

Most of the examinees explained Organizational Selection Process in very general terms and did not include the important elements of selection process. Furthermore, examinees did explain validity and reliability of employees not of selection process. This reflects that the examinees had very weak concept of validity and reliability, specifically in relation to selection process. Similarly, examinees discussed organizational selection process satisfactorily but failed to reply the importance of 'validity' and 'reliability' in the selection process of human resource.

(c) Difference between 'transactional' and 'transformational' leadership:

It was a simple question required examinees to differentiate between 'transactional' and 'transformational' leadership. Most of the examinees failed to reply the question satisfactorily. These important dimensions of leadership must be crystal clear to examinees. Transactional leadership traditionally restricts itself to exchange of rewards for efforts, promises of rewards for good performance and recognizes accomplishment. Transactional and transformational are not at all opposing approaches as examinees think to getting things done whereas transformational leadership is one step higher that involves followers to transcend their own self-interests for the good of the organization and who is capable of having a profound and extraordinary effect on his or her followers.

SECTION 'B' "MARKETING"

Question No.4

(a) Selection of specific foreign markets before entering into global business:

It was very disappointing to note that many examinees did not answer the question satisfactorily. Various strategies of market entry into global businesses were required to be described. Instead of writing strategies of entering into foreign markets the examinees tried to explain other marketing terms / points. The requirements of this part of the question was to start with the free trade zones and regional markets (like NAFTA and SAFTA agreements), evaluating potential markets, and then giving the process of entering into the market, which includes direct investment, joint ventures, licensing, direct exporting and indirect exporting.

(b) Public relations:

The performance in this part of the question was satisfactory. However, many examinees mixed up public relations with advertising and hardly identified one or two tools correctly. This reflects that examinees were not conceptually clear about mass promotion. Tools of public relations are news, speech, special events, written material, audio visual material, corporate identity material and public services.

(c) Containerization/ Inter-model transportation:

Most of the examinees focused on explaining containerization only and did not touch upon the aspect of inter-model transportation. Their explanation was mainly based on the definition of containerization provided in the text book.

Question No.5

(a) Three levels of products and services:

Most of the examinees did not identify the three correct levels of product. It is observed that examinees got confused with three levels of product i.e., Core benefit, Actual product and Augmented product. This reflects that the examinees failed to understand the requirement of the question.

(b) Market Skimming Pricing and Market Penetration Pricing:

Market Skimming Pricing and Market Penetration Pricing were correctly attempted by majority of the examinees with situation, strategy, customer / consumer behaviour and costs.

(c) Specific factors while setting an advertising budget: Most of the examinees had very weak idea of the factors demanded in the question. This reflects that examinees did not study the topic in detail. Majority of examinees were unable to justify / answered to specific factors for setting an advertising budget that include stage in the product life cycle, market share, competition and clutter, advertising frequency, product differentiation etc.

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**EXAMINERS' COMMENTS
FALL (WINTER) 2008 EXAMINATIONS**

**BUSINESS MATHEMATICS & STATISTICS
STAGE-2**

SECTION - A

Question No. 2

(a) Linear Function:

This part was based on *linear function*, which required the students to (i) graph the equation, (ii) identify the *slope* and *y-intercept* (*n-intercept* in this case), and (iii) interpret the meaning of *slope* and *n-intercept*. It was a simple question but the majority failed to take advantage of the opportunity. Following errors were noted with concern:

- ✧ Most of the examinees failed to sketch the given *linear function* correctly.
- ✧ The interpretation of *slope* and *n-intercept* was not correctly known to most of them.

(b) Quadratic Function:

This part required students to determine the *quadratic function* passing through three given points. Hardly a few students were able to do it correctly. This topic seemed to be alien to most of them.

(c) Cost Function:

Requirement of this part was (i) determination of *cost function*, (ii) interpretation of the function when the number of units produced was equal to 200,000 and (iii) determination of the *restricted domain* and *restricted range* of the function when the maximum production capacity was Rs.300,000 units per year. This was a simple and marks-gaining question. Overall, the performance of the students was satisfactory; however, a good number of students could not determine the *restricted domain* and *range* correctly.

Question No. 3

(a) Maxima and Minima:

In this part, the *cost* and *revenue functions* of a product were given and the students were required to find out (i) the volume of output at which the cost would be minimum, (ii) the sales volume that would maximize the revenue, and (iii) using the principle that *the profits are maximized when the marginal cost equals the marginal revenue*, the calculation of the volumes of output and sales that would maximize the profits. The performance was satisfactory in this part; however, a good number of students ignored the second derivative test. The examinees need to realize the importance of second derivative test in locating *maxima/minima*.

(b) Mathematics of Finance:

The candidates were asked, here, to calculate the *interest rate* at which an investment of Rs.15000 would accumulate to Rs.24000 after six years, when compounded half yearly. This was an easy question and the performance remained satisfactory. Nevertheless, some students got themselves confused between *interest* and *annuity*.

(c) Definite and Indefinite Integrals:

This part was based on (i) *definite* and (ii) *indefinite integration*. Again a very simple question but the majority failed to get full advantage of the opportunity to secure easy marks. The part related to *definite integral* was attempted better than the other part. Surprisingly, the majority of the candidates did not know the basic concepts of integration.

SECTION – B

Question No. 4

Mean and Median Ages:

The examinees were asked to calculate the **(a) mean** and **(b) median ages** relating to a *frequency distribution* of a group of persons according to their ages. This was a marks-gaining question and the students performed satisfactorily. In spite of doing well, a large number of examinees had no clear concept of the topic.

Question No. 5

(a) Conditional Probability:

This part tested the knowledge of the students regarding *conditional probability*, where the majority failed to answer. The majority had no idea of the concept and method of finding the required probability. Just a few of the examinees could provide the correct answers.

(b) Linear Regression Model:

The candidates were asked to **(i)** find the equation of the regression line, **(ii)** graph the line on the *scatter diagram* and **(iii)** estimate the weekly sales, when the advertising costs were Rs.500. A good number of examinees managed to determine the *regression equation* correctly, however the understanding of the concept of regression seemed to be missing. The majority of the examinees had no idea of the *scatter diagram* and the *trend line*.

SECTION - C

Question No. 6

(a) Definitions of Floats, Total and Free Floats:

This was a marks-gaining part of the question that required the definitions of (i) floats, (ii) total and, (iii) free floats. The majority of the examinees failed to express these basic concepts correctly. It reflected their indifference toward theoretical part of the syllabus.

(b) Network Analysis:

This part was concerned with **(i)** drawing a *project network*, **(ii)** finding the *critical path*, and **(iii)** total duration of the project. Once again, the question was simple and offered easy marks to the students. They did grab the opportunity to some extent; however, they could have performed even better if they had given more time to this important topic. It was observed, in a number of cases, that the students had no idea of the *dummy activity*, and for that reason failed to draw the network diagram correctly.

Question No. 7

Optimization by Linear Programming using Simplex Method:

This question asked the students to **(a)** formulate the linear programming model for maximization of total profit and **(b)** solve the above using *simplex method*. As far as, part **(a)** was concerned, the examinees' performance was reasonable. In spite of this, a good number of students failed to include the *non-negativity constraints* in their formulation of the linear programming model. In part **(b)**, the performance of the examinees was very poor and left much to be desired. This part was straightforward and mostly the students knew the simplex method; however, their lack of practicing skills let them down.

**EXAMINERS' COMMENTS
FALL (WINTER) 2008 EXAMINATIONS**

**INTRODUCTION TO INFORMATION TECHNOLOGY (THEORY)
Stage – 2**

SECTION 'A' "HARDWARE"

Question No.2

(a) Advantages of Distributed Processing as compared to Centralized Processing:

Most of the answers lacked the concepts addressed in the question.

(b) Optical Storage Devices:

The performance of the majority of the examinees in this area remained average. While describing the 'Optical Storage Devices', a large number of examinees combined 'hard disk' and 'floppy disk' with CD and DVD etc., which is wrong because hard disks and floppy disks are in fact magnetic storage devices.

Question No.3

(a) Complex Instruction Set Computer (CISC) processor / Reduced Instruction Set Computer (RISC) processor:

There were few examinees who could mention the differences in the two types of processors.

(b) Biometric Devices used for human identification:

Majority of the examinees had sufficient knowledge of 'Biometric Devices'. It is therefore observed that most of the answers were correct and well-described. However, some examinees confused medical / biomedical devices with Biometric Identification Devices.

(c) Buses contribute to computer's processing speed:

Examinees seemed to have a good understanding of buses, and their importance in overall functioning of computers but only a few have answered as to how do they contribute in the computer's throughput. There were some who even went into the details of buses with respect to other hardware devices. While others were unable to relate the data rate with the processing speed.

SECTION 'B' "SOFTWARE"

Question No.4

(a) File-based system and Database Management System:

The overall performance in this part of the question remained below average. Despite the fact that Database Management System (DBMS) is one of the very basic topics, majority of the examinees could not appropriately describe the facilities provided by Database Management Systems that include improved strategic use of corporate data, reduced complexity of the organization's information systems environment, reduced data redundancy and inconsistency, enhanced data integrity, application-data independence, sharing the information, query ability, reduced application development and maintenance costs, improved flexibility of information systems, increased access and availability of data and information, logical and physical data independence etc.

(b) Visual Programming:

Very few examinees listed down the steps involved in Visual Programming. Majority of the examinees had no idea about visual programming, its features and its advantages and disadvantages. Only a few examinees were able to properly explain the major steps in programming that include specify program objectives, specify output / input requirements, specify processing requirements, review the feasibility of implementation program and documents analysis.

Question No.5

(a) End-User Computing (EUC); benefits and risks:

Examinees seemed to have no idea of what End-Use Computing is and they confused it with other concepts in distributed processing and networking. They were unable to support their answers with good examples. Furthermore very few were able to enlist the benefits and risks of EUC that include data entry (TPS), documents processing, data management, extract reports, scheduling, presentation, office automation applications that meet individual needs, management information system, expert systems and special software packages.

(b) Computer terminologies; (i) Groupware (ii) Middleware (iii) Netware and (iv) Utility program:

Examinees faced difficulty while attempting Netware. Regarding Netware (NOS) & Middleware, few examinees had given proper answers, otherwise, misconception and meaningless answers were given. Regarding Groupware and Utility Program proper answers were given by most of the examinees.

SECTION 'C' "NETWORK & SECURITY"

Question No.6

(a) Client Server Computing:

Majority of the examinees described the Client Server Computing with adequate elaboration, however, some of the examinees did not explain benefits and drawbacks of Client Server Computing that include the ability to distribute the computing workload between client workstations and shared servers, improved graphical interfaces for users, and improved performance at a reduced cost for hardware and software, the operating system software is distributed over many machines rather than a single system, the workstations are geographically distributed, and the workstations are administered and controlled by individual departments.

(b) Network devices; (i) Brouter (ii) Network Interface Card (iii) Token-Ring Network Architecture:

Examinees were not very clear about the roles and functionality of the network devices. They did not recognize that the question required a definition of Brouter and not Router. Examinees also confused Token-Ring with the Ring Topology. Although they share some aspects, but which were totally different networking architectures.

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**EXAMINERS' COMMENTS
FALL (WINTER) 2008 EXAMINATIONS**

**INTRODUCTION TO INFORMATION TECHNOLOGY (PRACTICAL)
Stage – 2**

WORD PROCESSING:

Examinees were required to attempt fill in the blank on the answer sheets and not on the question papers. Special attention was required on font type, font style, font size, justifications and overall presentation. It was observed that the performance of the majority remained average in this question.

SPREADSHEET:

Average performance was noted in this question. Some examinees mistakenly drew the bar chart whereas they were asked to draw a line graph. A little emphasis on the following points may help in a better performance: Proper heading / column heading and row caption, proper entries of given data, use of correct numeric and / or currency formats. Examinees must consider and may have a double check on formulae, specially on conditional formulae to cross check as to whether the required conditions are fulfilled or not, so that a corrective action could be taken at the appropriate stage. Use of proper legend and labels on the chart is also required.

DATABASE OR PEACHTREE:

DATABASE:

The performance of the examinees remained below average in this part of the question. Examinees failed to understand that data posted inside a database is “live” in nature and may invalidate the required output if a proper database structure and proper numeric / alpha numeric formats are not used. Examinees should be careful about the entry of data which is not a logical error but an input error, and these errors produce incorrect output. Special attention should be given to data formats.

PEACHTREE:

The question of Peachtree was favourite to the majority. However, frequent errors were found in the balance sheets. Some examinees unnecessarily provided the income statement and general ledger which were not required. It was also observed that many examinees committed mistakes of data input. This type of entry errors totally invalidate the answers which are based on numeric values. Examinees must understand that a proper chart of account is a basis for this system. Special care must be taken while making chart of Accounts.

POWERPOINT:

Majority of the examinees tried to attempt it but were unable due to lack of practice. Other common mistakes, observed were not using the required fonts, incomplete matter in the slide, inappropriate size of text / picture, missing box, missing picture and missing legend etc. In making presentations special attention has to be given for the general / overall presentation of the slides. Placement and appropriateness of the graphic pasted is of importance and must be given due consideration.

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**EXAMINERS' COMMENTS
FALL (WINTER) 2008 EXAMINATIONS**

**FINANCIAL ACCOUNTING
Stage-3**

Question No.2

(a) Adjusting and Non-adjusting Events:

This part asked the candidates to describe the difference between *adjusting* and *non-adjusting events* with at least three examples of each one. The performance of the examinees was not up to the mark, the reason being lack of coverage of IAS-10 as per their syllabus. Those who did provide the required definitions could not support their answers with examples as required by the question.

(b) Separate and Consolidated Income Statements of a Branch and its Head Office:

This part concerned with the preparation of (i) income statements of Karachi branch and its Head Office, and (ii) their consolidated income statement. The question was straightforward and most of the students got pass marks. However, the majority could not produce solution accurately. For instance, they were not able to compute the adjustment for *unrealized profit* and, consequently lost some marks. Overall, the examinees performed well in this part of the question but the problem needs to be identified at classroom level whether the misinterpretation of the requirement is simply a comprehension problem or there is any misunderstanding regarding the basic concepts.

Question No. 3

Consignment account, Consignee account and Goods Sent on Consignment account:

This part required the students to prepare (i) the consignment to Karachi account, (ii) Super Store, Karachi (i.e. the consignee) account and (iii) goods sent on consignment account. This question was simple and provided a good chance for the examinees to secure good marks. The examinees did grab the opportunity with both hands. Those who could not fully take advantage of the opportunity committed the following common mistakes:

- ✧ They erred in posting the bills receivable.
- ✧ The discount was made a part of the consignment account.

Question No.4

(a) Definition and Salient Features of a Partnership:

The examinees were asked to (i) define a partnership, and (ii) describe its salient features. The majority of the examinees defined a partnership correctly, but could not give salient features properly. Most of them wrote about the process for the admission of a partner, or death of a partner instead. It showed their lack of knowledge toward the theoretical part of the syllabus.

(b) Retirement of a Partner, Partners' Capital Accounts and Balance Sheet:

This was related to (i) the preparation of journal entries regarding the retirement of a partner, and (ii) preparation of the partners' capital accounts and balance sheet after incorporating these changes. It was an easy question based on the *partnership accounting*. Although the performance of the students was reasonable, it left a lot to be desired. With proper preparation, they could have obtained more marks than they actually got. In general, they committed the following mistakes:

- ✧ They failed to close the *reserve account* and, thereby, credit the capital accounts of the partners.
- ✧ The journal entries were not made correctly and hence capital accounts and balance sheet were also affected.

Question No. 5

Calculation of Financial Ratios:

The requirement of the question was the calculation of the following ratios:

(i) Current ratio (ii) Quick ratio (iii) Debt ratio (iv) Debt to total equity ratio (v) Times interest earned (vi) Accounts receivable turnover (vii) Inventory turnover (viii) Net profit on sales (ix) Gross profit margin (x) Return on assets (xi) Return on equity (xii) EPS (xiii) P/E ratio (xiv) Dividend yield (xv) Dividend payout ratio (xvi) Book value per share (xvii) Return on capital employed (xviii) Capital gearing (xix) Leverage (xx) Dividend cover.

The majority of the examinees performed well while dealing with the commonly used ratios like current ratio etc. However, when confronted with the task of computing the dividend payout ratio, capital gearing ratio, dividend cover etc., their lack of knowledge and inadequate preparation let them down. Besides, there were calculation mistakes as well. Nevertheless, on the whole, their performance remained quite satisfactory.

Question No. 6

(a) Income Statement of a Limited Liability Company, Proposed Dividend and its Accounting Treatment:

This question asked the candidates to (i) prepare an income statement for a limited liability company and (ii) calculate the amount of proposed dividend and provide an explanation of the treatment thereof, in the financial statements of the company for publication. Very poor performance was noted in this question despite the fact that the question was not difficult at all. Only a few students could produce accurate income statement. The following shortcomings were particularly noted:

- ✧ Carriage outward was treated as a part of the cost of sales.
- ✧ In most cases, the students were not able to calculate the sales revenue correctly.
- ✧ Even the computations of the depreciation and administrative expenses were found to be wrong.
- ✧ With a few exceptions, the examinees were of the view that the proposed dividend is to be reported as current liability in the balance sheet.

(b) Application of IAS-16 in an Asset Exchange Transaction:

In the light of IAS-16, *Property, Plant and Equipment*, the students were asked to (i) calculate the cost of a new machine, (ii) compute the gain/loss incurred in the exchange transaction, and (iii) record the transaction in the books of the company.

With the exception of a few students, no one could solve it correctly. In most cases, they even did not attempt this part of the question, which indicated their failure to cover this topic while preparing for the examination. Those who did attempt it, committed the following mistakes:

- ✧ Computation of cost of the new machine was done without taking into account fair value of the old machine.
- ✧ Moreover, the loss on exchange was not calculated properly.

**EXAMINERS' COMMENTS
FALL (WINTER) 2008 EXAMINATIONS**

**BUSINESS TAXATION
Stage – 3 / Professional – II**

Question No.2

(a) Amendment of assessments under section 122 of Income Tax Ordinance, 2001:

The responses from examinees were not satisfactory. The examinees gave fewer than the required points. This reflected lack of reading of the statute. Some examinees incorrectly mentioned the powers of the tribunals with respect to amendment of assessments.

(b) How additional payments for delayed refunds from the tax department becomes payable to tax payer under section 171 of Income Tax Ordinance, 2001:

The misinterpretation of this part of the question was evident from examinees' scripts which reflected that this additional payment was due by the tax payers. There were short answers, some stated incorrect rate of fine, whereas others stated incorrect penalties which could be imposed by the department on tax payers.

(c) Definition of "Small Company" under section 2(59A) of the Income Tax Ordinance, 2001:

Generally easy marks were scored by the examinees, however, several stated irrelevant details and some defined it as a cottage industry as prescribed in Sales Tax Act, 1990 and others as a private company as per the Companies Ordinance, 1984.

Question No.3

(a) "Loss carried forward" under the heads (i) Income from business (ii) Speculation business losses (iii) Capital losses:

The examinees lacked in-depth study of the topic. The professional approach to the answer was missing. The examinees omitted carryforward rules for the un-absorbed depreciation portion and priority of set-off in future years. The carryforward policy for industrial undertaking set up in Export Processing Zone of Pakistan in future years was not stated.

(b) (i) Set-off and carry forward of losses of AOPs and (ii) Computation of loss to be carried forward by the firm:

The examinees generally gave satisfactory answers however, small number of examinees were unaware as to the status of "AOP" and the partners individually.

Question No.4

Computation of total income and tax liability for an individual:

The overall performance of examinees were not satisfactory for a practical question requiring several numerical and qualitative concepts. The examinees showed lack of practice, methodical approach and know-how on latest Tax Laws and rules in vogue. The examinees committed glaring mistakes of key points such as omission of property income, flying allowance as separate block of income. They made wrong treatment of personal expenditures like, children education, books purchased including receipts like birthday present, insurance receipts etc.

Question No. 5

Computation of sales tax liability of a company:

The examinees were unaware of Sales Tax Laws. The examinees' scripts reflected lack of updated knowledge as to the rate of sales tax applicable. Moreover, the examinees could not correctly apportion input tax, based on the apportionment formula.

Question No. 6

**Provisions applicable as per the statutes as to (a) (i) Special Excise Duty (ii) Default Surcharge
(b) (i) Rounding off of Duty (ii) Minimal duties not to be demanded:**

Generally the examinees showed lacklustre approach and gave irrelevant answers based on general knowledge and avoided concise and specific answers to each of the above. For instance, in the case of "Rounding off of Duty" it was interpreted by examinees to be paisas 0.50 to a rupee when it should have been Rs.50 or more to be increased to Rs.100 and if less than Rs.50 duty to be ignored.

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**EXAMINERS' COMMENTS
FALL (WINTER) 2008 EXAMINATIONS**

**COST AND MANAGEMENT ACCOUNTING – PERFORMANCE APPRAISAL
Stage – 3**

Question No.2

Marginal costing and absorption costing:

It was very simple and easy question that required examinees to (i) prepare income statements under marginal and absorption costing (ii) work out under/ over applied overhead and (iii) comments on the total income under both methods but most of the examinees were not able to answer it properly. Some examinees found totally ignorant and careless as they were unable to identify the figures of million and thousand. They also rounded off the figures in thousand by deleting "0000" (four zeros). They failed to work out value of ending/ beginning inventories under both methods. The fixed cost per period under marginal costing was wrongly treated. Following common mistakes were also committed by most of the examinees:

- (a) Each period working was made separately which wasted lot of time.
- (b) Under/ over applied overhead was adjusted with inventories.
- (c) Errors in calculating fixed and variable factory overhead.
- (d) The term "Gross Profit" was wrongly used in marginal costing.

Many examinees just calculated the difference of profit under both methods but failed to reconcile them. They commented on irrelevant issues.

Question No.3

Process costing:

Overall performance of the examinees was not satisfactory. Few examinees were able to answer all five parts of the question. Some could pass (i) journal entry of cost incurred only. While some calculated (ii) equivalent production units but failed to work out (iii) cost per equivalent unit. (iv) Journal entry to record cost of goods completed and transferred to stitching department was generally ignored or incorrectly passed. Poor performance was also noted in preparing (v) work in process account of cutting department which was incorrectly prepared by almost all examinees. Examinees are advised to learn the principle of debiting and crediting the account heads because wrong journal entries and T-accounts are not expected from an aspiring Cost & Management Accountant. Moreover, they should study all the topics of the syllabus carefully covering the main/ specific points.

Question No.4

(a) Methods of standard costing:

The reply to this theoretical part of the question was discouraging. This was very simple question but most of the examinees were confused and totally failed to indicate/ explain "partial" and "single" plan. They wrote great deal in explaining the methods which were not relevant to the question.

(b) Comparative income statement and analysis of variances:

Most of the workings and calculations were inaccurate and unidentifiable. Some examinees calculated the variances correctly but failed to identify them correctly as favourable or unfavourable. As a result they failed to prepare correct comparative income statement. They also failed to present the answers systematically i.e., in tabular form showing Budget, Actual, Net Variances and Break up of Variances. A large number of examinees did not provide break up of cost of goods sold by elements of cost. Another common error was miscalculation of overhead. In view of the variety of mistakes, examinees are advised to take care of their studies because such errors are not expected from the students at this level.

Question No.5**Budgeting projected income statement:**

Most of the examinees either did not attempt or incorrectly attempted the question. The main problem observed was incorrect classification of variable and fixed costs. Majority committed mistakes in calculating the expected figures of various expenses items.

Question No.6**Analysis of divisional performance:**

Examinees committed mistakes generally in calculating “residual income” and “profit growth”. The ratio of capital employed turnover rate is very simple but some examinees showed inability to calculate it correctly even some were not clear as to which amount to be taken as numerator or denominator. It is advised that examinees should give special attention to such analytical topics as they are directly related to management accounting profession.

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**EXAMINERS' COMMENTS
FALL (WINTER) 2008 EXAMINATIONS**

**PRESENTATION AND COMMUNICATION SKILLS
Stage – 3**

Question No.2

Communication cycle:

Majority of the examinees completely misunderstood this question. The examinees described the entire communication cycle and elaborated each and every component / stage of this cycle. There were no examples to support the importance of the context and if examples were given they were not supporting the actual focus of the question. Most of the examinees explained in details communication cycle which begins with the sender and ends on feedback. This was never asked. The requirement was to justify the significance of context consideration in communication. Few examinees fulfilled the requirement satisfactorily and justified the answer with real life examples.

Question No.3

(a) Drafting a circular regarding the late coming problem of the employees:

Most of the examinees were able to draft a circular regarding increase in complaints of lateness of the staff along with measures to overcome the problem successfully. Examinees could not understand what was asked in question. It was a circular but examinees produced simple memo.

(b) Drafting a report regarding consumer preferences about the product(s):

Examinees were supposed to draft a report for the company highlighting the market conditions and consumer preferences about the product(s). Most of the examinees replied in letter form, whereas it was clearly mentioned to draft a report. At this stage examinees should be more careful in meeting the requirement of a question.

Question No.4

Ethical issues of business; (i) Defamation (ii) Plagiarism (iii) Discrimination:

The definitions and explanations of the terms produced by the majority were also incorrect or incomplete. Examinees could not give suitable examples to elaborate the legal implications of these issues on businesses. The question was about three aspects of ethics in business. Many examinees were supposed to discuss each separately. However, many examinees produced irrelevant details. Some examinees gave headings of the topic and tried to mislead the examiners by writing nonsense paragraph.

Question No.5

(a) Four-step organizational plan for writing a negative / bad news message:

Majority of the examinees managed to score marks in this part of the question. However, a few examinees wrote the entire letter which was not needed and in the letter they did not highlight the four stages. It was nice to note that majority of the examinees were able to state four-step plan for writing negative / bad news message.

(b) A letter seeking details of an exhibition held by Chamber of Commerce:

This letter was comparatively easier as evident from the examinees' responses. Few problems that were found in their answers were: improper letter format and appropriate elements, using list for seeking information related to several questions, actual awareness to the actual organizational situation targeted through the given question, inappropriate addressee etc. It was disappointing to note that some students drafted the letter requesting details of the exhibition from colleagues within the organization. Each examinee is supposed to read the question very carefully. They started with memo structure and ended up on letter format.

Question No.6

(a) A persuasive memo using AIDA approach:

AIDA approach was not fully reflected in the different parts of the letter(s) produced by the examinees. A few examinees wrote a report with separate headings instead of a persuasive memo. The suggestions and language did not reflect as if it is written from Manager Sales. Examinees should produce such a persuasive letter that grab the attention, create the interest and desire of the readers so that they are convinced to take action.

(b) Advertisement Cheats:

The replies were given from examinees' personal understandings and experiences. Generally, the answers were vague and incomplete. The given information was very common and appropriate examples were not given in order to justify the given comment. The language was faulty, inaccurate vocabulary items were used, and punctuation and organization were ignored.

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**EXAMINERS' COMMENTS
FALL (WINTER) 2008 EXAMINATIONS**

**ADVANCED FINANCIAL ACCOUNTING AND ANALYSIS /
ADVANCE FINANCIAL ACCOUNTING
Stage-4/Professional-II**

Question No. 2

Preparation of *Statement of Cash Flows*:

Almost all the examinees attempted this question. The overall performance was satisfactory. Most of the examinees grasped the requirement of the question. However, it was observed that the examinees did not have complete mastery over the topic. Following deficiencies were particularly noted:

- ✧ There were many examinees who did not add back the *financial charges* into the *profit before tax* while making the *non-cash adjustments*.
- ✧ There were many who did not correctly calculate the increase in *loans, advances and prepayments*. Moreover, some examinees could not show the increase in *due from associated undertakings* in the *cash flows from operating activities* under the sub-heading of *changes in working capital*.
- ✧ There were many examinees that were not able to correctly calculate *interest paid, taxes paid, long-term loan obtained, and dividends paid*.
- ✧ While calculating the *fixed capital expenditures*, some of the examinees did not take into consideration *capital work in progress* along with the *fixed assets*. Besides, many examinees did not show *interest received* under *cash flows from investing activities*.
- ✧ *Workings* were the integral part of the question. Many examinees showed the debit items on the credit side and vice versa. Moreover, they did not aggregate the items shown on the debit and credit sides, while finding the *balancing figures*.

Question No.3

Preparation of *Consolidated Profit and Loss account*:

The examinees performed well in this question. However, a few observations are as under:

- ✧ A large number of examinees did not follow the proper format of the *consolidated profit and loss account*.
- ✧ There were also many examinees who did not calculate the intra-group profit adjustment on closing inventory.
- ✧ Only a few examinees correctly stated that impact of sales by Small Ltd to Big Ltd would be nil, as there was no inventory at the year end.
- ✧ Many examinees calculated the *goodwill at acquisition*, although it was not required.
- ✧ Some of them failed to calculate the *minority interest* in the *profit after tax* of Small Limited.
- ✧ They failed to split the investment income into dividend income from Small Limited and income from other investments.

Question No.4

Calculation of (a) *Net profit margin*, (b) *Return on assets*, (c) *Assets turnover* and, (d) *Return on owners' equity*:

It was a simple question on *ratio analysis* but the examinees were unable to take advantage of it. Some of the mistakes that were discovered in relation to part (a) to (d), are as under:

- (a). A few students wrongly calculated the *net profit* instead of *net profit margin*.
- (b). Many examinees did not apply the correct formula while calculating the *return on assets*.
- (c). There were a large number of examinees who expressed the *assets turnover* as 0.9% instead of 0.9 times.

(d). While calculating the *return on owners' equity*, the examinees were required to divide the profit available to the ordinary shareholders by the owners' equity; however, a few examinees wrongly took the *earning before interest and tax* in the numerator. Moreover, a few of them used the *capital employed* in the denominator instead of *owner's equity*.

Question No.5

- (a). The students were required to discuss the difference between the *accounting profit* and the *taxable profit* in this part of the question. Almost all the examinees were able to explain the *taxable profit*, but there were hardly a few of them who correctly mentioned that *accounting profit* of a concern is actually *earning before tax*.
- (b). The requirement of this part was to list out the circumstances under which a group of contracts, whether having a single customer or several customers, shall be treated as a single construction contract. The overall performance was not satisfactory in this part of the question. There were comparatively a very small number of examinees who correctly listed the above occasions. Otherwise, most of the examinees produced irrelevant answers.
- (c). The examinees were asked to name the five characteristics of the economic environment, which indicate hyperinflation as per IAS-29, *Financial Reporting in Hyperinflationary Economies*. The overall performance remained good in this part of the question. Most of the examinees succeeded in naming the required five characteristics. However, there were some examinees who did not prepare well for the topic, which was quite clear from their irrelevant answers.
- (d). The task for the students, in this part, was a description of the requirements of *Prudential Regulations* with reference to credit rating. An extremely poor performance was observed in this part of the question. There was hardly any examinee who could justify his / her arguments. It was quite clear that the examinees were not conversant with the requirements of *Prudential Regulations* especially with reference to credit rating.

Question No.6

- (a). The examinees were required to define, with examples, (i) *currency risk*, (ii) *credit risk*, and (iii) *liquidity risk* in relation to IAS-32, *Financial Instruments: Disclosure and Presentation*. An extremely poor performance was observed in this part of the question. Only a small number of the examinees were able to justify their answers and had given relevant examples. It indicated their lack of preparation for the topic and, therefore, they could not grasp the requirement of this part.
- (b). This part tested the knowledge of the students regarding the conditions under which an entity could offset a *financial asset* with a *financial liability* and present a net amount in the balance sheet. Although, nearly all the examinees attempted this part of the question, but sadly only a few of them could correctly mention the required conditions. Most of them responded with irrelevant answers.
- (c). (i) This part of the question required a description of the disclosure requirements for a *finance lease* in the financial statements of a lessee, as required by IAS-17, *Leases*. Although, nearly all the examinees attempted the question, it was quite evident that the examinees did not prepare the topic thoroughly and they had just a vague idea of the disclosure requirements for a *finance lease*. (ii) An explanation of the treatment of the *gain on sale of fixed assets* under the *sale and leaseback* arrangement was needed, in this part. With the exception of a few students, almost all the examinees performed extremely well in this part of the question.

**EXAMINERS' COMMENTS
FALL (WINTER) 2008 EXAMINATIONS**

**INTEGRATED MANAGEMENT
Stage – 4**

Question No.2

(a) Three modes of formulation process namely-entrepreneurial mode, adoptive mode and planning mode:

It was noted that most of the answers to this question was not satisfactory. Some of the examinees mixed up the characteristics of different modes. They mistakenly described definitions rather than their characteristics which include the following:

Entrepreneurial mode:

- Strategy making is dominated by active search for new opportunities.
- Power is centralized in the hands of the chief executive.
- Strategy making is characterized by dramatic leaps forward in the face of uncertainty.
- Growth is the dominant goal.
- Lends itself to organizations that are small and / or young.

Adaptive mode:

- Clear goals do not exist; strategy making reflects a division of power among members of a complex coalition.
- The strategy-making process is characterized by the “reactive” solution to existing problems rather than the “proactive” search for new opportunities.
- Makes its decisions in incremental, serial steps.
- Decisions are disjointed.
- Lends itself to large established organizations with great sunk costs and many controlling groups holding each other in check.

Planning mode:

- Analyst or planner plays a major role in strategy making.
- Focuses on systematic analysis, particularly in the assessment of the costs and benefits of competing proposals.
- Characterized above all by the integration of decisions and strategies.
- Lends itself to organizations of reasonable size that do not face severe and unpredictable competition.

(b) Role of CEO of an export firm in the strategic management:

Most of the examinees understood the requirement of the question and thus answered correctly. They were able to explain their view points and explained each role correctly. A few examinees did not have complete command on the topic which was actually asked in the question. The potential role of CEO would be to set guidelines for delegation decision making and to give operating managers an idea of what top management expects.

Question No.3

(a) Socially responsible actions taken by Pakistan's industrial and corporate sector:

It was a very easy question to score good marks but the overall performance was below average. Majority of the examinees had no idea of social responsibilities and wrote about HR plan of the organization, consequently lost marks. Major socially responsible action would include hiring the hard-core unemployed, hiring minorities, contributing human resources and / or money to charitable and welfare organizations, contributing money to educational institutions, supporting community projects such as renovating urban areas, ensuring the quality of products and services produced etc.

(b) Liberalization of industries in Pakistan:

Very general answers were given. Examinees generally scored average marks. The provided answers clearly showed lack of preparation and knowledge. It was also noted that few examinees took the term liberalization as 'Labour' and thus discussed labour and labour unions role in the industry. The liberalization of industries in Pakistan is characterised by getting rid of operation or investment in anticipation of higher fee offered by bidder and soon discovers the incapacity, inability of bidder to respect contract terms, transfer of risk not sufficiently covered in the contract, re-negotiation of contract may be required due to insufficient financial feasibility study and due to rushed Government decision etc.

Question No.4

(a) Key stakeholders of a project:

Nearly all the examinees correctly understood the question and they were able to identify the key stakeholders of a project i.e., project manager, customer, performing organization and sponsor. Examinees scored very good marks in this part of the question.

(b) Areas of performance to enhance the capability of a project team:

It was an easy question but examinees generally did not score good marks. Answers were very general in nature. Very few examinees were able to answer this part of the question by touching upon the area of performance such as volume of work, range of skills, brainstorming, collective decision, feeling of mutual report, motivation, support for each other, reward etc., correctly.

Question No.5

(a) Kerzner five-level model of continuous organizational improvement in project management:

It was disappointing to note that a large number of examinees either could not attempt the question or did it incorrectly. It was the worst attempted question. Almost all the examinees flunked in this question and did not score good marks. Examinees literally had no idea of the model which has five elements namely common knowledge, common processes, singular methodology, benchmarking and continuous improvement.

(b) Project plan guide, project execution and project control:

This was a simple question. Examinees explained project plan and were unable to relate it with project execution and project control which was in fact the essence of the question.

Question No.6

(a) Various phases of team implementation; Essential team issues using team performance curve:

Some of the examinees were able to explain various phases of team implementation i.e., start up, reality and unvest, leader centred teams and tightly formed teams. However, second part of the question i.e., to explain essential team issues using team performance curve was either missed by the examinees or attempted incorrectly. Examinees confused this question with group development phases and lost marks. The team performance curve may help in addressing team issues by organizations expect immediate good results when they implement teams. The change process must start at top and works its way down throughout the organization.

(b) Various steps evolved in organization's cultures in logical order:

A number of examinees answered the question related to culture and its various steps evolved in organization culture in logical order. Few examinees could not understand the requirement of the question and thus answered it in a vague manner. Examinees were unable to mention more than three points, consequently they could not score good marks. The steps include formal statements of organizational philosophy, mission, vision, values and materials used for recruiting, selection and socialisation.

Question No.7

(a) Five stages of group development:

Examinees mixed up this part of the question with phases of team implementation. This shows nonseriousness regarding preparation for examination. The five stages of a group development are forming, storming, norming, performing, and adjourning.

(b) Actions to improve ethical environment of organization:

A number of examinees attempted the question related to ethical environment correctly. It was nice to note that examinees view point were correct and upto the mark such as behave ethically yourself, screen potential employees, develop a meaningful code of ethics, provide ethics training, reinforce ethical behaviour, create positions, units and other structural mechanism to deal with ethics.

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**EXAMINERS' COMMENTS
FALL (WINTER) 2008 EXAMINATIONS**

**CORPORATE LAWS & SECRETARIAL PRACTICES
Stage – 4 / Professional–II**

SECTION 'A'

Question No. 2

(a) Conditions for issuance of shares to the public on premium:

The specific requirement was the “conditions”, however the examinees chose to explain the “process” for issuance of shares on premium. Some digressed from the main stream and went onto discuss “management consideration” in issuance of shares on premium which was uncalled for.

(b) List of purposes for utilization of “share premium account”:

The examinees were asked to list the purposes of “share premium account” from section 83(2) of the Companies Ordinance, 1984. The examinees in general identified writing-off preliminary expenses of the company and ignored several other uses, such as issuance of bonus shares etc.

(c) Usage of share premium account originating before commencement of the Companies Ordinance, 1984 and its use thereafter to write-off the expenses on issuance of shares or debentures of the company:

Most of the examinees answered it correctly in affirmative, however section 83(3) was not stated in their answers.

Question No. 3

(a) Individual and collective rights of members under the Companies Ordinance, 1984:

Generally, the examinees were aware as to the rights of shareholders of the company. However, they had problems in segregating them on individual and collective bases. Instead, the examinees mixed up the rights vested by different sections of the Companies Ordinance, 1984. Some of the examinees confused the rights with appointment of secretary, filling casual vacancy of directors etc.

(b) Circumstances under which termination of membership of a shareholder occurs:

The examinees could not produce satisfactory responses, instead provided vague answers, for the removal of directors, irrelevant reasons of termination like “illegal activities”, or action of shareholders that damage the image of the company were given. The examinees should have explained the required circumstances like transfer of shares, transmission of shares etc., to substantiate their answers.

SECTION 'B'

Question No. 4

(a) Powers and functions of the Commission (Securities and Exchange Commission of Pakistan Act, 1997) – (SECP):

The examinees in general were unaware of specific clauses of SECP Act, 1997. The examinees incorrectly focused on other irrelevant issues of the Companies Ordinance, 1984.

(b) Conflict of interest under the SECP Act, 1997:

Similarly the knowledge of examinees were clearly lacking in this area and the concept of the topic was misunderstood.

(c) Disclosure of conflict of interest:

The reasons for failure are similar to that of part (b) above.

SECTION 'C'

Question No. 5

Drafting as per secretarial practices (a) Notice of Annual General Meeting (b) Directors "Resolution by Circulation":

The examinees had not paid attention to the secretarial practice part of the syllabus which is the practical aspect of the Companies Ordinance, 1984. With few exceptions examinees had no clue on drafting, layout, and practical aspects / stipulations i.e., "ordinary business", "relevant authority" etc., required in framing the notices in (a) and (b) above. It is evident that, the examinees are not reading financial business section of good newspaper.

Question No. 6

(a) Actions of promoters before incorporation of a company:

The examinees scripts reflected confusion on the difference between pre & post incorporation activities of the promoters. Moreover, in this part the examinees wasted considerable time on the definition of "promoters" instead of the activities such as launching of the companies.

(b) Documents required for the incorporation of a company:

In this part of the question, examinees instead of discussing documents required for incorporation, they mentioned items like, prospectus, certificate for commencement of business which were post incorporation activities. In addition, the examinees omitted details of various forms i.e., 1, 21, 27 to 29, instead incorrectly mentioned the form 26, for filling with the Commission.

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**EXAMINERS' COMMENTS
FALL (WINTER) 2008 EXAMINATIONS**

**FINANCIAL REPORTING
Stage – 5/Professional-III**

Question No. 2

(a) Rent-Free Period in a Lease Agreement:

The question was aimed at testing the knowledge of the students regarding treatment of *rent-free period* in a lease agreement. They were required to determine the amount of expense charged by the lessee each year in the rent-free period and in the remaining period of the lease agreement. In addition, they were supposed to find out the income recognized by the lessor each year during this period. The response to the question was poor; as it appeared that the students did not thoroughly study the respective section of IAS-17, *Leases*. As a result, most of the students ended up discussing the *finance* and *operating leases* instead of providing the required treatment during the rent-free period in a lease agreement.

(b) Government Grants and Assistance:

It was a straightforward question requiring the students (i) to explain the treatment of government grants related to the assets as per IAS-20, *Accounting for Government Grants and Disclosure of Government Assistance*, and (ii) to prepare the relevant extracts from the balance sheet. The response was below average. The following deficiencies were discovered in their replies:

- ✧ The depreciation was, in general, correctly computed, however, most of the students did not use appropriate format and, hence, spent too much time on superfluous detail.
- ✧ Some of the students failed to realize that the grant was *receivable* and *had not been received*.
- ✧ Many students provided correct but irrelevant details, for example, definitions etc., and therefore wasted their precious time.
- ✧ In the extract from the balance sheet, almost every one gave details of each item of the *property, plant and equipment* instead of giving a single figure and providing the details in the notes/depreciation schedules.
- ✧ The grant was related to the building and the plant and machinery, but some of the students depreciated the land as well, which was uncalled for.

(c) Gearing Ratios:

This part of the question required the examinees to calculate the *gearing ratios* using (i) book values and (ii) market values. It was an easy question but the response was not satisfactory at all. The following mistakes were noted:

- ✧ Astonishingly, a large number of students did not know the correct formulas to calculate the required values.
- ✧ The students did not know that when the equity is taken at market value, *share premium* and *retained profit* is not added, since the market value already includes the effects of these items.
- ✧ Many students failed to add preference shares to the debt.

Question No. 3

Statement of Cash Flows:

This question asked the candidates to prepare the *statement of cash flows*. It elicited an average response from the students. No doubt, the question was a bit demanding; however, the students at this level should be able to solve such questions. Some of the common mistakes committed by them are as under:

- ✧ A few of them used the format of *funds flow statement*.
- ✧ They showed inflow and outflow as “Dr” and “Cr” or with “+” and “–” signs.
- ✧ A lot of cutting and overwriting created problems in the final analysis of the question.
- ✧ Some examinees just calculated the final figure after balancing and reconciling the opening and closing cash balances.
- ✧ Incorrect computation of profit.
- ✧ Inability to compute amortization of discount and expense of 4% certificates of investments (COIs).
- ✧ Inability to identify the gain on retirement and amortization of 6% COIs.
- ✧ Almost all the students failed to identify that the payment for the machinery purchased, was not actually made and hence could not correctly derive the increase in *accounts payable*.
- ✧ Misclassification of various cash flow items among the *operating, investing and financing activities*.

Question No. 4

Consolidated Balance Sheet:

This question required the preparation of the consolidated balance sheet of a group consisting of the parent and its subsidiary and a joint venture. Although the question was not difficult, but the poor response suggested that the students did not cover complete syllabus and relied on selective study, which does not augur well for their future prospects. The following mistakes were specifically noted:

- ✧ A large number of students did not know how to consolidate a *joint venture* and they treated it like a subsidiary.
- ✧ Another common mistake was the wrong depreciation adjustment in the post acquisition reserves of the *joint venture*.
- ✧ Even those who tried to work out the solution as per IAS-27, *Leases*, could not provide the correct figures in most cases.

Case Study: Determining *Financial Health* of a Company

The case study was straightforward and received good response from the candidates. It asked the candidates for a brief update on the financial health of a company and to advise a prospective director as to whether he should join the company or not. This case study also required the students to describe the additional information that should be requested from the company, which would facilitate the decision-maker in reaching an informed decision. Despite the good showing by the students, some common mistakes came under observation as outlined hereunder:

- ✧ The report format was either not provided or it was not proper.
- ✧ The recommendation was not made to the would-be director. Even where the recommendation was given, it was addressed to the company rather than providing it to the decision-maker.
- ✧ The students either failed to identify the additional information required to make a more informed decision or the additional information provided was not appropriate.
- ✧ Many students missed the *assets turnover* and *dividend ratios*.
- ✧ Some students provided *horizontal* and *vertical analyses* that were not needed.
- ✧ The conclusions were not properly drawn. Some students suggested that the prospective director should join the company without proper judgement. There were also many students who advised him to invest in the company, which was not asked.

**EXAMINERS' COMMENTS
FALL (WINTER) 2008 EXAMINATIONS**

**MANAGEMENT ACCOUNTING–DECISION MAKING
Stage – 5**

Question No.2

(a) Discretionary fixed cost and committed fixed cost:

Majority attempted the question but discussed unnecessary details. They generally, explained discretionary fixed cost but did not have a knowledge of committed fixed cost which they confused with incremental cost. Examinees are advised to read and grasp the theoretical portion along with numerical illustrations/ problems because theory clarifies the underlying fundamental concepts of the subject matter.

(b) Effect of changes in revenue:

A number of examinees could not correctly computed the volume to be achieved by maintaining original profit. Those who calculated the per unit selling price and variable cost, generally done well. Others were able to calculate the contribution margin but failed to compute the number of units. Due to wrong calculation of fixed cost, the calculation of total contribution margin was also wrong in some cases. The performance of the examinees showed irresponsible attitude towards their studies which must be avoided.

Question No.3

(a) Merits and demerits of mathematical modelling in financial planning:

Instead of explaining the mathematical programming and mathematical modelling, examinees exclusively explained financial planning. This showed that examinees did not read the question carefully. They are advised, for future, to read the question repeatedly to understand what is asked about so that they could respond correctly.

(b) Make or buy decision:

Most of the examinees could not organize the answer in proper way. Cost per tube was either not calculated or wrongly calculated. As a result they failed to prepare statement of overall profit at the three volumes of production. Most of the examinees used the total revenue and total cost approach and reached to an incorrect decision. The numerous mistakes showed examinees' carelessness in reading the question to comprehend its requirements.

Question No.4

Order size and pricing decision:

A number of examinees wrongly computed the contribution per copy at different levels of demand. Some of them also employed High Low method which was not applicable at all. The question could simply be answered by calculating the profit at each level to decide the number of copies and selling price. Similarly, gain on accepting upcountry order could be ascertained as differential of additional revenue and loss of revenue as a result of decrease in demand. The performance as shown by the examinees was not commendable at all.

Question No.5

Capital investment decision on the bases of return on investment (ROI) and residual income:

A number of examinees could not attempt this question correctly. Examinees had weak concept of residual income. They did not properly discussed the core issue i.e., decision might be different of both managers because ROI of the project is 17% which would lower the ROI of Northside store (below 20%) and raises (above 15%) the ROI of Southside store. As such manager of Northside store would reject the project and manager of Southside store would choose to expand. However, an investor (of franchised store) would certainly expand both stores till the residual income would remain positive (more than cost of capital).

Question No.6

Advice for promoting the new product considering two alternatives:

This is very simple and straightforward question. In first part advice/ decision was based on net present values (NPV) of both alternatives while in second part **internal rate of return (IRR)** of alternative-2 was clearly asked. However, a number of examinees failed to correctly calculate the NPV of the projects and also ignored the lump sum payment of fifth year to agents. Similarly, IRR of alternative-2 could not be calculated by number of examinees. The performance of examinees showed lack of concentration and comprehension which must be avoided.

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**EXAMINERS' COMMENTS
FALL (WINTER) 2008 EXAMINATIONS**

**RISK MANAGEMENT AND AUDIT
Stage-5**

Question No. 2

(a) (i) Benefits of better risk management (ii) The risk management tools:

The examinees failed to appreciate the approach of identifying, prioritizing and managing key risk areas. Apart from few examinees, benefit of risk management and tools were not fully explained.

(b) Components and categories of Internal Control under COSO framework:

The examinees attempted the answers in general terms and were unaware of five major components namely (i) Monitoring (ii) Information and Communication (iii) Control Activities (iv) Risk Management (v) Control Environment.

Question No. 3

(a) Verification of Intangible assets (i) Goodwill (ii) Patent rights:

The examinees demonstrated poor knowledge of auditing techniques, with regard to verification of intangible items. Moreover, lack of know-how and application regarding IAS on Patents and ISA on Audit evidence was depicted in their answers scripts.

(b) Definition of 'business risk':

This was straightforward question. The answers given by many examinees were not upto the mark and they did not discuss various types of business risks.

Question No. 4

(a) Procedure outline for verification of Fixed Assets as per Balance Sheet given:

The responses from examinees were not as per the requirements of the question. The examinees prepared detailed calculations for depreciation, gain or loss on disposal of assets required for published accounts, instead of explaining the steps required for verification of fixed assets. Those who chose to answer correctly faltered in their English language usage, or sadly lacked methodical approach in explaining the auditing techniques.

(b) Illustrate using statistical / judgmental approach in auditing (i) Validation of sales transaction system (ii) Verification of the year end debtors:

Most of the examinees answered reasonably well, and used statistical / judgment in their assessment. However, only few mentioned verification by external confirmation of debtors.

Question No. 5

(a) Contents of Director's Report for a listed company and compliance with Code of Corporate Governance:

The answer scripts of the examinees reflected that the habit of reading of financial statements of various companies was lacking among them. The examinees could not produce key points of a Director's report as per the Companies Ordinance, 1984 and Code of Corporate Governance. Some surprisingly included "Auditor's Report as being part of Director's Report".

(b) Liability of Misfeasance on account of auditor's professional negligence:

The examinees gave irrelevant answers and probably could not understand the requirement of the question or terminology of misfeasance which means a breach of duty involving the company in loss.

Question No. 6

Cost Auditor's (a) procedure for appointment (b) disqualification from appointment (c) powers:

The examinees were aware of the area examined, perhaps their knowledge was rusty. Appointment rules were not fully explained. The explanations were untidy and not orderly for the right and duties of the cost auditor. Moreover, powers of the cost auditor were not expressed in accordance with the specific sections of the Companies Ordinance, 1984.

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**EXAMINERS' COMMENTS
FALL (WINTER) 2008 EXAMINATIONS**

**STRATEGIC FINANCIAL MANAGEMENT
Stage-6 / Professional-IV**

Question No.2

Finding out missing figures in the balance sheet and income statement:

Majority of the examinees showed poor performance while calculating the missing figures. They committed conceptual mistakes having no or weak knowledge of the mechanism of ratios. Some examinees were able to calculate the figures of income statement correctly and some could find out the correct figures of balance sheet. Calculations of long-term debt and shareholders equity were wrongly worked out due to lack of understanding of return on equity ratio. Account receivable turnover was multiplied with account receivable (A/R) for the year to arrive at the figure of sale instead of average A/R.

Question No.3

Working capital and cash operating cycle:

The overall performance of examinees was not upto the mark at all in this question. Some of the examinees were not able to find out the working capital by deducting the current liabilities from current assets. They were also not able to calculate the increase or decrease in working capital percentage. Most of the examinees did not have the concept of operating cycle of manufacturing companies and committed following mistakes:

- They did not correctly calculate the 'days in raw material inventory'.
- Instead of dividing the raw material by purchases figure, they divided it by 'cost of goods sold'.
- Similarly, they were unable to work out production period by dividing the work in process inventory with purchases.
- Moreover, some of them failed to calculate number of days in finished goods inventory.

The examinees failed to justify the need for additional finance and a large number of them produced irrelevant answers. There were many examinees who had no idea about the implication for the company while managing the working capital. For example, reduction of raw material inventory could lead to stock-outs and production loss and, increasing the time taken to pay creditors might result in the supply cut-off. The performance of the examinees to this question is disappointing. It is strange for the examiners that students at their final stage could commit mistakes of elementary level.

Question No.4

(a) Karachi inter bank offered rate (KIBOR):

The examinees had no fair idea of KIBOR plus 200 basis points. They were also not able to express that borrowers and banks protect themselves from higher cost and lower margin respectively by setting/ negotiating upper and lower limits of interest in case of fluctuation in KIBOR. They just guessed in answering the question. Some examinees even thought it to be some kind of exchange rate.

(b) Cost of capital – debt, equity, preference shares and weighted average cost of capital (WACC):

Many examinees did not calculate the cost of debt correctly. They did not take into account the discount of Rs. 30 per Term Finance Certificate (TFC) and flotation cost of Rs. 40 per TFC while calculating the cost of debt. Many examinees did not apply the correct formula of calculating the cost of debt. Examinees ignored the cost of issuing and selling the preference shares of Rs. 5 per share while calculating the cost of preference shares. They also erroneously calculated the dividend on preference shares as Rs. 9 instead of Rs. 8.55 (9% of 95). These mistakes affected in working out the weighted average cost of capital.

Question No.5**Net present value (NPV) and internal rate of return (IRR):**

This question was attempted partly well. Examinees successfully calculated NPV and IRR of both the projects and few of them selected the project correctly stating the conditions to choose a project with conflicting results under NPV and IRR methods. It is felt that examinees had knowledge of capital budgeting but were unable to explain that a project of higher NPV would be selected in case of such conflicting results which showed their weak analytical skills.

Question No.6**(a) Major areas of financial management related to multinational firms:**

Few examinees mentioned specific concerns related to financial management of multinational firms. The points written by some examinees were common to all types of organizations. A large number of examinees produced irrelevant answers which clearly indicates that the examinees did not have any fair idea about the topic and issues i.e., different currency denomination, economic and legal aspects, language differences, cultural differences and political risks which have special concerns with financial management of multinational companies. Examinees are advised to make their vision broader to understand world affairs especially the financial and economical events and decisions of global organizations.

(b) Maximum Price for Acquiring a firm:

This part of the question was attempted well. However, following common mistakes were committed by examinees:

- Against the clear indication that 15% growth would be expected from first year, cash flow was taken without adding the amount of growth in first year.
- Instead of years 10 to 25 embedded present value factor (PV) as provided in the question paper, wrong PV factor was applied.
- Some examinees discounted the cash flows without deducting the investment of Rs.20 million each year.

These errors indicate lack of attention of examinees while solving the question. They should give proper attention in reading the question to comprehend the requirements of the question which should be avoided in future.

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**EXAMINERS' COMMENTS
FALL (WINTER) 2008 EXAMINATIONS**

**INFORMATION SYSTEM AND I. T. AUDIT (THEORY)
Stage – 6**

Question No.2

(a) Multi-stage model for purchasing over the internet:

Very few examinees could attempt the question correctly particularly the concept of “sales life cycle”. It was explicitly mentioned to include an illustration to support the explanation of multi-stage model. Again this was missing in a majority of cases. Almost all examinees expressed their perceptions or experiences in response. Poor knowledge of actual business process was demonstrated. Examples were also not given correctly.

(b) Challenges that overcome for a company to convert its business processes from traditional form to e-commerce:

Proper way of answering this question was lacking. Examinees mentioned a few challenges without explaining what are these challenges when a company switches from traditional business process to e-commerce business process.

Question No.3

(a) Enterprise software work; business processes supported by enterprise software; three commonly known popular ERP solution platforms:

The main key-point missing here was the listing of business processes supported by enterprise software. Most examinees answered correctly but few were not able to highlight the appropriate difficulties in implementing ERPs such as enterprise systems require not only deep-seated technology changes but also fundamental changes in the way the business operates. The costs of enterprise systems are large, up front, highly visible, and often politically charged. In addition, enterprise software tends to be complex and difficult to master, and there is a worldwide shortage of people with the expertise to install and maintain it.

(b) Chain and competitive forces models changed as a result of the internet and the emergence of digital firms:

The punch line here was that “the internet greatly reduces the cost of connecting online with partners and here corporations can directly, easily and economically work with other companies and with their costumers”. Many examinees were not able to correctly comprehend the value chain – competitive forces model to interpret the given requirement.

(c) Major hardware and software vendors that initiated discussion about the need for consumers to be on guard to protect their privacy:

Though this was a bit tricky question to answer in a sense but examinees should make a general habit of noticing business events that relate to their subject’s topic. Two such popular events were one by famous hardware vendor, Intel Corporation, regarding serial numbers in Pentium III processors. Most examinees did not answer appropriately and very few knew about the privacy issues for consumers. Privacy group protested in 1999 after Intel announced that it would release Pentium III chips with a processor serial number. The groups said that number could be used to track people’s habits as they surfed the Internet. Intel said the number would be used to help information systems managers keep track of their computer, but eventually agreed to work with personal computer makers to turn the feature off at the manufacturing level. Consumer groups worried that the presence of the number still left unanswered questions about privacy protection. So Inter announced in 2000 that it would stop stamping serial numbers in its processors.

Question No.4

(a) Important elements to test 'Disaster Recovery' and 'Business Continuity Planning':

Each part of this question needed a bulleted, point-wise answer rather than essay-like answer without properly mentioning "what tasks" should be accomplished by such tests. Potential elements may include timing of the test i.e., it should be scheduled during a time that will minimize disruptions to normal operations. Key recovery team members must be involved in the test process. Test should address all critical components and simulate actual primetime processing conditions.

(b) Importance of digital signatures and digital certificates:

Examinees should review the literature on what are the common reasons for certificate revocation. Hardly anyone described the reason correctly. Many examinees perhaps did not study these topics well enough to get the concepts of digital signatures / certificates. Among the benefits are both digital signatures and digital certificates play a role in authentication. Authentication refers to the ability of each party to know that the other parties are who they claim to be.

(c) Difference between 'general controls' and 'application controls':

General controls and application controls were not defined correctly. Similarly their purpose and categories of IT application controls and general controls were not mentioned properly / completely. Control in management means setting standards, measuring actual performance and taking corrective action. General control represents the foundation of the IT control structure. They help ensure the reliability of data generated by IT systems and support the assertion that systems operate as intended and that output is reliable. Application or program controls are fully-automated (i.e., performed automatically by the systems) designed to ensure the complete and accurate processing of data, from input through output.

Question No.5

(a) Techniques for gathering evidence of an IS auditor:

Few distracted answers were noticed who were perhaps unprepared and provided the answers at their own. Kinds of techniques are review of IS organization structures, policies and procedures, standards, and documentation.

(b) Major branches of Artificial Intelligence System (AIS); expert systems along with their capabilities and characteristics:

It was very strange to see that rarely any examinee(s) could mention major branches like natural language processing and neural networks while discussing AIS and ES.

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**EXAMINERS' COMMENTS
FALL (WINTER) 2008 EXAMINATIONS**

**INFORMATION SYSTEM AND I. T. AUDIT (PRACTICAL)
Stage – 6**

Practical Paper No.1

The problems required examinees to calculate the total amount of gross sale, total amount of net sale, total amount of discount and the total discount over gross sales amount. However, majority faced problems in proper formatting, insertion of data in cells, inappropriate formulae etc. Few examinees wrote vague answers which were not relevant to the requirement of the question.

Practical Paper No.2

The problem tested the knowledge and skills of examinees in working out the normal gross pay, $1\frac{1}{2}$ rate gross pay, double rate gross pay and total gross pay. Examinees also failed to clearly write the requirement number on the top of the each printout, presentation with proper headings and thousands separators and answering in headed with row and column names. Unsatisfactory result was obtained which shows that the examinees could not understand the question very clearly.

Practical Paper No.3

The problem was to prepare the provident fund contribution sheet. Examinees failed to clearly write the requirement number on the top of the each printout, presentation with proper headings and thousands separators and answering in headed with row and column names as in above practical. Although question was very clear and up to standard but examinees could not attempt it well and lost marks.

Practical Paper No.4

Examinees were required to calculate the total production units, raw material inventories required for production, net purchase requirement for all raw materials, total purchase budget and grand purchase budget. Overall performance of the examinees was remained average in this practical paper. However, very few examinees could able to secure good marks.

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**EXAMINERS' COMMENTS
FALL (WINTER) 2008 EXAMINATIONS**

**MANAGEMENT ACCOUNTING-BUSINESS STRATEGY
Stage-6**

Question No.2

(a) Definition of leverage buyout:

Majority of the examinees had no idea of leveraged buyout (LBO). They just produced irrelevant details based on guesswork and wasted their valuable time.

(b) Ability of debt servicing in case of leverage buyout:

Understanding the question was the general problem in this part of the question. Most of the examinees succeeded in computing the interest only but other requirements of this question were poorly answered as mentioned hereunder:

- (i) A few examinees did not add up 2% into prime rate before calculating the interest payment to senior lender. Resultantly, they calculated the interest payments to senior lender @ 12% and 20% respectively in both requirements of the question instead of 14% in first requirement and 22% from the second year in the second requirement.
- (ii) Prime rates were to rise to 20% in the beginning of the second year but few examinees incorrectly calculated interest payments with enhanced interest rates from the first year.
- (iii) Many examinees wrongly deducted from EBIT (Earnings Before Interest and Taxes), **principal payment** of loan along with interest charges for calculating EBT (Earning Before Taxes).
- (iv) Interest payable to junior lender @ Rs.3 million in each of the six years was also not taken into account by some examinees.
- (v) Some examinees calculated the NPV of the sewer pipe division and wasted their valuable time as it was not required.

Question No.3

Porter's five forces model of competitive analysis:

Many examinees were unable to present their arguments logically. They provided irrelevant details or insufficient material while narrating the Porter's five-force models of competitive analysis that include rivalry among competing firms, potential entry of competitors, potential development of substitute products, bargaining power of suppliers and of consumers.

Question No.4

Comparison of strategy formulation and strategy implementation:

There were many examinees, who produced lengthy and irrelevant answers. Instead of comparing the strategy formulation with strategy implementation, they explained strategy formulation and strategy implementation and what decision are required to be taken in strategy formulation and strategy implementation. The functions of **strategy formulation** – is positioning the forces before action, keeps focus on effectiveness, is an intellectual process, requires analytical skills and coordination among few individuals. **Strategy implementation** – is managing the forces during action, keeps focus on efficiency, is an operational process, requires motivational skills and coordination among many individuals.

Question No.5**Determination of strategy evaluation and control system of an organization:**

Almost all the examinees attempted this question but poor performance was observed which shows that they did not grasp the requirements of the question. Moreover, they had not prepared the topic properly. In fact, the examinees were required to mention the basic requirements of an effective strategy evaluation system for enterprises e.g., strategy evaluation activities should be economical, meaningful, simple, provide timely information, facilitate actions, provide true picture of what is happening and should not dominate decisions.

Question No.6**Net present value of installation of computer:**

Nearly all the examinees attempted this question but overall performance was average. Comments on the performance of examinees in each requirement of question are as under:

- (a) A large number of examinees did not take into account the tax credit @ 10% amounting to Rs.7,000 at start and showed incorrect cash outflow. Some examinees wrongly incorporated the impact of tax credit in year one's cash inflow or in each of the seven years. Some of the examinees calculated the depreciation incorrectly on Rs.63,000 after deducting the 10% tax credit.
- (b) A large number of examinees incorrectly calculated the depreciation in reverse order using the sum of the year digit method of depreciation. Instead of charging the depreciation for first year as $\frac{7}{28}$, they calculated it as $\frac{1}{28}$. Many examinees failed to offer their comments that NPV under the sum of the year digit depreciation method was more as compared to straight line depreciation method due to greater (accelerated) depreciation in early years and taxes are delayed which had favourable impact on NPV.
- (c) Many examinees performed well in this part of the question. However, others could not understand the requirement of the question. They were not able to express that NPV would decrease as a result of larger NPV of working capital investment (outflow) than NPV at the time of its release (inflow).

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**EXAMINERS' COMMENTS
FALL (WINTER) 2008 EXAMINATIONS**

1998 SYLLABUS

**STRATEGIC MANAGEMENT ACCOUNTING
Professional-III**

Question No. 2

(a) Activity based costing:

Although activity rates were generally understood but use of these rates for process improvement was not known by the examinees. Examinees should understand that activity rates are benchmark for cost of resources (activities) and deviation from benchmark is the area of process improvement.

(b) Break-even point and variation of costs:

The question was very simple and clear, however, it required good understanding of the mechanics of break-even analysis and cost behaviour but that was generally not understood and examinees were totally confused. Examinees should know the behaviour of costs as it provides basis for decision making.

Question No. 3

Profitability of the company on accepting export order:

The most difficult area in solving the question was identifying spare capacity and their utilization by accepting export orders. Examinees found lacking in analysis and interpretation of export proposals. The examinees should improve their analytical abilities to assess the financial impacts of different proposals / alternatives as management accountant.

Question No. 4

(a) Categories of quality cost:

Most of the examinees appeared to be ignorant of the quality costs, thus provided vague answers. Examinees are expected to know that costs are also incurred in controlling the quality i.e., product designing, training of personnel, inspection and cost of defective components, repairs, returns and meeting the warranties. These costs may be classified into, e.g., preventive, appraisal costs etc.

(b) Budgeting – sales unit, purchases and capacity utilization:

Majority of the examinees failed to attempt the question properly. Generally examinees faced difficulty in calculating cost per unit. Capacity utilization was also incorrectly computed by some examinees. The topic of budgeting is of immense importance for the management accountants therefore, examinees should get perfection in the area of budgeting as it is the basic function of every entity even it is required for domestic planning.

Question No. 5

(a) Advantages and disadvantages of transfer pricing approaches:

This question was generally done well by the examinees. However, they were found weak in their expression.

(b) Selection of project:

A good question on investment decision making but was left unattempted by the majority. Others who attempted the question committed mistakes and presented the answers badly. The performance of the examinees warrants that they should get proper knowledge of capital budgeting and skills to solve the question on the topic.

**EXAMINERS' COMMENTS
FALL (WINTER) 2008 EXAMINATIONS**

**ORGANIZATIONAL BEHAVIOUR & STRATEGIC MANAGEMENT
Professional – III**

SECTION 'A' "ORGANIZATIONAL BEHAVIOUR"

Question No.2

(a) Charismatic leadership and key characteristics:

The examinees have explained the major aspects of the leadership quite effectively. The most common characteristic the examinees pointed out was self-confidence and confidence in sub-ordinates. Other key characteristics that could have also been included were i.e., change agent, visionaries etc.

(b) Ethical and unethical characteristics of charismatic leadership:

The examinees identification of ethical and unethical characteristics was poor and reflected insufficient studies in this area. The difference between the characteristics of ethical qualities like (self-confidence, cost effectiveness) with unethical qualities (over self-confidence and high risk costs) was not spelt out by the majority.

(c) How does a charismatic leadership become a liability:

The examinees could not fully understand the question and used their general opinions to answer the question. The gist of the matter was, the identification of the leader to be perceived as liability due to several reasons say, strong convictions, high costs incurred, increase in risk factor. These aspects were not highlighted by the examinees.

Question No.3

(a) Factors contributing to group conflict due to interaction:

The examinees focused on the main context, but were directed towards expression of opinions rather than the prescribed literature. The examinees focused on work interdependence, where output of one group is an input to another. The conflict can occur over the task completion. Other areas omitted in their replies were goal differences and perceptual differences.

(b) Maslow's theory of hierarchy of needs with examples:

Generally, the theory is well known among examinees and was well explained covering five levels. However, the requirement to state examples for each level was not properly attempted and examinees lacked application abilities.

(c) Strategies to acquire "power" in various organizations:

The examinees concentrated on power acquisition rather than strategies that lead to power acquisition. Those who comprehended well, had thoroughly studied and gave good answers.

SECTION 'B' "STRATEGIC MANAGEMENT"

Question No.4

(a) Definition of authority and explanation of classical and acceptance view of formal authority:

The definition part of the question was handled effectively by examinees. However, examinees appeared shaky in understanding and presenting answers on classical and acceptance view. The examinees should have used examples to illustrate the two views.

(b) Explanation of delegation and its advantages:

The examinees generally explained what delegation entails along with the advantages. Whereas, some of the examinees stated delegation involves a group of people who visit other organizations and failed to understand it as a management function. As a result, such examinees had no clue about the advantages of delegation.

(c) Achieving the task of effective delegation:

The examinees attempted this part of the question but failed to come up to the standard, which perhaps could have been due to lack of study and practical know-how. The examinees considered delegations as abdication of authority without any consideration of an effective feedback system for task monitoring.

Question No.5

(a) Goals and its importance for an organization:

The examinees attempted this question successfully even though most of them relied on general knowledge. Whereas, some produced good answers and correctly stated that “goals focus on efforts / plans and decisions” etc.

(b) Definition of four conceptual areas namely (i) Organisational plans (ii) Corporate level strategy (iii) Business unit strategy (iv) Functional level strategy:

The overall performance of examinees was satisfactory. However, the examinees consumed extra time to this conceptual question and wrote unnecessary details. Instead, quality answers require short factual answers based on knowledge only.

(c) Discussion of three stages involving organizational development:

The examinees had not tried to understand the question carefully, instead they had embarked on writing answers. The examinees wrote all about product life cycle i.e., introduction, growth maturity and decline. Whereas, the question envisaged three stages namely (i) unit structure (ii) functional structure and (iii) multidivisional structure.

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**EXAMINERS' COMMENTS
FALL (WINTER) 2008 EXAMINATIONS**

**AUDITING
Professional – III**

Question No. 2

Distinction between (i) Inherent risk and control risk (ii) Error and fraud (iii) Control environment and Control procedures (iv) Internal auditing and internal control system (v) Disclaimer of opinion & adverse opinion:

The examinees lacked the ability to make out commendable comparison or distinguishing the features between the terms. The examinees mainly concentrated on defining the relevant terms only. The item (ii) was best answered on overall basis among the examinees.

Question No. 3

(a) Relevance and reliability of audit evidence (b) Corroborative audit evidence:

The examinees had to critically examine various scenarios presented on case to case basis. In part (a) examinees depicted weak comprehension of relevance and reliability of audit evidence. Instead, the examinees wrote irrelevant and lengthy answers. The examinees in part (b) either did not attempt or if attempted, they failed to produce the required steps to corroborate or substantiate the audit evidence which confirms the compliance of earlier controls detected.

Question No. 4

(a) Fraudulent financial reporting (b) Independence of auditor (c) Material weakness (d) Material inconsistency (e) Professional scepticism (f) Substantive procedures:

These were straightforward basic definitions but due to lack of relevant studies and too much dependence on general knowledge the replies were inadequate. The fundamental definitions on audit for “professional scepticism” and “material weakness” were not explained properly.

Question No. 5

(a) Attendance of auditor at physical inventory count:

The examinees instead of writing the consideration for planning physical inventory count, produced audit steps for performing physical stock take. Secondly, alternative procedures that may be considered were not spelt out. It appears that the examinees did not interpret the question correctly.

(b) Valuation and disclosure of long-term contracts:

The steps with reference to valuation were correct. However the major problem had been the logical arrangement of the answer.

Question No. 6

(a) Composition of Audit Committee (b) Terms of References of an Audit Committee (c) The frequency of Audit Committee meeting:

The replies showed that the examinees seriously lacked knowledge of Code of Corporate Governance. The sanctity of Audit Committee, its composition and the provision of attending the meetings of Non-Executive Directors were missing. The terms of references of Audit Committee were explained in sketchy manner, some did not mention the role of Internal Control or liaison with external auditors. The instances when the meeting of Audit Committee can be held was not known by the majority.

**EXAMINERS' COMMENTS
FALL (WINTER) 2008 EXAMINATIONS**

**CORPORATE PERFORMANCE AUDIT AND EVALUATION
Professional –IV**

Part 1– Corporate Performance Audit

This part consisted of question numbers 2 and 3. In these two questions the students generally exhibited their inability to explain the underlying concepts. It appeared that the students had not gone through the required study materials in a way that could support them to attempt it accordingly. The examinees seriously lacked general understanding of the concepts asked in this part of the paper. In most cases, these questions could be answered on the general understanding of the topic, yet mostly the students tried to discuss those issues that were quite irrelevant. They were found wanting in understanding the requirements of the questions. Some specific observations are covered in their respective questions as under:

Question No.2

(a) Potential advantages of Contracting out Internal Auditing:

This part required the students to mention the potential advantages of *contracting out* internal auditing function. The answers provided by the examinees clearly indicated that they had not covered this topic in a way that could assist them to attempt it satisfactorily.

(b) Categories of Performance Measures in Evaluation of Operational Performance:

A brief explanation of any three categories of *performance measures* in evaluation of operational performance, was the requirement of this part. Some of the examinees could not fully understand the requirement of the question. Some students just mentioned these measures without explaining them, which was also required.

(c) Control Objectives/ Key Risks/Control Issues for Fixed Assets and Capital expenditures:

This part required the students to **(i)** highlight the *control objectives* for *fixed assets* and *capital expenditure* and **(ii)** mention the *key risks* and *control issues* for *fixed assets* and *capital expenditure*. The performance of the students was above average in **(c)(i)**, but when it came to **(c)(ii)**, they could not perform satisfactorily.

Question No.3

(a) Control Objectives for Manpower and Succession Planning:

This part tested the knowledge of the examinees regarding the *control objectives* for *manpower and succession planning*. The answers indicated the lack of knowledge of the students about the topic. Some of them defined *succession planning* rather than explaining the *control objectives* involved therein.

(b) Data Protection Principles:

Here, the students were asked to describe the *data protection principles* that are covered by most of the data protection laws applicable in different countries. The students were unable to answer this part satisfactorily. Their answers seemed to be based on their limited practical knowledge.

(c) A Project being completed through an Outside Contractor:

The students were required to mention the objectives that should be ensured while evaluating the performance of a project being completed through an outside contractor. Although the students fared better in this part, yet the response was not up to the mark.

Part 2–Cost Audit

This part consists of question numbers 4 and 5. These questions were attempted better than the previous ones. Nevertheless, here also, the problem was not understanding the questions properly. Following are some specific comments:

Question No-4

(a) Professional Qualifications, Appointment, Ineligibilities and Liabilities of a Cost Auditor:

This part required the candidates to mention the legal requirements regarding the *professional qualifications*, *appointment*, *ineligibilities* and *liabilities* of a cost auditor. Most of the examinees were able to mention the requirements regarding the first three items, but they were not well prepared for the last one, i.e. the requirements with respect to the *liabilities* of a *cost auditor*. According to one response, the *cost auditor* should be appointed within 60 days from the commencement of business.

(b) Comments on Cost Accounting System:

The examinees were asked to describe the points that a *cost auditor* should keep in his/her mind while offering comments on the *cost accounting system*. The performance of most of them was not up to the mark.

Question No.5

(a) Important elements of cost in a Cost Audit:

The examinees were asked to list out important *elements of cost*, while performing a *cost audit*. The students satisfactorily attempted this part. However, many students could not differentiate between the *elements of cost* in a *cost audit* and the *elements of cost audit* itself. Some included unimportant items in the list of important *elements of cost* in a *cost audit*.

(b) Particulars included in the Cost Auditor's Report:

This part required an explanation of the particulars to be included in the *cost auditor's report* to the directors of a company. The question was straightforward but the majority could not cover all the important areas such as the royalty/technical aid payments, abnormal non-recurring features etc. Many students failed to comprehend the requirement of the question and ended up discussing irrelevant points.

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**EXAMINERS' COMMENTS
FALL (WINTER) 2008 EXAMINATIONS**

**MARKETING MANAGEMENT
Professional – IV**

Question No.2

(a) Compare and contrast the concept of “sale” and “marketing”:

It was mixed performance by examinees, their explanatory skills were encouraging as to the concepts for both sale and marketing.

(b) Illustration of “sale” and “marketing” concept:

The illustrations were not satisfactory and lacked vision and was not backed up with commentary.

(c) Definition of Integrated marketing and differentiation between external and internal marketing:

With regard to definition of integrated marketing and the differentiation between external and internal marketing, the answers were not upto the mark, even though these are very common in marketing skills.

Question No.3

(a) Definition of Product Life Cycle and its stages:

The answers by examinees were quite satisfactory as the topic is common in nature and examined at all levels.

(b) Managing the product life cycle:

The most of examinees stated the product management role by identifying the techniques of modifying the product and the market and also included repositioning the product. The last aspect of product management i.e., product repositioning was not clearly known by the examinees and was not satisfactorily explained.

(c) Difference between Trading up and Trading down in repositioning:

The answers of examinees were based on general knowledge and lacked factual matter, hence, average performance was noted.

Question No.4

(a) Allocation of limited resources to marketing activities by managers:

The examinees needed scientific and pragmatic approach in setting out allocation of funds to determine the product features such as price, quality, and establishing accompanying services such as research pertaining to product development, advertising, sales force and other promotional tools. The examinees lacked this approach in identifying these areas.

(b) The elements of an effective marketing plans:

The examinees had to present the answer in more proactive professional manner, which was sadly lacking. There were detailed answers, but the key aspect of competitor–customer orientation was not pointed out by examinees.

(c) Framework for improving marketing planning:

The responses from examinees were mixed. Those examinees who acknowledged the means of better coordination among various marketing interfaces, constant review of shortcomings as the focus of marketing planning, achieved good marks for understanding this vision.

Question No.5

(a) Boston consulting group’s growth share matrix model and description of four cells:

With the exception of few, the examinees have presented good answers, by illustrating the investment of cash flows and observing the market growth and share positions for a company.

(b) Six-step price setting procedures for an organization:

The question's requirement was to spell out procedures for price setting, however some examinees were confused as to price type which was uncalled for. Whereas, those examinees who adhered to the required six-step policy i.e., (i) selecting the price objective (ii) determining demand (iii) estimating cash (iv) competitors analysis (v) selecting a pricing method (vi) selecting the final price, scored high marks.

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**EXAMINERS' COMMENTS
FALL (WINTER) 2008 EXAMINATIONS**

**INFORMATION MANAGEMENT AND AUDIT
Professional – IV**

Question No.2

(a) Risk-based IS audit strategy and its benefits:

Examinees were lacking in defining risk-based IS audit, and were unable to enlist the benefits such as determining the nature and extent of testing besides helping make the decision to a substantive test properly.

(b) Five different types of risks associated with business and process of auditing:

Examinees did not write all five types of risks associated with business and process of auditing that include interest risk, control risk, detection risk, overall audit risk and business risk.

(c) Steps taken by an auditor to set control objectives, gather evidence, review the evidence, and produce findings, conclusion and recommendations:

Examinees did not consider the logical sequence when writing control objective, gathering evidence, review and conclusion. Overall performance in this question was below average.

Question No.3

(a) Personnel management policies that can assure internal control through information system:

Majority of the examinees provided vague answers. Policies in general were mixed up with the information to a new employee, such policies may include hiring, promotion, training, scheduling and time reporting, employee performance evaluation, required vacations, termination etc.

(b) Voice-over internet protocol (VoIP):

Hardly any examinee provided the answer of this part of the question. VoIP is susceptible to the same risks as data networks that use the internet, such as exposure to viruses, worms, trojans and man-in-the-middle attacks.

Question No.4

(a) Invitation to tender (ITT) / request for proposal (RFP):

Extremely poor responses were given by the examinees to this question. Explanations regarding ITT were missing. Description lacked the issue of acquisition, compatibility etc. The ITT include the Information-processing requirements, hardware requirements, system software applications, support requirements, adaptability requirements, constraints and conversion requirements.

(b) Business continuity planning (BCP) and disaster recovery planning (DRP):

Poor responses were provided about business continuity planning (BCP) and disaster recovery planning (DRP) by the majority. No differences were explained between these two concepts. The main difference is: BCP is a process designed to reduce the organization's risk from an unexpected disruption of the critical functions or operations (manual or automated) necessary for survival of the organization. Whereas DRP is generally the plan followed by IS to recover an IT processing facility or by business units to recover an operational facility.

Question No.5

Review on the following plans: (i) Planning policies (ii) Organizational policies (iii) Hardware policies (iv) Network policies (v) Security policies (vi) Operational policies (vii) Contingency policies (viii) Financial and accounting policies:

The examinees had no idea about the requirements of the question. Majority of the examinees showed no clear concepts regarding the question. Areas of policy development are completely missing. No proper reviews of different policies was mentioned by the examinees.

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