

EXAMINERS' COMMENTS
FALL 2010 EXAMINATIONS
FUNDAMENTALS OF FINANCIAL ACCOUNTING
Stage – 1

Question No. 2

(a) (i) Bank Reconciliation Statement:

This sub-part of the question required examinees to prepare a 'bank reconciliation statement' from the given data. Performance in this sub-part was not satisfactory, although the question was very simple. Following mistakes were committed by examinees:

- Title of the 'bank reconciliation statement' was either omitted or incorrectly written.
- Bank overdraft was not correctly shown in the 'bank reconciliation statement'. 'Balance as per bank statement' should have been shown as (Rs.22,660) instead of Rs.22,660.
- Cheque for Rs.14,400 deposited into the bank was wrongly shown in debit column in the 'bank statement'. It required an adjustment of Rs.28,800 (14,400 x 2) in the 'bank statement'. The majority made an adjustment of Rs.14,400 only.

(ii) Adjusting Journal Entries:

This sub-part required journal entries for the adjustment items that resulted in disagreement of the 'cash book' and 'bank statement'. Performance in this sub-part was also not satisfactory. While making the relevant adjusting journal entries most of the examinees made the following mistake:

- They had no idea of what entries pertained to cash book and to the other side. Entries in the general journal were also made, which pertained to bank balance.

(b) (i) Weighted Average Method of Valuation of Inventory:

This sub-part of the question required examinees to calculate the values of 'closing inventory' and 'cost of goods sold' using 'weighted average method'. Although the question was very easy and simple, the majority could not correctly calculate the required figures.

- Most of the examinees rounded the weighted average unit cost rate to one decimal only resulting into different answers of values of 'closing inventory' and 'cost of goods sold'.
- Some students divided the total cost by 31 days to arrive at unit cost.
- Some did not bother to separately calculate the unit cost rate and relied upon the inventory card.
- A few examinees calculated the unit cost in percentage.

(ii) Gross Profit Method:

In this sub-part, examinees were required to calculate the value of the 'stolen inventory' on estimated basis. Performance of the examinees was very poor.

- One way of solving this question was by means of preparing a 'memorandum trading account'. However, no one could make the aforesaid account.
- The majority could not work out the estimated 'gross profit' i.e., Rs.522,550 (2,090,200 x 0.25).
- A very few examinees could work out the 'closing inventory' (balancing figure), which was required to compute the value of the 'stolen inventory' (estimated), rather, they calculated other way the 'stolen inventory'.
- They had no clear concept of calculating 'closing inventory' through 'gross profit method'.

Question No. 3

(a) **Adjusting and Correcting Journal Entries:**

This part of the question related to preparation of 'adjusting' and 'correcting' journal entries. Performance of the examinees was not satisfactory. This was an easy question, however, examinees made mistakes as under:

- Examinees used wrong titles of accounts, for instance, they wrote 'loan expense' for 'interest expense'; for 'non-current assets', the word 'asset' was used and for 'sales', the phrase 'goods sold' was used.
- Some made mistakes in calculating 'insurance expense', 'unearned revenue' etc.
- Majority of the examinees was unaware with the terminology of 'drawings'. The house rent of the proprietor was debited to 'house rent', 'rent expenses' etc instead of 'drawings account'.

(b) **Purchase and Disposal of Non-current Assets:**

This part gave details about purchases and disposal of machines and examinees were asked to prepare accounts for machines, accumulated depreciation and machine disposal. Performance, in this part, was also very poor.

- It was observed that the majority did not know how to make the (ledger) accounts. Either they made journal entries or they mentioned debits / credits only. Those who prepared the accounts could not mention the date, rule up the balances.
- The majority could not make year-wise accounts. They combined three years' accounts.
- Further, there were mistakes in calculating 'depreciation expense' and 'loss on sales' etc.
- Except one or two, no body could make the correct 'disposal account'.
- Examinees also did not know where to use 'balance b/d' / 'balance c/d'. A number of examinees did not mention any thing and wrote figures only. Some did not know what to mention in debit/ credit columns.

Question No. 4

Accounts Receivable:

This question was based on the topic 'Accounts Receivable'. Details relating to credit sales, receipts from customers, discount allowed, and un-collectible debts were given. The requirement was to prepare accounts for (i) 'accounts receivable' and (ii) 'allowance for doubtful debts' for two years but examinees made various mistakes listed as under:

- Examinees made journal entries, which were not required at all.
- Accounts were not properly made as some students skipped the dates, and some did not mention particulars. Again some examinees were confused between debit/ credit entries and some could not make the year-wise accounts. Some could not calculate the correct figures of bad debts.
- While making the account for 'allowance for doubtful debts', excepting a few students, they could correctly write opening balance only and rest of the entries were wrongly made.

Question No. 5

Accommodation Bills:

This question, based on the above topic, required examinees to prepare journal entries regarding bill of exchange transactions that took place between two persons to provide funds to themselves. Performance remained very poor in this question due to following reasons:

- Some examinees made journal entries in the books of both the parties instead of one party i.e., Mr. Khalid. Some other made cash book as well and wasted their precious time.
- While discounting the bill of Rs.4,200, the discount amount (Rs.120) was to be shared between Hammad (Rs.80) and Khalid (Rs.40), but whole of the discount was charged to 'discount account'.
- Final entry related to receipts of a dividend of 50 paises in the rupee in full and final settlement of the amount due from Hammad. Hardly any examinee could correctly compute the dividend received (Rs.1,400) and resulting bad debt (Rs.1,400). Hence, they ended up making a wrong journal entry.
- Narrations to the journal entries were ignored by almost all the examinees.

Question No. 6

Financial Statements:

In this question, examinees were required to prepare an (a) 'income statement' and (b) a 'statement of financial position' from a given trial balance and supplementary information. Performance was satisfactory, however, in some cases following weaknesses were revealed:

- Examinees failed to write correct titles of accounts omitting name of the business etc. They also wrongly wrote 'for the year ended June 30, 2010' in the 'statement of financial position' and 'as at June 30, 2010' in the 'income statement'.
- 'Discount allowed' was wrongly deducted from 'sales', which resulted in incorrect figures of 'cost of goods sold' and 'gross profit'.
- They did not show 'working notes' for 'bad debt', 'rent expense', 'salary expense' etc.
- The majority failed to mention 'equity' separately.
- Assets were not classified into 'current assets', and 'non-current assets'.
- Some of them did not properly show net 'non-current assets' as 'cost' less 'accumulated depreciation' and net 'accounts receivable' as 'accounts receivable' less 'allowance for doubtful debts'.

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**EXAMINERS' COMMENTS
FALL 2010 EXAMINATIONS**

**BUSINESS ECONOMICS
Stage – 1**

SECTION "A"

Question No. 2

(a) Firm's equilibrium:

Majority of the examinees were not able to define "firm's equilibrium" and could not properly draw 'monopolistic competition diagram' with explanation to achieve the firm's equilibrium. It seems that they did not have adequate knowledge of the subject. Some of them diverted to market equilibrium where demand = supply, the firm is in equilibrium. Some of them approached to normal profit. A majority of them approached to $MC = MR$ but no body gave the reason for it.

(b) Price elasticity of demand:

Very few examinees were in a position to explain the key factors responsible for determining the 'price elasticity of demand', whereas, the majority of students could not describe the role of price elasticity of demand in decision making by business firms and a few examinees did not attempt this part. Most of them adopted the concept of measurement of elasticity of demand. Very few gave the right answers. Even giving the right answers, they pointed to necessities of life, luxuries of life. They did not point to comforts of life. However, they referred to joint products and substitute products. Some of them gave just the opposite answers; necessities of life as elastic and comforts of life as inelastic.

(c) Conclusion about price elasticity of demand for cigar:

Most of the examinees were unable to draw the conclusion by applying the figures and table formula. Some draw the table / schedule and mentioned the decrease of revenue after imposition of double excise duty. Very few students were able to answer the question correctly. No one could understand the nature of question. Some of them wrote it elastic and some less elastic. This is the question of the outlay method of measuring price elasticity of demand. If price increases and total expenditure decreases, the product has high elasticity. Some of them wrote it elastic but it was just a guess and nothing else.

Question No. 3

(a) Consumer surplus:

Majority of the examinees defined the term 'consumer surplus' but did not draw accurate diagram, whereas they even did not explain the consumer surplus and its application with examples.

(b) Law of diminishing return:

Performance of the examinees in this question was below average. Most of the examinees explained the cause of poverty in many countries of Asia. Many students confused diminishing returns with utility.

SECTION "B"

Question No. 4

(a) Types of taxes:

Most of the examinees were confused. Merits and demerits of direct and indirect taxes were taken as usage of these taxes or burden on people. Direct taxes were taken to be good because it generates high revenue and the government uses this revenue in development. Indirect taxes were taken to be bad because it was imposed in the dark and creates inflation. Direct and indirect taxes were not compared with respect to cannon of taxation by Adam Smith.

(b) Definitions of (i) Gross domestic product (GDP), (ii) Net domestic product (NDP), (iii) Gross national product (GNP), and (iv) Consumption:

Mostly correct definitions were given. Only NDP was found confusing by the students. Majority of them confused NDP with GNP. Some of them took it as net of GNP and depreciation (GNP – Depreciation).

Question No. 5

Foreign trade:

The question was simple. Majority of the examinees gave the answers on the basis of general knowledge. More emphasis was given to advantages. Only one or two points were given for disadvantages. For example, unfavourable balance of payments or imports of luxury items were written.

SECTION “C”

Question No. 6

(a) Foreign direct investment:

Most of the examinees explained the role of foreign direct investment but a few were able to mention the constraints of foreign direct investment. Mostly they depended on general knowledge. Investment is very good for industries and so on were their key points. Import of technology, import of skilled staff and import of capital were not discussed.

(b) Devaluation of Pak rupee:

Majority of the examinees partly defined devaluation and the impact of devaluation on economy. This question consists of two parts. The first part refers to devaluation of Pak rupee. Impact on economy was not properly discussed. However, most of the students pointed out to its negative impact. Some of them pointed out to its positive impact like increase in export and decrease in import, which are main causes of devaluation.

Question No. 7

Concept of poverty:

Only few students were able to define the term poverty and the method of measuring poverty whereas, the majority of examinees attempted poverty reduction strategy in Pakistan, but mentioned only two or three factors for reduction of poverty. Very few students could give international definition of poverty in terms of dollar per head per day or calories per head per day. Most of them stressed over low purchasing power to buy basic needs. They all stressed over measures of development. Agricultural development, industrial development and other development were focussed but fair distribution of wealth was not discussed.

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**EXAMINERS' COMMENTS
FALL 2010 EXAMINATIONS**

**BUSINESS LAWS
Stage – 1**

SECTION "A"

Question No. 2

(a) (i) Promulgation of ordinance:

- The requirement was to discuss the need to promulgate the ordinance. However, majority of candidates failed to give proper answer i.e., in the absence of National assembly session, President can promulgate ordinance.
- Many candidates unnecessarily described the normal legislative procedures.
- Some candidates presumed that ordinance is enacted by Parliament rather than the President.

(ii) Effect, if ordinance not passed:

- Many candidates did not mention the effect of not passing the Ordinance by Parliament to be enforced.
- Some candidates misunderstood that the Ordinance would remain enforced even if not passed by the Parliament.
- The time period for lapse of Ordinance was not mentioned or wrongly mentioned by many candidates.

(b) Arbitration:

- Many candidates were not able to identify 'arbitration' as the most popular way of resolving business disputes outside the courts. Some even emphasized the court-based adjudication while the question clearly asked other than court-based adjudication. Some discussed traditional dispute resolving system i.e., Jirga system or Punchait.
- Arbitration is popular in the business world due to appointment of arbitrator by the parties of dispute themselves, simple, quick and less consuming of resources but most of the candidates failed to describe these points.

SECTION "B"

Question No. 3

(a) (i) Invitation to offer:

- Many candidates described 'offer' instead of 'invitation to offer' with examples and some candidates mixed up both. Some even discussed that contract is made the significance of offer in making the contract.
- Examples of 'invitation to offer' were generally poor, not to the point or repetitive in nature.

(ii) Counter offer:

- Many candidates were not able to identify the situation pertaining to counter-offer. Some answered it as "cross offer" rather than "counter offer". Some candidates even attributed it to nonexistent kinds of offer.
- The question also demanded explaining the nature of counter-offer but few candidates attended this.

(iii) Revocation of offer:

- The modes of revocation were to be mentioned but many candidates described the ways of acceptance of offer instead. Some students wrote only "death or insanity" leaving the rest or stating incorrect answers.
- Some candidates mixed it up with the process of making offer and its culmination into a contract.

(b) (i) Partnership formation:

- Majority was aware of the limitation of twenty (20) partners, but they did not conclude that 'MF' partnership should be dissolved and registered as a limited company.

(ii) Bookseller vocation:

- Most of the candidates rightly gave the correct reply but not highlighted that it is a legal business for which partnership can be formed.
- Few candidates wrongly presumed that bookseller's occupation is not a business or not legal business.

(iii) Rights of partners:

- Candidates generally did well in this part of the question. However, some candidates mentioned the obligations of partners rather than their rights.

Question No. 4

(a) Better title from seller:

- Many candidates discussed transfer of title from seller in the ordinary course rather than the situations when seller of goods can transfer to the buyer a better title than he himself held i.e., they discussed the rule instead of exception to the rule like title acquired by estoppel, goods sold by mercantile agent and sale made by one of joint owners.

(b) (i) Bill of exchange dishonoured by non-acceptance:

- Many candidates discussed the situations of dishonour by non-payment instead of "by non-acceptance". They were required to explain any three conditions under section 91, majority of the answers contained irrelevant or vague details such as lapse of time, death / insanity of the drawee etc.
- Most of the candidates specified less than three conditions required in the question.

(ii) Notice of dishonour:

- Most of the candidates rightly replied but regarding time for the notice; few gave the correct answer of 'reasonable time'.

(iii) Notice from/to:

- The answer was generally incomplete or incorrect as majority of students failed to mention the parties involved in sending and receiving the notice.

SECTION "C"

Question No. 5

(a) Leaving of service:

- The requirement for notice by permanent worker was generally identified correctly. But the period of notice mentioned was incorrect in some instances.
- The situation when the worker wanted to immediately leave was mostly not attended. Few candidates correctly identified that one month's wages can be given in lieu of one month's notice.
- The requirement respecting the temporary worker was also correctly identified by majority of candidates i.e., no notice required. In some cases, examinees defined the difference between permanent and temporary workers which was not required.

(b) (i) Collective agreement and go slow:

- Candidates generally discussed the collective agreement properly but few discussed it out of the context e.g., without identifying the parties involved or mentioning it incorrectly.
- Go slow was also generally discussed properly but many candidates did not relate it to the purpose for undertaking the go-slow step and some even attributed it to mechanical and technical problems faced in the usual course of operation or operational inefficiency. They defined “go slow” as “workers working slowly or asked by the management to work slowly” rather said that “it is done deliberately by the workers”.

(c) Employer not liable for compensation:

- Some candidates discussed the situation when employer is liable instead of when he is not liable.
- Some discussed the situations not covered in the “accident arising out of and in the course of his employment”.
- In numerous cases, students mentioned insanity and insolvency as the situation in which employer is liable, as against to workman being under the influence of drugs or wilful disobedience of the workman etc.

(d) (i) Treating the given process as manufacturing:

- Candidates generally gave the correct answers.
- Some candidates unnecessarily discussed the process of manufacturing.

(ii) Annual leaves:

- Many candidates mentioned incorrect number of annual holidays.
- Majority of the examinees failed to answer about employer’s obligation to pay for such leaves. They explained that “workers leaves shall accumulate if he/she does not go an annual leave” instead of mentioning correct number of days i.e., 14 days and he/she should be paid for these leaves.

Question No. 6

(a) Definition of different terminologies:

- ‘Appointed day’ was wrongly explained by many candidates as date of appointment of employee.
- Some candidates described ‘Employment injury’ out of context i.e., not in terms of the Social Security Ordinance, 1965.
- ‘Dependent’ was generally defined correctly.
- Some candidates described ‘Industry’ in general terms with no reference to the Social Security Ordinance, 1965.
- ‘Confinement’ was generally described in the proper context but some elaborated it as something like imprisonment or skipped responding to the definition of confinement.

(b) Death Grant:

- The beneficiaries of the death grant were correctly mentioned by a large number of candidates. However, many of the examinees were failed to demonstrate the rate of death grant.
- Very few of them could correctly define the ‘Iddat’ benefit to secured women.

**EXAMINERS' COMMENTS
FALL 2010 EXAMINATIONS**

**BUSINESS ENGLISH
Stage – 1**

SECTION "A"

Question No. 2

(a) Do as directed:

This part of the question required examinees to change the voice and speech. Solutions provided by majority of examinees were unsatisfactory. Very few examinees provided correct versions of voice and speech. Mistakes were committed in three forms of verb, e.g., they wrote 'leaved' instead of 'left' etc.

(b) Sentences for words having same pronunciation but different meanings:

The examinees were required to make their own sentences on each pair of five given words which are, (i) Census – Senses, (ii) Bail – Bale, (iii) Ceiling – Sealing, (iv) Chord – Cord and (v) Cite – Sight. All the given five pairs of words were very simple and short. Some of the students were unable to understand the words like Bale, Sealing, Cord and Cite. A large number of examinees were having problems in differentiating the words and making proper sentences.

Question No. 3

(a) Identification and correction of errors in the given sentences:

For this part of the question examinees were given four sentences, each carrying errors of spelling grammar / and / or singular or plural. The sentences were to be 'redone' and reported after eliminating the error in each case. A little bit of concentration and grammar knowledge was needed to attempt this part of the question successfully. Majority of the examinees could not redo the sentences properly and to improve this proper sentence structure should be practiced more by them from grammatical point of view.

(b) Fill in the blanks by understanding of a given passage:

This part of the question carried a narration comprising three small paragraphs and examinees were required to identify correct answer for each of eight units (i) to (viii) out of three choices shown as (a), (b), and (c) for each unit. Answers that were reported for (i) to (viii) may be rated as average. They need to study and grasp sentence structure and its division in terms of 'noun', 'object', 'phrase' etc.

Question No. 4

(a) Completion of sentences in correct or most likely way:

The examinees were required to choose the correct / most likely correct option of 'completing' word out of given four for each of the eight sentences. Examinees put incorrect preposition in the blanks. They had inadequate vocabulary. To improve vocabulary, exercises / activities need to be done like objective type of exercises.

(b) Idiomatic expressions:

This subpart of the question examined the capability of examinees in structuring the correct meaning of five idiomatic expressions and using them in composed sentences. Answers reported were found to be done half-heartedly. Some unwisely made use of idiomatic expression(s) only and did not care to give meaning of each expression distinctly. A good many provided 'Urdu' translation of given expression. Some framed incorrect and incomplete sentences. It seems that examinees had not taken this exercise seriously as very few framed meaningful sentences.

SECTION "B"

Question No. 5

Comprehension passage:

This question comprised a simple passage and aimed at testing the understanding and comprehension skills of examinees. The proficiency of examinees was poor. Instead of framing answers for each of the four given questions that followed the passage in their own language, an average examinee preferred to lift the wordings of passage disregarding whether the lifted part was relevant or not. The passage as well as four given questions were simple. Majority of examinees lacked not only in the ability to understand the given questions but showed incapability in organizing their answers properly. Most of them did not use their own words and language skill. In majority, whatever writings produced as answers for questions (a) to (d) were stated in vague and faulty language. The examinees had problem with grammar, syntax and usage while composing answers. They forgot that words are tools of the trade and a good communicator must learn to build structures which are not merely purpose-built but also pleasant and elegant.

Question No. 6

Essay writing:

In this question, examinees were required to write an essay of their choice from the given five topics. Almost all the topics were considered by different examinees. However, writings offered were poor in structural development of conceived material, unity, organization and coherence. Common faults were found to be:

- messy handwriting
- failure to spell even everyday words correctly
- use of abbreviated words
- weak syntax
- incorrect application of subject-verb agreement cases
- poor penmanship
- disregard of spelling properly
- use of short forms of words (SMS style)
- punctuation mistakes and grammatical errors.

The context indicated surface level analysis and demonstrated that examinees do not read the newspapers and do not keep abreast of latest current affairs. Examinees need to know that essay question is given to measure how well a student is able to communicate meaningfully in writing. The exercise 'essay writing' enables to determine a student's ability to put facts into perspective, to generalize from the data assembled and to draw conclusion.

Question No. 7

(a) Report writing:

Assuming the role of Manager Fiancé, examinees were required to prepare a report covering introduction with financial facts (aging schedule) of last five years, background of the problems, causes and recommendation about constant increase in bad debts. Different examinees used different formats but majority designed the report in letter format. Only a very few could do justice with the task. Majority lacked in following areas of composition. Expressions were found faulty. Where tenses correspond with the task, poor syntax spoiled the composed answer. Organization, coherence and presentation of conceived material was poor. Most of the compositions could not get credit for want of appropriateness and relevance. Heavy casualties in composition were noticed. In short, the prepared and reported material on continuous increase in bad debts was not good.

(b) Letter writing:

This subpart of the question assessed the expertise of examinees regarding drafting a sales letter intimating the sales programme and offering special discounts to the old customers of store. Majority of the examinees used application format in sales letter, which is incorrect. Many examinees did not know how to draft a sales letter.

Question No. 8**Job application for Assistant Manager Finance:**

Writing a job application for the position of Assistant Manager Finance against an advertisement that appeared in a newspaper was the given task. In some cases, it was found that the answers were too general. The question mentioned the requirement of personal profile covering different items like • age • education • experience • reasons for leaving current position • suitability for the position • references • previous salary • expected salary etc. The answers contained these items but they were not in a presentable form. Job application must be eye catching and specific. Majority of examinees wrote incorrect format. They wrote letter format rather than the application format. They did not comprehend the question properly as they wrote separate C.V / personal profile at the end of the application. A short introduction containing whether an applicant is applying in response to an advertisement, an expression of the applicant's earnestness of the purpose, indicating why he/she considering himself/herself suitable for the job, was not carefully prepared / written. Students need practice in application format writing. They should note that in application writing the style should be polite, candid and clear.

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EXAMINERS' COMMENTS
FALL 2010 EXAMINATIONS
FUNDAMENTALS OF COST AND MANAGEMENT ACCOUNTING
Stage – 2

Question No. 2

(a) Relationship of cost department with other departments:

The Examinees were required to describe the relationship of different non-accounting departments e.g., human resource or personnel department, treasury or finance department, marketing department, public relations department and legal department. It was noted that examinees confusingly explained the various departments having accounting functions like financial accounting department and cost accounting department.

(b) Classification of cost data for various purposes:

The cost is classified according to the requirement of the decision to be taken. The classification may be made in different ways i.e., natural classification, classification by accounting period, by volume of activity, by relation of product, by relation of manufacturing departments, for planning, analysis and joint or common cost. Majority could not understand the requirement of the question and irrelevant explanations were given.

(c) Cost of goods sold and income statement:

This is very simple question and attempted well by the majority. In some cases casting errors were noted which reflected careless attitude of the examinees.

Question No. 3

(a) ABC plan for inventory control:

Majority of the examinees wrongly understood the term 'ABC plan'. They associated this term with the factory overhead distribution technique which is called activity based costing.

(b) Calculation of different figures of income and cost under FIFO & LIFO:

This is very basic and simple question of inventory valuation, but besides of its simplicity majority of examinees attempted it wrongly. The major problem is inappropriate presentation and lack of practice. Some examinees could not comprehend the requirement of the question and produced irrelevant answers.

Question No. 4

(a) Schedule of earnings and labour cost:

The calculation of bonus was totally incorrect and presentation of the answers was also poor. Majority of the examinees committed similar mistakes of presentation and calculation which indicated that their studies were not in accordance with the course contents and they did not practice of solving the similar questions.

(b) Appropriation and determination of overhead rates:

Majority of the examinees could not attempt this part correctly. Even though those who solved it correctly, committed presentation mistakes producing the answers in scattered way.

Question No. 5

(a) Cost elements to prepare job order cost sheet:

This is very simple question and majority attempted it well.

(b) Actual and standard direct labour hours:

This part of the question was also simple but it was surprising that examinees strive hard to reach the correct solutions. They produced detailed working to support their answers which were not required in the presence of data provided in the question.

(c) Factory overhead variances:

Majority of the examinees seemed confused due to manufacturing of two products and appeared to be the major reason of incorrect answers. Some of the examinees attempted this question product-wise, but took fixed cost in the calculation of both products. A very few examinees were able to solve this question correctly.

Question No. 6

(a) Income statement and break-even points (BEP):

Most of examinees did not know the difference between absorption and marginal costing. They solved this question on the basis of absorption costing ignoring the requirement of question i.e., marginal costing. It was surprising that examinees were unaware of the formulae to calculate break-even points and used the inappropriate/ incorrect formulae for calculations.

(b) Break-even Point (BEP) Chart:

Examinees attempted the part to calculate break-even point correctly which requires very simple calculations. However, some examinees had no idea to prepare graph related to BEP therefore, the majority of the examinees drew wrong charts.

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**EXAMINERS' COMMENTS
FALL 2010 EXAMINATIONS**

**MANAGEMENT AND MARKETING
Stage – 2**

SECTION 'A' "MANAGEMENT"

Question No. 2

(a) Quantitative approach to management:

The requirement of the question was the description of quantitative approach involving use of techniques e.g., linear programming synchronised with application of statistics / information, optimization models and computer stimulation to management activities / decisions mainly to improve resources allocation scheduling its critical analysis / decision for company's optimum inventory levels. But only a few came up with the related description. Enough comprehensive study imparting them with proper and compatible understanding / knowledge justifying their answers, is the dire need of hour. The examinees were also required to describe that while budgeting, scheduling, controlling of quality and making similar decisions, the managers how to apply quantitative approach and use techniques based on sophisticated computer software and formulas with effective control / measures mainly for the achievement of organizational goals and similar decisions. But again, with exception of a few, major segment of examinees could not explain / describe on the topic in its real sense. They lacked basic concept of 'quantitative approach'. Most of them mentioned this technique as 'technique to produce more quantity or considering quantity not quality'.

(b) Definition of (i) workforce diversity, (ii) total quality management (TQM), and (iii) learning organization and knowledge management:

Majority of the students lacked basic concept of 'workforce diversity', 'total quality management' (TQM), and 'learning organizations'. The impact of trends of workforce diversity, TQM and learning organizations / knowledge management have far reaching effects on management practices. Due to lack of proper study and deficient knowledge, most of the examinees failed to explain the requisite impact of the trends of workforce diversity, TQM, learning organization and knowledge management on the management practices which calls the students to improve their knowledge accordingly.

Question No. 3

(a) Difference between characteristics of transformational leadership and transactional leadership:

Students were highly confused with concept of 'transformational' and 'transactional' leadership. Also, the replies, by majority, covering the role of leadership were defined inadequately. Majority of them intermixed the characteristics of 'transformational' and 'transactional' leadership reversely. A transactional leader guides and motivates the followers in the direction of established goals of the organization by defining / clarifying prescribed roles and job description while a transformational leader is supposed to inspire the followers keeping in view their own individual self interests for the betterment of organization.

(b) (i) Five stages of group development:

This subpart of the question was self-explanatory by virtue of headings and apparent literary meanings thereof. Although majority of the examinees attempted it to score good marks yet they could not elaborate correctly and attain the marks accordingly. Hence the very fact of lack of proper study / knowledge is reflection on the part of examinees.

(ii) Formal and informal groups:

The contrast in formal and informal groups was not explained correctly and again in most of the cases, if explained, the same was found intermixed reversely. The formal groups are the working groups established by the organization with the designated work / assignments / tasks. While the informal groups are social and formed at the spot i.e., naturally on the work place to meet social needs etc. Many examinees narrated incorrect statements supporting with wrong examples. This showed poor understanding / knowledge on the subject and hence the examinees could not score good marks.

SECTION 'B' "MARKETING"

Question No. 4

(a) Brand strategy:

Students' knowledge on this topic was not satisfactory. Brand strategy had to be duly elaborated and supported with examples, was the requirement of the question, which was not done. In case of brand development the examinees failed to describe in accordance with its requirement. Hence this lack of understanding attributed to either insufficient study or knowledge on their parts.

(b) Marketing channels:

In this subpart of the question examinees were required to define the functions of marketing channels. With the exception of a few, the replies were found vague and inadequate. Some of them intermixed it.

(c) Roles of advertising, sales promotion, and public relations:

This subpart of the question required examinees to identify the roles of advertising, sales promotion, and public relations. Majority of the examinees answered it incorrectly. However, in some cases, the replies were also found intermixed.

Question No. 5

(a) Marketing research process:

A few examinees attempted this part of the question, which may be attributed to the fact that only those examinees could answer who had either proper study or thorough knowledge on the subject. Nevertheless, some of them whose study and knowledge was improper / insufficient, they discussed it generally and improperly which was far and far from the pace / spirit and even requirement of the question. This lack on the part of examinees is a matter of grave concern at their ends.

(b) Response to the internet and other modern technologies with e-business strategies:

It is highly strange that the era through which we are passing is extremely the era of digital age and fast communication duly synchronized with highly sophisticated modern technologies. The study of answers of this part of the question revealed shy part of proper study and knowledge at the ends of examinees.

(c) Environmental forces effective for a company's ability to serve its customers:

This question appeared to be the question of matter of common observation as a man of common calibre / sense certainly has some sort of knowledge on this subject. The examinees being students on the subject could have explained / described in accordance with the requirement of the question which had not been done. Hence it appeared dire need of the hour that examinees being student on any requisite subject must improve their knowledge duly compatible in accordance with the requirement of the subject.

EXAMINERS' COMMENTS
FALL 2010 EXAMINATIONS
BUSINESS MATHEMATICS & STATISTICS
Stage – 2

Question No. 2

(a) Break-even Analysis:

Examinees were asked to determine the price of each ticket if a charitable organization wanted to raise Rs.100,000 from a raffle provided that the number of tickets to be sold were 500 and the car (offered for winning) would cost Rs.150,000. Responses to this question were satisfactory, however, a few examinees failed to identify the cost and profit and hence made mistake in arriving at correct solution.

(b) (i) Partial Derivatives:

From a given bivariate function, examinees were required to find the 'derivatives' with respect to variables 'x' and 'y'. Responses, in most cases, indicated that examinees had no idea of derivatives of bivariate functions. They treated both variables as a single variable.

(ii) Absolute Equation:

Examinees were asked to solve a given absolute equation. The majority performed well in this sub-part. Nevertheless, a few students committed mistakes while opening the bracket with negative sign. In addition, they need to improve their understanding of the basic algebraic rules of addition and subtraction etc.

(c) (i) Compound Interest:

This sub-part required examinees to determine the amount that must be deposited today to make it accumulate to Rs.250,000 after eight years applying an interest rate of 10% per annum if compounded quarterly. Most of the examinees failed to identify the correct formula to be used i.e., $S = P(1+i)^n$ and confused it with 'present value' and 'future value'. Some of the examinees who were able to use the correct formula, failed to determine the correct values of 'n' ($4 \times 8 = 32$) and 'i' ($10 \div 4 = 2.5\%$). They were also found lacking in the proper use of statistical tables.

(ii) Determination of Size of an Annuity:

Examinees were required to determine the amount of monthly car loan re-payment to repay a car loan of Rs.300,000 given that the rate of interest was 18% compounded monthly and the period of loan being five years. Performance was below average in this sub-part. Most of them were unable to understand the requirement of the question. They did not know as to which formula was to be used. Some of them used the wrong formula i.e., $P = A(1+i)^{-n}$ instead of $A = \frac{R\{(1+i)^n - 1\}}{i(1+i)^n}$. In this sub-part, as well, examinees failed to correctly find the values of 'i' ($18 \div 12 = 1.5\%$) and 'n' ($5 \times 12 = 60$).

Question No. 3

(a) Cost Application of Optimisation:

Examinees were provided with the annual cost function in terms of 'q' (order size) and they were expected to (i) determine the order size 'q', which would minimize annual inventory cost and (ii) the annual inventory costs itself. Value of 'q' could be achieved by finding the first derivative of the cost function and equating it to zero. In order to know whether inventory cost is minimum at this order size 'q', second derivative test was to be applied but most of the examinees failed to apply the second derivative test. Even first derivative was not obtained by a good number of examinees.

(b) (i) Product Rule of Differentiation:

This sub-part tested the capabilities of the examinees with respect to product rule of differentiation i.e., $f'(x) = u'(x)v(x) + v'(x)u(x)$. It was an easy question. Performance remained satisfactory. However, they need to improve their simplification skills.

(ii) Use of Rule of Integration:

This sub-part was based on anti-derivation rule of $\int \frac{f'(x)}{f(x)} dx = \ln f(x) + c$. Response to this sub-part was also satisfactory. However, some examinees were not conversant with the above rule and hence indulged in irrelevant calculations.

(c) Solution of System of Equations by Inverse Method:

This part required examinees to solve a system of equations using the method of $X = A^{-1} B$. In addition A^{-1} was to be determined using co-factor procedure. The majority seemed to have a good understanding of the topic. ' A^{-1} ' could be found by means of ratio of 'Aj' (adjoint matrix) and determinant of 'A'. 'Aj' is simply transpose of matrix of co-factors i.e., A_c^T

Examinees were able to perform satisfactorily to some extent. However, following common mistakes were committed:

- Incorrect calculation of Δ i.e., determinant of matrix resulted in incorrect final values of variables 'x', 'y' and 'z'.
- Many examinees were not conversant with the formula to determine A^{-1} i.e., $A^{-1} = \frac{A_j}{|A|}$
- They were found lacking in the skill of multiplication of the matrix i.e., while multiplying A^{-1} with B.
- They failed to calculate co-factors correctly and consequently, they were not able to determine matrix of co-factors and for that matter transpose thereof.

Question No. 4

(a) Combinations Counting Rule:

Examinees were required to find out the number of selections consisting of 3 balls from a box containing 4 white and 6 red balls if (i) colour is not considered, (ii) exactly two balls are selected and (iii) at-least 2 balls are selected. Majority of the examinees failed to understand the requirement of the question. They confused the counting techniques with probability and tried to find the probabilities of the requirements mentioned in sub-parts (i), (ii) and (iii), which was not required.

(b) Median of Group of Data:

From a group of data, examinees were required to find out the median thereof. It was a straight-forward question and good performance of the examinees was an apt reflection of the simplicity of the question. Although, the majority performed well, there were some examinees who could not convert 'class intervals' into 'class boundaries', produce correct formula and correctly inserting various values therein.

Question No. 5

(a) Test of Hypothesis:

In this part examinees were needed to test the hypothesis that average content of all containers is 10 litres on the basis of a sample of 50 containers that showed an average content of 10.2 litres with a variance of 0.06 litre. A significance level of 0.01 was to be used. It was a very easy and clear question of 'test' concerning 'mean' but hardly any examinee was able to attempt it correctly. Following mistakes were observed in general:

- Some examinees were able to write Null Hypothesis ($H_0 : \mu = 10$) correctly but failed to write Alternate Hypothesis ($H_1 : \mu \neq 10$).
- Hardly any could write 'critical region' correctly i.e., $z < -2.575$ and $z > +2.575$.
- Tabulated and computed values of z were either not correctly determined or the same were not compared for a correct conclusion.

(b) Correlation coefficient:

This part provided data relating to number of absences and final grades of students of a class. Examinees were asked to compute correlation coefficient and then to interpret it. A large number of examinees attempted this part and performed satisfactorily, nevertheless, some of them:

- could not write the required formula of 'coefficient of correlation' correctly.
- used regression equation for computing the required value.
- committed calculation errors.
- computed correct figure of 'coefficient of correlation' but failed to interpret it.

Question No. 6

Network Analysis:

Examinees were provided with the data in respect of six activities and their respective normal durations, normal costs, crash durations and crash costs. Requirement of the question was (a) drawing the network diagram, (b) determining all possible paths and identifying the critical path of the project and (c) calculating the slopes for each activity. Examinees exhibited good understanding of the topic and this fact was reflected in their good performance. However, some examinees committed following mistakes:

- In the network diagram, they failed to show durations of the activities.
- They computed negative values of cost slopes instead of positive values.

Question No. 7

Simplex Method:

Examinees were given a linear programming model and asked to solve it by means of 'simplex method'. Despite the fact that question on 'simplex method' has been a regular feature of the Business Mathematics & Statistics paper, the examinees seem to be in the habit of ignoring this topic and consequently have been performing poorly in this topic. This term was no exception either. They committed following mistakes:

- Proper tableau were either not drawn or processed to the conclusion as required.
- Most of them failed to identify the 'pivot element' in the first tableau, which affected next steps to arrive at the correct solution.
- Some examinees failed to rewrite the problem in standard form with slack variables added in.
- They also committed calculations errors.

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**EXAMINERS' COMMENTS
FALL 2010 EXAMINATIONS**

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

SECTION 'A' "HARDWARE"

Question No. 2

(a) Computer generation:

A fairly large number of examinees either did not attempt this part or did not demonstrate the detailed knowledge of computer generations. They mentioned about 'classification of computers with respect to their sizes' rather than what was asked for. Examinees are advised to see the suggested answers uploaded on the Institute's website to refresh their studies.

(b) Volatile and non-volatile memory:

Few examinees did not provided correct examples of non-volatile memory like secondary storage devices. Non-volatile memory retains the data stored in it even when powered off or interrupted, while volatile memory loses its data when power is turned off.

(c) Steps in execution of instruction by CPU:

A very few examinees were found to have the proper knowledge of CPU machine cycle, i.e., instruction cycle and execution cycle. Majority of examinees were unable to describe the main steps involved in execution of an instruction by a computer CPU.

Question No. 3

(a) (i) Magnetic disk:

Besides the fact that most of the examinees had proper concept of what magnetic disk is, but a sizeable number of them explained it in just one line and some gave CD as an example of magnetic disk which is wrong and quite unexpected answer from the students.

(ii) Definition of (a) track, (b) cylinder, and (c) sector in the context of magnetic disk:

Most of the examinees could not properly define the terms. Some of them were found to have no idea how to describe or illustrate the relationship between the three terms.

(b) Scanning devices:

In this part, data scanning devices and their efficiency were asked to describe. A majority of the examinees did not adequately elaborate the comparison of the performance of scanning devices with that of keyboard. Examinees could not properly define data scanning devices, which are input devices used for direct data entry into computer system.

(c) Digitizer:

In this part of the question performance of the examinees was below average. Majority of them provided the answers with shallow knowledge of the topic and did not elaborate their answers according to requirement of the question. Majority of students mixed digitizer with scanner / scanning devices. Only a few knew what a digitizer is and how does it work.

SECTION 'B' "SOFTWARE"

Question No. 4

(a) (i) Key functions of system software:

A large number of examinees had the basic concept of system software but many of them did not have the concrete knowledge about key functions performed by them.

(ii) Utility program:

This subpart of the question was answered correctly by most of the examinees with clear concept of utility programs. However, a few examinees could not correctly list down the tasks commonly performed by the utility programs. Some of them related utility software with software packages like MS Office, Peachtree etc., while utility programs help users in system maintenance tasks.

(b) Differentiation among hardware, software, firmware and middleware:

Differentiating hardware and software was found to be quite easy for almost all of the examinees. However, a few of them could properly differentiate firmware and very few could correctly explain the concept of middleware.

Question No. 5

(a) High-level languages vs. machine and assembly languages:

Students had shallow knowledge regarding limitation of high or low level languages. Majority had written about the evolution of the languages and the history of various types of languages, although the advantages and limitations were asked for.

(b) Computer virus:

Majority of students described correctly the working of virus and how it is cured but very few students gave proper definition of computer virus.

SECTION 'C' "NETWORK & SECURITY"

Question No. 6

(a) (i) Differentiation among narrowband, voice band and broadband:

Performance of examinees was below average because they did not specifically differentiate among narrowband, voice band and broadband terminologies. Answers from examinees showed that they were well versed with these terms but unable to elaborate their answer according to requirement of question.

(ii) Differentiation between analog and digital transmission:

Majority was found to have the basic concepts of analog and digital transmission but very few could correctly mention the advantages and disadvantages of analog and digital transmissions. Analog is a continuous varies signal while digital is discrete signal either higher or low voltage values. Majority of examinees gave correct definition of both types of transmissions but unable to describe advantages / disadvantages of each transmission type / technique.

(b) Explanation of (i) bridge, (ii) router, and (iii) gateway:

Most of the answers contained only one-line basic knowledge concepts of bridge, router, and gateway. The quality of answers was very poor because they lacked the required proper, in-depth technical knowledge, specially, in cases of bridge and gateway. Some of the examinees related the bridge with switch / hub. Majority of students know the purpose of gateway but unable to properly describe that it is used to connect dissimilar networks use different protocols. Technical and core concepts of students regarding functionality of network devices was very weak.

**EXAMINERS' COMMENTS
FALL 2010 EXAMINATIONS**

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

WORD PROCESSING:

This portion of practical examination tested the practical working skills in MS Word of examinees. This portion was divided into the following two parts:

(1) MULTIPLE CHOICE QUESTIONS (MCQs):

In this subpart, five (05) MCQs were given of one mark. Examinees performed satisfactorily in this subpart.

(2) TYPING OF GIVEN TEXT USING PROPER FORMATTING:

In this part, some text was given to the examinees for composing. The question tested examinees' basic typing skills and composing skills, including use of various fonts, sizing of text, making it bold and in italics with the use of other tools like making table, importing picture from picture gallery etc. It was observed that a large number of examinees did not care about selection of the required fonts as given in the question. The use of required border was also missing. Some of the examinees could not make the text bold, italics, and get hold of size of the text, as given in the paper. Candidates must understand that there are certain marks reserved for the correct use of font, size of font, the correct style, justification of margins, borders of tables, use of superscripts / subscripts and, above all, the overall look of the document.

SPREADSHEET:

The examinees in this practical question were provided a worksheet having different scenarios using MS-Excel, they were asked to perform certain operations like application of Excel functions and different self-created formulae, making of bar chart or pie chart etc. However following shortcomings were witnessed:

1. Majority of the examinees faced difficulties in applying the formulae correctly and in making bar chart or pie chart, using the chart data.
2. Another reason for failure of a fairly large number of examinees is making mistakes in copying the data in the given table while attempting Question No. 1 (to create the worksheet as given above). This propagation error resulted wrong answers generated at the later stages of the paper.
3. It was observed that a large number of examinees did not have sufficient knowledge and skills of the use of basic formulae and functions like '*IF CONDITION*' which was utmost important to pass the Excel practical paper.
4. Many of the examinees could not get hold of the size of generated table and did not take care of using page setup function to print the complete table on one page, which damaged the presentation.
5. In some of the scripts, the generated sheet was partly printed on one page and rest was completed on the next page, which showed poor presentation.
6. Making bar chart or pie chart, many examinees either did not know how to select the required columns or they could not get proper hold of the internal chart wizard options. Most of them did not even attempt the part where chart (bar or pie) was asked to print. Many, who attempted this part, could not adequately present the required chart.

Candidates must read the instructions carefully so as to ascertain what is actually required. It is always recommended that at least the first row of the data may be given a manual check for the validity of the formulae which have been posted, as for the 'fill down' command the same formula is pasted downward / or rightward and if there is a mistake, the same is replicated throughout the worksheet.

PEACHTREE:

In this question, the overall performance of the examinees remained unsatisfactorily. The question-wise shortcomings observed as follows:

- **CHART OF ACCOUNT WITH CURRENT BALANCES:**

1. Ready made 'chart of accounts' are not acceptable but some candidates used the same.
2. Many examinees either did not print the current balances or provided with the wrong figures. In some cases, incomplete list of accounts was provided.

- **GENERAL JOURNAL:**

1. The debit / credit mistakes in general journal entries led to the wrong answer in the report by many of the examinees.
2. Incorrect selection of head of account like 'account receivable', 'income' etc., was found in many answer scripts.
3. Some examinees unnecessarily provided the income statement and general ledger which were not required.
4. A majority of the examinees provided incorrect answers in this part due to incorrect data entry at the initial stage and in most of the cases the mistake pertained to incorrect number of zeros entered while entering the transactions.

- **GENERAL LEDGER TRAIL BALANCE:**

1. Any wrong entry in 'general journal' reflects wrong entry in 'trial balance / balance sheet'. It shows that majority of the examinees accounting concepts and skills were very weak.
2. The propagated error due to incorrect data entry at the initial stage resulted in yielding wrong answers here. In some cases, general ledger was printed, which was not required.

- **BALANCE SHEET:**

There were many errors found in majority of the scripts with respect to the contents and format of balance sheet.

- **SALES JOURNAL:**

1. Most of the examinees could not correctly prepare the 'sales journal / purchase journal' or left this part un-attempted or with blank report.
2. There were very few cases in which the correct sale journal was printed.

POWERPOINT:

In this portion of the paper, examinees were evaluated in framing given slide format in PowerPoint package and to print the same for evaluation. The overall performance of the examinees in this part of the paper remained satisfactory. The common mistakes committed by many of the examinees are as follows:

- Not using the required font;
- Inappropriate text alignment;
- Incomplete use of bold / italics / underline;
- Missing picture.
- Not using the required size of the text;
- Incomplete text contents;
- Missing or incorrect bulleting;
- Missing slide border / box (where applicable)

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**EXAMINERS' COMMENTS
FALL 2010 EXAMINATIONS**

**FINANCIAL ACCOUNTING
Stage – 3**

Question No. 2

Accounting for Royalties:

It was very simple question. Majority of the examinees attempted this question correctly. However, in some cases following mistakes were observed:

- In year 2008, the amount payable / paid i.e., Rs.780,000 was shown without the adjustment of Rs.750,00 for short working recouped.
- The amount of short workings was not shown as carried forward even the calculation in short working account was not done properly.
- The amount suffered in last year was not written off.
- In some cases, time was wasted by making entries even it was not required. The narration in the column of particulars was not written correctly specially in short working and patentee account.

Question No. 3

Department Wise Profit & Loss Statement:

It was very simple question but examinees lost the opportunity to secure maximum marks due to the following deficiencies:

- The totals of cost of sales, cost of goods available for use and cost of all expenses were not mentioned in each department. The accumulated total column was also missing. Working notes were not provided for expenses.
- 'Heat and Light' and 'Rent' were apportioned equally or on turnover ratio and on machinery rather than on covered area by the departments. Some of them have added the heat and light and depreciation expenses in the cost of goods sold even it was not a manufacturing concern.
- General and Administrative expenses were apportioned using inventory turnover formula rather than the ratio of sales turnover. In some cases, 'Trading Accounting' was also made that was not required.
- The salaries amount were not included in departments even it was given in the question.

Question No. 4

Partnership Accounting (Retirement):

Failure to attempt this question the majority indicated that they remained untouched/ indifferent with their studies and did not pay proper attention to the weightage of the syllabus. Following common lapses were observed:

- The amount of 'Goodwill' i.e., Rs.300,000 was not calculated correctly as the amount of loss in year 2008, i.e., Rs.50,000 was added and no adjustment was made for the amount of profit in the year 2009. Consequently, the share of Raja in goodwill was also incorrectly calculated that caused problems in partnership capital account.
- Unrecorded plant (net) Rs.45,000, was not recorded properly and hence did not added in plant and machinery account as well.
- In some cases, assumption was made for the payment of 'Appraiser Remuneration' but no adjustment was made in balance sheet for cash account.
- While preparing the balance sheet, all amounts except the inventory, land and plant and machinery were found incorrect.

Question No. 5**Ratio Analysis:**

It was simple question but examinees lost the opportunity to score marks by committing conceptual and basic mistakes which are given below:

- In some cases, even inventory and receivable turnover were not properly calculated due to wrong formulas. In both the part (a) and part (b) the ratios of return on total assets and return on total stockholder equity were calculated incorrectly. Net profit and inventory figures were not adjusted properly in part (b) as well.
- Poor grip over the IAS-10 was observed. Adjusting and non-adjusting events were not given or if given reported wrongly.

Question No. 6**Final Accounts (IFRS-1):**

Most of the examinees committed mistakes due to improper knowledge of IAS and IFRS-1. Following flaws were observed:

- Cost of sales schedule was not made as per manufacturing concern specially due to improper segregation of 'Factory Overhead' and posting of items at wrong places in cost of sales.
- The IFRS & IAS-1 requirement was not followed as all the detailed expenses are shown on the top of income statement and income from investment was not shown at proper place.
- The distribution and administrative expenses figures were not calculated correctly. Majority of them mixed the expenses.
- Depreciation was either wrongly calculated or apportioned between manufacturing, administrative and distribution cost.
- Statement of changes in equity was not properly made due to incorrect profit and stock dividend figures.
- In balance sheet and changes in equity, stock dividend was not added in opening balance of share capital.

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**EXAMINERS' COMMENTS
FALL 2010 EXAMINATIONS**

**BUSINESS TAXATION
Stage-3**

Question No. 2

(a) Definitions-Income Tax Ordinance, 2001:

This part required examinees to define (i) AOP (ii) Resident Company and (iii) Profit on debt as per the Income Tax Ordinance, 2001. In this part majority of the students demonstrated a fair understanding of the terms, but in some cases, students explained these terms in general and provided unnecessary details. Students must understand the fact that answers to such types of question must be precise and in accordance with the law.

(b) Profit in lieu of or in addition to salary:

This part tested examinees on sub-section 2(e) of section 12 of the Income Tax Ordinance, 2001. This was one of the core topics of syllabus. Majority of the students were found struggling with the requirement of the question and could not grasp it due to lack of understanding of original text of law (i.e., ordinance). Majority of them provided the break-up of salary or explained perquisites and allowances such as medical allowances, conveyance allowance, entertainment allowance etc instead of "profit in lieu of or in addition to salary". It includes, for example, golden handshake, compensation for redundancy or loss of employment etc. It was evident that students did not study the said sub-section from the ordinance.

Question No. 3

(a) Allow-ability of bad debts:

This was a simple question but the students in this part again have shown their indifference to the specific provisions of the law, section 29 of the Income Tax Ordinance, 2001. The said section provides for the allow-ability of bad debts such as it is previously included in the person's income from business chargeable to tax, written off in account and reasonable ground for believing that debt is irrecoverable. In some cases, students explained it in general accounting perspective. Students need to develop their understanding of these terms in the context of law.

(b) Tax Avoidance Scheme.

In this part examinees were required to define the term under sub-section 2 of section 108 of the Income Tax Ordinance, 2001. It means any transaction where one of the main purposes of a person entering into the transaction is the avoidance or reduction of any persons liability. In most cases students failed to understand this term and hence their answer was general, vague and devoid of the true expression as per law. Moreover, students were got confused and explained this term in the context of double taxation.

(c) (i) Valuation of Accommodation Provided by an Employer.

Rule 4 of the Income Tax Rules, 2002 clearly states that value of accommodation in respect of computing the income chargeable to tax under the head "salary" is:

- Equal to the amount that would have been paid by the employer in case such accommodation was not provided.
- Not less than 45% of minimum of time scale or basic salary in any case.
- Where house rent allowance is admissible 30%. The value taken for this purpose not less than 30% of minimum of time scale or basic salary.

It is relatively a simple question. Majority of the students attempted this question but could not answer as per said rule. It seemed that students, in general, do not bother to study the relevant rules of the Income Tax Rules, 2002.

(ii) Book of Accounts, Documents and Records:

Rule 29(i) of the Income Tax Rules, 2002 specifically states the books of accounts, documents and records to be maintained by a taxpayer deriving income chargeable under the head "income from business". Examinees were required to list them down as per said rule but again in some cases the response was general and not specific to the said rule. Examinees can perform much better in this type of questions provided that they study the prescribed rules of the Income Tax.

Question No. 4

(a) Definitions-Sales Tax Act, 1990:

In this part examinees were asked to define (i) Person and (ii) Cottage Industry under the Sales Tax Act, 1990. Majority of the students attempted this question in the true context of the law and hence their response was up to the mark and specific but in some cases examinees could not explain these terms as per law.

(b) (i) Zero-rated Goods:

It was a simple and marks scoring question. Under section 4 of Sales Tax Act, 1990, there are goods charged at zero percent. In most of the cases, examinees could not answer the question in accordance with the said section. Examinees need to give due importance of the Sales Tax Act, as it carries a considerable weightage of syllabus.

(ii) Exception to the above Rule:

It seemed that examinees were confused because they were not conversant with the said section.

Question # 5

Computation of Taxable Income & Tax liability of a Salaried Person.

It is again a very simple and marks scoring question. Almost every students attempted this question. Despite the good performance in general, following are the some common mistakes identified.

- Tax credit for investment in shares (credit is allowed as per formula for the investment made in listed company through IPO).
- Exemption is allowed to medical allowance. (10% of MTS or BS is exempted).
- Capital gain on sale of shares of private companies (75% of capital gain to be taken into income provided that shares are held for more then one year).
- Marginal relief (where total income of taxpayer marginally exceeds the maximum limit of slab).
- Donation to unapproved institution and donation under clause 61 of part 1 of 2nd schedule were misunderstood.
- Improper presentation.

Question No. 6

(a) (i) & (ii) Conditions for drawbacks not allowable and refund of customs duties:

This part related to the Customs Act, 1969 and asked examinees to (i) list down the conditions under which drawbacks are not allowable and (ii) indicate the time limit for claiming the refund of overpaid custom duties. Majority of the examinees did not attempt this part and those who attempted, failed to answer in accordance with the relevant law hence their performance was dismal because they perhaps did not study the relevant sections of the Custom Act, 1969.

(b) Excisable Goods & Services:

This part related to Federal Excise Act, 2005 and asked examinees to list down the goods & services on which excise duty is levied. In most cases answers were not in accordance with the law. It is evident that students in general ignore the thorough study of Federal Excise Act, 2005.

(c) Definitions Federal Excise Act, 2005:

This part required the examinees to explain (i) Non-tariff area and (ii) Establishment under Federal Excise Act, 2005. This was a very simple question and the performance of the student in general was satisfactory. However, in some cases, responses were not as per the relevant section of the said Act.

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**EXAMINERS' COMMENTS
FALL 2010 EXAMINATIONS**

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

General Weaknesses:

- It was noted that examinees, in general, did not bother to read the career pack and comprehend the syllabus contents. Their write up depicts their non-seriousness with their studies that some of them are unable even to write correctly the name of their subject(s).
- Examinees totally ignored the weightage of different topics given in the syllabus. As a result, their haphazard studies put them in great trouble to attempt the question paper properly.
- A qualified man is supposed to be well versed with relevant terminology of the subject but the examinees preferred to answer the questions as layman.
- Apart from poor expression, presentation was so dirty that is not expected from an aspiring management accountant.
- Lack of practice to attempt the question papers was also noted as great shortcoming which should be overcome.
- Study of selected topics is another the major reason of failure which must be avoided by the examinees.

Question No.2

Production cost for inventory valuation and income statements under marginal and absorption costing:

It was very simple question but examinees lost the opportunity to score marks committing conceptual and very basic mistakes as listed below:

- Selling and distribution expenses were included in cost of production.
- Fixed portion of labour and fixed overhead costs were included in production cost under marginal costing.
- In preparing income statements under marginal and absorption costing examinees in general ignore the words “two situations” and could not prepare the income statements under ‘situation 1’ i.e., constant for 2 months.
- The terms ‘contribution margin’ and ‘gross profit’ were interchangeably used for marginal and absorption costing.
- Inventory valuation was wrongly calculated due to lack of conceptual knowledge and hence failed to relate the appropriate costs with marginal and absorption costing.

Question No.3

Throughput accounting:

Failure to attempt this question by majority indicated that they remained untouched/ indifferent with their studies and even they did not read the career pack to go through the contents of the syllabus. Examinees were unaware of the terminology related to “throughput accounting” i.e., ‘throughput time’, ‘delivery cycle time’ etc. As a result of selected studies and unawareness of the topic about 76% examinees obtained zero mark or did not attempt the question.

Question No.4

Definition of standards and calculation of variances:

Examinees defined the basic, ideal and currently attainable standards in layman's language. They ignored the words 'over long period, performance, efficient condition or operating conditions'. Other mistakes/ weaknesses are as under:

- In calculating the mix variances, examinees failed to convert the actual mix into standard mix.
- Variances are shown in rupees but some examinees showed them in units.
- Sales mix variance was incorrectly calculated due to failure of converting actual sales mix in budgeted ratio.
- Standard price of material was used in calculating planning variance and material usage variance instead of using market price.
- No indication was given for favourable or unfavourable variance.

Question No.5

Cash budget for six months:

It was very easy question and marks could have been fully scored by majority but unfortunately they committed various mistakes as under:

- Collections from creditors were wrongly and carelessly calculated for some or for all six months.
- Payments against materials and labour were also found incorrect.
- Months of payment of Advance income tax and capital expenditure were found wrong.
- Depreciation was also taken in the cash budget despite of being a non-cash item.

Question No.6

Transfer pricing:

The area of transfer pricing seemed uninteresting to the examinees. An overwhelming majority (about 75%) left the question un-attempted or obtained zero mark. Examinees confused interpreting additional data, however they had to pick and use the relevant data to solve the question. Another reason of failure to attempt or properly attempt the question seems to be the selected studies and it seems that examinees left the topic unattended due to the minor weightage of this topic.

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**EXAMINERS' COMMENTS
FALL 2010 EXAMINATIONS**

**PRESENTATION & COMMUNICATION SKILLS
Stage – 3**

Question No. 2

(a) Communication barriers:

In this subpart of the question, examinees were required to describe the 'communication barriers'. It was a very simple question, since it was a text-based question. However, it is surprising to note that almost all of the students could not reply it properly. It seems that their concepts on the given topic were not clear and they were not prepared for this question. Most of the students tried to answer it based on their general knowledge but only 'noise and distractions' was the barrier they were familiar with. Overall, the performance was not satisfactory. In few cases, they mentioned the headings correctly, but its explanation was not upto the mark.

(b) Leading and participating in meetings:

This part of the question required examinees to elaborate the factors required to ensure that meeting could be productive. Though the question was simple but many students seemed to have no idea about 'leading and participating in meetings'. They were more concerned about the preparation, like agenda and meeting places, than the rules of making a meeting productive. As chairing a meeting means more responsibilities and application of knowledge for the success of meeting.

(c) Factors influencing the choice of medium for effective delivery of the message:

The part of the question was on basic factors, which influence the choice of medium for effective delivery of the message. The given question was a little difficult for the students. Most of them described 'medium' rather than the 'factors' influencing the choice of medium. They could not understand the question properly. Few even reproduced the answer material given by them for Question No. 2 (a). Their concepts were not cleared. Irrelevant material and poor sentences structure has been witnessed. Most of the writings were unsatisfactory and not worthy of good award of marks.

Question No. 3

(a) Method for drafting a refusal letter:

The method to write a refusal letter and the reasons for selection of this method was the requirement of the question. A good majority performed satisfactorily, describing the method for refusal letter and reasons for using this method. The writings revealed that their concepts about the method of writing a refusal letter were clear. Overall performance in this part of the question was evaluated as satisfactory.

(b) Refusal letter to a customer:

This part of the question was related to drafting a letter to a customer, covering the factors involved in a refusal letter. Nearly all the students wrote the refusal letter but only some of them did cover the factors involved in drafting the refusal letter as given in answer to Question No. 3 (a). Simply knowing the factors for refusal letter is not sufficient. They must be able to imply in real life situations. Moreover, they had grammar and vocabulary problems as well.

Question No. 4

(a) AIDA model – an effective way to organize persuasive business messages:

This part of the question examined the students in defining 'persuasive business message' using AIDA model. The given question was simple and stated in a straight-forward manner. Very few examinees were successful in the explaining the topic satisfactorily. In case of describing AIDA model the explanation presented was not upto the mark. However, some of them mentioned the headings correctly.

(b) Suitable message using AIDA plan:

Examinees were required to sketch a suitable message based on AIDA plan to persuade buyers to procure a software package of Inventory Management. The given question was simple and based on the format described in Question No. 4 (a) i.e., AIDA model. But only few of the students were able to write their messages effectively. Most of the students failed to catch reader's attention in their opening lines. Their offer was least interesting and could not motivate the reader in buying their product. This shows lack of practise and knowledge on the given subject matter.

Question No. 5

(a) Difference between 'informational report' and 'analytical report':

This subpart of the question was based on differentiation between 'information report' and 'analytical report'. It was a very short and simple question, but most of the students had no idea about the 'definition' and differences between 'informational and analytical reports'. Success rate in this part of the question was not upto the mark. They lack basic understanding of 'reports' and its types.

(b) Categories of an analytical report:

'Categories of an analytical report' was the demand of the question. Since students were not familiar with the reports, so three basic categories were also known to them. On the whole only few of the students had at least idea about the basic categories of analytical reports. Overall, the performance of the students remained unsatisfactory.

(c) Informational memo to share the learning experience with the staff members:

In this part examinees were required to communicate an informational memo to share the learning experience with the staff members after participating in a workshop of 'Time Management'. Students seemed familiar with 'report writing'. So they performed well in this part of the question. Though only few could write a proper report but the overall performance was remained average.

Question No. 6

(a) Objectives of writing proposals:

Examinees were asked to define the objectives of writing the proposals. Though the question was text-based but performance of the examinees, in this part of the question was not satisfactory. They lacked the basic knowledge of writing proposals. All of them tried to attempt the question but it was noted that in many cases the answers were too general.

(b) Kinds of proposals:

In this part, examinees were examined in providing the kinds of proposals. None of the examinees gave the correct reply to this part of the question. The scripts revealed that they had no knowledge about kinds of proposals.

(c) Heading used in a general formal proposal:

'Headings used in a general formal proposal' was asked in this subpart. Nevertheless, examinees lacked the general knowledge of headings used in a general formal proposal and hence, they provided vague answers. The overall performance of the examinees in this part remained below average. Some of the students wrote about heading of a letter, which was never asked.

**EXAMINERS' COMMENTS
FALL 2010 EXAMINATIONS
ADVANCED FINANCIAL ACCOUNTING & ANALYSIS
Stage – 4**

Question No. 2

(a) Consolidated Statement of Financial Position (Simple Group):

In this question the candidates were required to prepare consolidated Statement of Financial Position. Overall performance of the candidates was satisfactory. A good number of examinees calculated the Goodwill, Consolidated Retained Earnings and Non-Controlling Interest (NCI) correctly. Following common mistakes were observed in the scripts:

- Some candidates did not calculate the unrealized profit on un-sold goods (Rs.500,000) correctly, hence, could not arrive at the correct amounts of Consolidated Retained Earnings (Rs.39,600) and Non-Controlling Interest (NCI) (Rs.10,100).
- Some examinees ignored 'Revaluation Reserve' while computing the figures of goodwill and NCI.
- A good number of examinees did not show the working for consolidated Inventory, Trade Receivables and Payables to support their answer.
- While preparing the workings to support their answers, the candidates were lacking clarity of presentation.

Question No. 3

Statement of Cash Flows:

This question required the candidates to prepare Statement of Cash Flows using Indirect Method as per the requirements of IAS-7. Overall performance of the candidates was satisfactory. However, following shortcomings were observed in the scripts:

- While calculating 'cash flows from operating activities', examinees were required to make certain adjustments to the 'net profit before tax' amount. Some candidates failed to calculate the amount of 'depreciation for the year' and 'gain on sale of equipment' correctly, due to lack of clear concept of accounting treatment for disposal of assets. Some examinees did not mention the 'amortization expense' (Rs.4,500) at all.
- Some examinees started 'Statement of Cash Flows' with the figure of operating profit or 'profit after tax' instead of 'profit before tax'.
- Some examinees treated short-term investment as part of 'cash and cash equivalent' items without giving any assumption i.e., it had a short maturity of three months or less from the date of acquisition.
- Some candidates did not prepare sufficient working to show calculations of various items of cash flows.

Question No. 4

(a) Financial Ratios:

In this part, examinees were provided with the Income Statement and Statement of Financial Statement of a limited company and they were required to calculate financial ratios for: (i) Return on Capital Employed (ii) Debt Equity Ratio (iii) Fixed Assets Turnover Ratio (iv) Earnings per Share (v) Return on Equity (vi) Dividend Cover. Overall performance of the examinees was very poor in response to this part of the question. Following shortcomings were noted:

- They did not apply the correct formulae.
- Some candidates applied the correct formulae but could not write the answer correctly i.e., the answer for Dividend Cover was 2.25 times instead they wrote the answer as 2.25%

- In sub-parts (i), (iii) and (iv) they used last year's figures of capital employed, fixed assets (net) and equity instead of average figures of the same.
- While calculating the Earning per Share (EPS) a few examinees did not write the 'profit available for equity shareholders'. Rather they just mentioned 'profit'.

(b) Construction Contract:

Examinees were provided with certain data in respect of a fixed priced construction contract and were required to calculate / prepare (i) Stage of Completion (ii) Extract from the Statement of Comprehensive Income to show recognition of revenue and costs for the period (iii) Amount Due from Customers (iv) Trade Receivables to be shown in the Statement of Financial Position. Majority of the examinees had attempted this question very well and secured good marks. However, some candidates did not have clear concept of 'Amounts due from Customers' and 'Trade Receivable' to be shown in the Statement of Financial Position. Some candidates did not prepare sufficient workings to support their answers.

Question No. 5

(a) Lease Amortization Schedule:

The candidates were required to prepare Lease Amortization Schedule for the years 2009-2013. A good number of examinees attempted this part of the question correctly. However, a few did not have clear concept of the Lease Amortization Schedule hence could not prepare the same correctly. A few of the examinees did not round off the amounts and showed them in two to three decimals. Some examinees wrongly used Rs.300,000 (60,000 x 5) as base amount in the amortization schedule instead of Rs.216,300 (given).

(b) Preparation of Journal Entries:

This part of the question required the candidates to prepare relevant journal entries for the year ended on December 31, 2009 in respect of data given in sub-part (a). A good number of candidates attempted this part very well who attempted sub-part (a) correctly.

(c) Extracts from Financial Statements:

The candidates were required to prepare extract from the Statement of Comprehensive Income and Statement of Financial Position for the year ended on December 31, 2009. Majority of the candidates prepared the extract from the Statement of Comprehensive Income correctly but there was poor response while preparing extract from Statement of Financial Position. They seemed to be good in 'calculation' but they needed to improve their presentation of data.

- They did not have clear concept of finance lease, hence, they did not show the leased asset in the Statement of Financial Position.
- 'Amount of Liabilities against Leased Assets' was either not shown or whenever shown, the amount was not bifurcated between Current and Non-Current Liabilities.

Question No. 6

(a) Current and Deferred Tax:

In this part, examinees were asked to compute (i) current / deferred tax liabilities and prepare (ii) relevant journal entries for four years (2006 to 2009). The majority did not attempt this part correctly. Following common errors were found:

- The candidates were not able to differentiate between deferred tax liability for the year and cumulative deferred tax liability.
- Some examinees did calculate the 'deferred tax liability' for each year correctly but did not adjust the same in the year 2009 when the same was paid off.
- Majority of the candidates did not have clear concept of the current tax expense, deferred tax liability and tax payable for the period hence could not pass correct journal entries.

(b) Accounting for Investment (Equity Method):

Examinees were required to prepare (i) journal entries and (ii) extracts from Statement of Financial Position in the books of the investor relating to investment made in and share of net profit/ dividend received from the investee company. Performance of the examinees was not satisfactory in this part. Following mistakes were noted:

- A good number of examinees were able to prepare the journal entry relating to the investment made correctly but the majority failed to prepare journal entries relating to share of profit / dividend received from the investee.
- The majority did not compute the closing amount of 'investment in associated company' correctly i.e., Rs.1,689,000 (1,500,000 + 270,000 – 81,000).
- Some examinees credited 'share of profit from associate' to 'reserves' instead of including it into income statement.

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**EXAMINERS' COMMENTS
FALL 2010 EXAMINATIONS**

**INTEGRATED MANAGEMENT
Stage – 4**

SECTION – “A”

Question No. 2

(a) Strategic Management Model:

Examinees were required to explain major factors evaluated in examining the prospects for the future in accordance with 'Strategic Management Model'. Overall performance in this part remained satisfactory. However, few students got an excellent command over the topic, which was reflected from their answers. In some cases, they wrote the answers with the help of correct diagram.

(b) Strategies for entering a new country:

This part of the question required examinees to comprehend the different strategies may be followed for entering a new country. Majority of the students showed very poor performance. The answers showed their hit and trial approach for getting pass marks. They put into pen and ink a mixture of what they know. It seems that they have not read the prescribed textbook accordingly.

(c) Corporate, business, and functional strategies:

Differentiation between corporate, business, and functional strategies was the requirement of the question. Majority of the examinees attempted this part of the question and their proficiency was observed superior. They were able to distinguish between the three strategies satisfactorily.

Question No. 3

(a) Social responsibility:

Majority of the examinees had vague concept on the given topic and they could not differentiate between 'legal responsibilities' and 'social responsibilities'. Their lack of concept led them to produce a mix of both and hence they lost marks.

(b) Organizational mission:

Some of the examinees were able to explain and define 'organizational mission' correctly. Nevertheless, a good number of students had no idea about the remaining part of the question i.e., use of organization mission by the stakeholders.

(c) Vertical integration:

This part tested the knowledge of examinees in defining 'vertical integration'. Though the question was simple but concepts of majority examinees on the topic was not clear, which resulted vague answers. Some of them got confused and explained 'horizontal integration' instead of 'vertical integration'.

SECTION – “B”

Question No. 4

(a) Project management process:

In this part of the question, examinees were called for defining project management process, which can be organized into five groups of one or more processes. The overall performance of the students was observed satisfactory. However, some of them listed the five groups only and did not provide its explanation.

(b) Project plan development:

In this part of the question examinees had to define project plan development along with its tools and techniques. However, hardly any examinee answered it correctly. The answers were clearly indicating towards the lack of study on the given topic. Few examinees relied on their guesswork and their answers were not found specific.

Question No. 5

(a) Project quality management:

Requirement of the subpart was to discuss the certain elements involved in 'project quality management' to ensure that the project will satisfy the needs for which it is undertaken. Replies of the students in this part, were not upto the mark and hence they performed below average. Majority of them were confused in answering these elements correctly.

(b) Performance reporting and administrative closure of a project:

This was simple and straightforward question related to define the concept of 'performance reporting' and 'administrative closure' of a project. Overall performance in this part was unsatisfactory. Many examinees mixed the 'performance reporting' and 'administrative closure'.

SECTION – “C”

Question No. 6

(a) Maintenance of organizational cultures through socialization:

The question tested the knowledge of examinees on maintaining the organizational cultures through socialization along with the steps involved in it. Overall, very poor performance was observed in this part of the question. It seemed that the examinees had no idea what to write. They used their general knowledge in answering it consequently they could not get pass marks. The topic of socialization is about culture within the organization but most of the examinees discussed relations of organizations with outside world.

(b) Team building:

A fairly large number of examinees could not properly define team building as an important element to enhance team effectiveness indicated by researchers. The lack of concepts caused their total failure in answering correctly. Some students mentioned characteristics of a good team. A mixture of knowledge about team and group was produced.

Question No. 7

Organizational approaches to managing diversity:

It was very simple and easy question with maximum marks and required examinees to elaborate common organizational approaches to managing diversity such as testing, training, mentoring, and programs designed to help personnel effectively balance their work. The worst performance was observed as compared to all other questions. Lack of study and preparation was quite visible from the answers. Concepts of majority of the examinees was not clear even those who attempted it could not explain 'mentoring' instead they discussed 'monitoring'. Students are advised not to depend on selective study.

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**EXAMINERS' COMMENTS
FALL 2010 EXAMINATIONS
CORPORATE LAWS & SECRETARIAL PRACTICES**

Stage – 4

Question No. 2

(a) Short Notes:

Requirement of this sub-part was writing of short notes on (i) Shareholders' Responsibilities, (ii) Ultra Vires and (iii) Underwriting. Almost all the examinees attempted this part, however, none of them gave comprehensive answer. Following shortcomings were noticed:

- Examinees did not understand the sub-part (i) (shareholders' responsibility) and almost all of them wrote about the rights of the shareholders.
- Few understood the sub-part (ii) either. They just touched the point and were not able to define it properly.
- As regards sub-part (iii), many wrote that the underwriter sells the shares instead of mentioning that they are there to buy shares in case the subscribers do not subscribe to the desired number of shares.

(b) Inapplicability of the Ordinance to Certain Corporations:

Examinees were asked to list down the corporations to which the Companies Ordinance, 1984 does not apply. Responses to this part were also not encouraging. Most of them just relied on their common general knowledge. Out of three corporations, the majority named only one or two. Some of them talked about the corporations run by the central government, partnerships and trading organizations.

(c) Alteration in Memorandum of Association:

Section 21 of the Companies Ordinance, 1984 deals with the changes of provisions in the Memorandum. Examinees were asked to list down the objects to alter the Memorandum. The majority seemed to have command over this question and hence attempted it correctly. Nevertheless, some of them were not well prepared for the task and their weaknesses were reflected in the following ways:

- They wrote about five clauses of the Memorandum, which was not called for.
- They did not have complete knowledge of all the objectives for which alteration in the Memorandum may be effected.

Question No. 3

(a) Annual General Meeting (AGM):

This sub-part related to section 158 of the Companies Ordinance, 1984, which dealt with various matters regarding an AGM. Examinees were required to mention (i) when an AGM was required to be held, (ii) whether the time for holding it could be extended, (iii) where it was required to be held and (iv) what were the various requirements for sending notice thereof to the shareholders. The majority was able to answer this part correctly with the following exceptions:

- A few missed on the period when the meeting was required to be held.
- Examinees missed on the point that for listed companies extension in time might be granted by the SECP and in any other case the registrar might do so.
- Many wrongly wrote that an AGM was required to be held in the registered office of the company instead of the town in which the registered office was situated.
- In response to sub-parts (ii) to (iv), they did not make any distinction among listed, non-listed and private companies.

(b) (i) Rectification of Name of Company:

Section 37 of the Companies Ordinance, 1984 prohibits certain names by which a company can not be registered. However, if somehow a company has been registered by such name then section 38 provides remedy for it. In the light of the latter section, examinees were required to state how a company could change its name. Responses to this sub-part were satisfactory. Nevertheless, some deficiencies were noticed as under:

- Hardly anyone discussed about the fact that the registrar would afford the company an opportunity to make representation against the direction (for change of name) issued by him.
- Similarly, very few were aware of the fact that the registrar would not issue any direction to change the name after the expiration of three years from the date of registration of the company or registration by its new name.

(ii) Change of Name by a Company:

This sub-part was based on section 39 of the Ordinance and examinees were required to explain how a company could change its name, even though it was registered with a legitimate name. This question too was attempted by almost all examinees but it was not responded in its true spirit. Many wrote about approval for change of name from the SECP whereas the same was required from the registrar. Most of them were ignorant about the fact that no such approval was necessary if change in name is only addition / deletion of the parenthesis and word '(Private)'.

(c) Unlimited Liability of Directors:

In the light of section 111 of the Companies Ordinance, 1984 examinees were asked to explain (i) whether the liability of the directors could be unlimited in a limited company (ii) what was the responsibility of the directors / members who proposed a person for election / appointment to the office of directors and (iii) what action the promoters and officers of the company were required to take before aforesaid person accepted the office of directors or acted therein. Almost every examinee who attempted this question did not have any idea about this section and they relied on their own comments and general knowledge. In response to sub-part (i), many replied in affirmative, but the majority failed to add the phrase 'if provided by the Memorandum'. Many wrote about general requirements of election of directors and the appointment of first directors.

Question No. 4

(a) Notification of Interest by Others:

As per section 17 of the Securities and Exchange Commission of Pakistan Act, 1997 (SECP Act, 1997) examinees were required to mention the persons (besides Commissioners and Members) who were required to give written notice to the Commission disclosing their interest in the matter which was to be discussed / decided by the SECP, the Board or the Committee. Responses to this part were very poor and indicated examinees' lack of interest toward this Act. They replied on the basis of their general knowledge. Some of them kept on writing the disclosure of interest by the Commissioners and Members instead of other persons than the aforesaid. Few wrongly discussed regarding interest of Board of Directors, company share-holders, chief executive officers, chief financial officers, creditors etc.

(b) Disqualification of Members and Commissioners:

This sub-part asked examinees to state the reasons (under section 18 of the SECP Act, 1997) that disqualify a person for appointment as Member or Commissioner or to continue in these positions. This part was reasonably attempted by some examinees but they failed to cover the all points given in the relevant section of the Act. Some discussed about disqualification of directors / chief executive and others.

(c) Establishment of Non-banking Finance Company (NBFC):

This part was based on Rule 3 of the NBFC (Establishment and Regulation) Rule, 2003, which dealt with the eligibly conditions for the establishment of a NBFC. In this part, examinees were supposed to describe those terms and conditions that the sponsors, proposed directors, chief executive and chairman of the Board of Directors (of the NBFC to be established) must fulfil before a NBFC could be eligible for establishment. Response was poor. Only very few examinees answered it correctly while the others left it untouched. Many wrote about the capital amounts for NBFC, types of NBFCs and the approval process etc. They defined the procedure for formation of NBFC i.e., who could be eligible for formation of NBFC and how to proceed with it.

Question No. 5

(a) Notice for Declaration of Dividend:

This part tested the skills of the examinees with respect to drafting of a notice for the declaration of second interim dividend to be published in a newspaper. Examinees responded poorly to this question. None of them used proper language for drafting the notice. Practically few had the idea what they were writing about. Many wrote the agenda of the meeting, which was not required.

(b) Application for Availability of Name:

In this part, the task was drafting of an application to the registrar of companies for seeking availability of name for the formation of a new company. Examinees responded poorly to this question as none of them had proper command over drafting of formal correspondence with the statutory bodies. Their writing skills left a lot to be desired. In addition, many addressed to the SECP instead of the registrar.

Question No. 6

This question, comprising five sub-parts, was based on the Code of Corporate Governance. Performance was poor. It seemed that examinees made emphasis only on main sections of the Companies Ordinance, 1984 and they just ignored the other Acts, Rules etc., included in the syllabus. They just read it to acquire general knowledge. Few of them gave the correct answer and none gave all the correct answers of the five parts. Part-wise performance remained as follows:

(a) Eligibility as Members of Audit Committee:

Many wrote that members should be Chartered Accountants, Chief Financial Officers, the Commission (SECP), Members and Shareholders etc., instead of correctly writing that the Audit Committee should be constituted from amongst the directors of a listed company.

(b) Outsourcing of Audit Function:

Many examinees correctly replied that audit function could be outsourced, however, only a few were conversant with the basis on which it should be allowed and the foremost fact that the external auditors of the company could not be entrusted with this task.

(c) Eligibility as Secretary of the Audit Committee:

It was not attempted properly by the majority. They came up with the answers like auditors, CFOs, CEOs etc. Hardly any examinee was able to write that the secretary of the Audit Committee might be appointed from amongst the employees of the company but after obtaining adequate assurance that there would be no conflicts of interest for the person so appointed.

(d) Signatories to the 'Statement of Ethics and Business Practices':

This too was not answered correctly and most of the examinees wrote that a CEO and one director or two directors, internal auditors, the Commission etc., could sign the said statement, not knowing the basic fact that all the employees (excluding support staff like peons, drivers etc.) were required to sign the same.

(e) The Difference between Executive and Non-Executive Directors:

Here too very few gave the correct answer. The rest had no idea of the major differences between executive and non-executive directors.

EXAMINERS' COMMENTS
FALL 2010 EXAMINATIONS
FINANCIAL REPORTING
Stage – 5

Question No. 2

Consolidated Statement of Financial Position (Complex Group):

In this question, the examinees were required to prepare Consolidated Statement of Financial Position as per the requirements of applicable International Financial Reporting Standards (IFRS). Majority of the examinees attempted this question satisfactorily. However, following common mistakes were committed by the examinees:

- A good number of the examinees could not calculate the correct amount of Property, Plant & Equipment due to wrong treatment of 'unrealised profit' on inter-company sale of non-current asset (Rs.40,000) and impact of the depreciation amount (Rs.5,000).
- A few candidates could not calculate the correct goodwill amount especially the goodwill amount (Rs.306,000) paid for the acquisition of share in company 'C'.
- Majority of the candidates could not calculate the correct amount of consolidated Retained Earnings mainly due to wrong adjustment of unrealized profit on sale of goods by company 'C' to company 'B' and gain on sale of non-current assets by company 'A' to company 'B'.
- A good number of examinees could not calculate the correct amount of Non-Controlling Interest (NCI) mainly because of wrong adjustment of unrealized profit of unsold goods.
- Likewise a number of candidates did not produce the working for consolidated amounts of intangible assets, inventory, other current assets, non-current and current liabilities.

Question No. 3

Statement of Cash Flows:

In this question, the candidates were required to prepare Consolidated Statement of Cash Flows using indirect method as per the requirements of IAS-7 (Statement of Cash Flows). Overall performance of the candidates was satisfactory. Following common mistakes were noted in the scripts:

- While calculating the 'cash flows from operating activities', majority of the candidates could not calculate the correct amount of 'Net Profit before Taxation' (Rs.555,000) apparently due to wrong adjustment of Reserves & Surpluses and Dividend amounts.
- Some candidates did not take into account the amount of gain on investment while calculating the 'cash flows from operating activities'.
- A fair number of candidates could not calculate the correct amount of depreciation charged for the year (Rs.525,000) mainly due to omission or wrong adjustment for depreciation related to disposal of assets (Rs.125,000).
- A few of the examinees did not show the correct amount of tax paid (Rs.95,000); although, it was given in the question.

- While calculating 'cash flows from investing activities', some examinees could not calculate the correct amount of payment for purchase of fixed assets (Rs.460,000) mainly due to wrongly treating amount of assets acquired on lease as cash payment as well.
- While calculating 'cash flows from financing activities', majority of the candidates could not identify/calculate the correct amounts of dividends (Rs.300,000) and lease payments (Rs.280,000) made during the year.
- Some examinees netted off the amounts of payment (Rs.52,000) and issuance (Rs.60,000) of bonds and wrote Rs.8,000 as net cash inflow.
- Many examinees showed payment of dividend as Rs.100,000 (difference between opening and ending figures of proposed dividend) instead of Rs.300,000 (opening amount of proposed dividend).

Question No. 4

(a) Finance Lease (Installment Payable in Advance):

The candidates were required to prepare extracts from the Statement of Comprehensive Income and Statement of Financial Position. A good number of candidates answered this question satisfactorily. However, following common mistakes were observed in the scripts:

- Some candidates did not mention the depreciation amount in the Statement of Comprehensive Income and likewise some candidates skipped to mention the amount of financial charges accrued as of December 31, 2009.
- Some examinees did not have clear concept of finance leases hence they did not show the leased assets in the Statement of Financial Position.
- Amount of 'Liabilities against Leased Assets' was either not shown or wherever shown; the amount was not bifurcated between Current and Non-Current Liabilities.
- A good number of the examinees did not prepare sufficient workings to show the calculation in support of their answer hence lost respective marks.
- A few examinees misunderstood the requirement of the question and prepared the extracts of statement of comprehensive income and statement of financial position in the books of the lessor instead of the lessee.

(b) Share-based Payment:

The candidates were required to calculate the amounts under 'employees share option scheme', to be shown in the Statement of Comprehensive Income and Statement of Financial Position of ABC Ltd., for the years ended as on December 31, 2010, 2011 & 2012. A good number of candidates attempted this question and performed satisfactorily.

(c) Reporting of Investments:

This part of the question asked examinees to explain the reporting requirement for the investments classified as (i) 'fair value through profit and loss' and (ii) 'available for sale'. Majority of the candidates could not attempt this part of the question correctly, which showed their weak grip over the relevant IAS / IFRS. Some candidates prepared journal entries instead of explaining the requirements for reporting the investments in the financial statement.

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CASE STUDY – FINANCIAL REPORTING

This 'case study' provide certain data in respect of a manufacturing company and the related industry and the examinees were required to (a) compare the year-wise performance of the company including the industry analysis, (b) compare the company's performance with the competitors' performance and (c) write a report for the directors highlighting the reasons for the decrease in profitability of the company. Overall performance of the examinees was satisfactory. They understood the contents of the 'Case Study' properly and carried out the 'financial ratio analysis' accordingly. Following observations were made:

- (i) Majority of the examinees had prepared vertical / horizontal analysis to support their views / suggestions. Some of them were not able to interpret the ratios correctly e.g. in the question it was clearly mentioned that the company's profitability is decreasing over the last three years which can be evidenced with the 'vertical analysis' of the Statements of Comprehensive Income, but some examinees resorted to the 'horizontal analysis' to give their views on the gross profit which was increasing year-on-year, that was misleading in fact.
- (ii) Some of the candidates, while expressing their views on the company's sales using horizontal (year-on-year) analysis, they mentioned the increase in sales in year 2010 over year 2009 as 20% (based on year 2008) which was in fact 7.1%.
- (iii) A good number of the examinees prepared 'vertical analysis' to show the comparative performance of the company. and its closed competitors which was very meaningful.
- (iv) A few examinees resorted to use bar charts, pie charts, trend charts and other visual aids to make their reports more meaningful.
- (v) Majority of the examinees performed very poorly while preparing report for the directors. Following was observed:
 - They did not observe the principles of writing a report / letter i.e. the inside address, salutation, opening and concluding paragraphs, the complementary close and signature etc.
 - A few examinees prepared the report in a professional way. They included necessary parts of report such as: letter of transmittal, title page, table of contents, executive summary, acknowledgement (of assistance received during preparation of the report), introduction, the body of report, conclusion, recommendations, references, and appendices etc.
 - The examinees were expected to express their views on the trends with absolute percentages on the sales growth, decreasing gross profit, increasing operating expenses (i.e. marketing, selling, administrative and other operating expenses), decreasing financial cost and decreasing profit before and after taxes. A few examinees prepared the report accordingly.
 - A few examinees were able to give their logical recommendations and asked for further information in order to do the in-depth analysis of the problem.

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**EXAMINERS' COMMENTS
FALL 2010 EXAMINATIONS**

MANAGEMENT ACCOUNTING-DECISION MAKING

Stage – 5

Question No. 2

Machine capacity and profitability of sub contracting:

Examinees could not observe limiting factor and started the answers evaluating the cost data of new plant. They evaluate the “own production” v/s “sub contractor” in total rather than product-wise. Those who correctly identified limiting factor and calculated production accordingly, suggested outsourcing of entire 12,500 air-conditioners instead of 4000 because of limited assembly hours.

Question No. 3

(a) Differential costing and marginal costing:

With few exceptions, examinees failed to describe the costs that were common in available alternatives were not considered in differential costing. Majority expressed marginal cost as cost of production of one additional unit, whereas term could not be limited to one unit only as cost of entire additional production with available capacity is marginal cost.

(b) Decision on the basis of differential costing (incremental revenue/ cost):

Examinees tried to prepare profitability of “before” and “after” processing instead of the requirement of the question which says that “advice must be based on differential costing technique”. The advice of examinees was based on evaluation of consolidated impact rather than of each product. In evaluating the alternatives, entire revenue of “after processing” was taken instead of differential revenue.

Question No. 4

Project Profitability:

It seems that examinees attempted the question half heartedly and carelessly. They ignored various kinds of costs while preparing comparative cost estimates of two machines e.g., cost of floor space, loss on replacement of machine was not divided by the life of new machine to arrive per annum loss (on replacement) hence the cost estimates to calculate cost saving per carton went wrong. Examinees failed to calculate the quantity of cartons to recover initial capital outlay because of incorrect calculation of cost saving per carton.

Question No. 5

(a) Net Present Value:

It was apparent from the answers that examinees failed to grasp the basic concepts of management accounting. They considered the R & D cost in the cash flows while it was a sunk cost. They also failed to calculate the amount of annual depreciation due to ignoring the residual value of fixed assets. Some of the examinees ignored the depreciation at all to arrive the yearly cash flows and simply discounted the annual profit figures given in the question. Majority failed to read the requirements of the question carefully. As a result, they calculated the tax shield ignoring the clear indication of tax exemption for five years.

(b) Pricing policies:

Most of the examinees wasted time in attempting the question that was a non-technical problem and just involved simple calculations. Due to non-involvement of any concept/ technique only calculation mistakes were committed by the examinees. It is very surprising that students are in all respect blank whether there is a matter of special skills or required simple calculations from them.

Question No. 6

(a) Definition of target costing:

Significant number of examinees was unaware of the term “target costing” and tried to express it with irrelevant references. It was very simple to describe that target cost would be the difference of estimated price and desired profit.

(b) Calculation of target cost:

Examinees attempted the question without having knowledge of the term and made irrelevant calculations. Few examinees correctly calculated target cost in total but ignored the requirement of the question of per surgery target cost. In many cases cost of ambulance was also ignored.

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EXAMINERS' COMMENTS
FALL 2010 EXAMINATIONS
RISK MANAGEMENT AND AUDIT
Stage – 5

Question No. 2

Reduce or transfer of Risk:

Most of the candidates failed to address the three strategies asked in the given scenario. Very few candidates specifically had pointed out the risk of non-availability of basic element of production like sugar. Majority of examinees failed to correctly link transfer of risk through insurance against any damage payable to employees and the cost of repairing the property. Risk arising from drivers involved in vehicle accidents and production employees falling sick was identified correctly. However, the measures required to transfer the risk through improved internal control for drivers involved in vehicle accidents was not completely addressed. Similarly, candidates failed to recognize that the cost of transferring the risk through insurance for production employees falling sick, outweighs the benefit of providing good working candidates etc., and the company had to accept this risk. At times answers were illogical, irrelevant and costly suggestions were made, like: • Replace existing machines. • Existing company should form a union and put pressure on government to enforce new laws to block new entrants. • Relocate Company premises elsewhere. All these suggestions are not feasible. Consequently, most of the examinees failed to identify seven broad heading of risks and their solutions correctly.

Question No. 3

(a) Elements of supervision:

Majority of the students were unable to list the main elements of supervision. It is also identified that even at this stage students seemed unable to understand the meaning of 'List' as they explained the above stated topic rather than to write down the points only.

(b) Rights of auditors:

Most of the examinees answered it correctly. However, some students answered the scenario of audit procedure to be followed in case of disagreement with management and limitations in scope of their work whereas few stated the rights of auditors instead of stating those rights that have been denied like access to books of accounts etc.

(c) Related party transaction:

Majority of the candidates demonstrated it correctly. However, few students did not simply understand that this is a related party transaction and should be considered by the auditor for disclosure purposes. Some had written lengthy answers for one (01) mark only.

(d) Factors for determining sample size:

This was related to ISA-530. Factors to be considered when determining the sample size for test of detail was not explained properly. Major points like not identifying the auditor's assessment of the risk of material misstatement and extent of reliance of the risk of material misstatement etc., was not addressed in the answer scripts. Nevertheless, majority of candidates correctly identified the points like expected error in the population and stratification of population.

Question No. 4

(a) Control activities:

This part was poorly replied by majority of examinees. They were unable to mention the control activities as laid down in ISA-315, which include:

- Segregation of duties
- Authorisation
- Performance reviews
- Physical control
- Information processing.

(b) Test of control, test of detail and analytical procedures:

This was quite an easy part. However, students struggled with examples of test of control. Some even mixed test of control with test of detail and vice versa. Few were able to define simply test of control, test of details and analytical procedures. There were also some generic examples given instead of specific examples. For instance, students provided an example of analytical procedure 'compare current year data with last year's' rather 'compare current year sale to last year's sale etc.

Question No. 5

(a) Role of Internal Audit:

Most of the students failed to reply correctly due to the following reasons:

- They confused the role of external auditor and accounts department with internal auditor.
- They did not cover important points that it is established by Board of Directors mainly for the review of internal control system and is an appraisal and monitoring activity.

(b) Types of activities performed by internal audit department:

Main reason of poor performance in this part seemed to be insufficient preparation. Some wrote quite a lot, repetitive and irrelevant. Most students missed important activities of internal audit like, review of operating activities, assessment of governance process and review of compliance with laws and regulations.

Question No. 6

(a) Areas for cost audit:

Majority of examinees answered it properly. However, there were certain students who also went into unnecessary details of areas of a manufacturing concern. This was not required and hence these students wasted their precious time in explaining irrelevant.

(b) Cost accounting system, factory overheads and spare parts:

Majority of the students answered the portion relating to 'factory overheads' well. They strived hard, with cost accounting system and spare parts sections of the question but failed to cover enough points. The following important points were missed:

- Cost *accounting system*: Prime cost, cost ascertainment of joint product and basic of apportionment, standard costing system.
- Spare *parts*: Missing spare parts, accountability of revenue and capital items, purchase policy.

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**EXAMINERS' COMMENTS
FALL 2010 EXAMINATIONS**

**STRATEGIC FINANCIAL MANAGEMENT
Stage - 6**

General Weaknesses:

- A large number of the examinees did not attempt all the questions.
- Many examinees were unable to understand the questions fully and committed some very basic conceptual mistakes which are not expected at Stage-6.
- It seems that examinees are not having full knowledge of the contents of the syllabus.
- Many examinees lacked thorough preparation of topics like Additional Funds Needed (AFN), equity multiplier, weighted average of flotation cost, sunk cost, opportunity cost, relevant cost, sensibility of NPV, theoretical ex-rights price and value of right. A few other observations are as under:
 - (a) Poor/ illegible handwritings.
 - (b) Cuttings/ overwriting.
 - (c) Poor presentation.
 - (d) Wrong annotation of question number.
 - (e) Giving the question contents before answering it.
 - (f) Attempting various parts of the question at different places without cross referring them.
 - (g) Producing irrelevant comments for part of a question carrying one to three marks.

Question No.2

Pro Forma Balance Sheet at 100% and 80% capacity utilization:

The overall poor performance was observed in this question. It was obvious that the examinees were lacking the proper technique of answering the question. A few mistakes committed by the examinees are as under:

- None of them used the proper format of pro forma balance sheet. Many examinees did not correctly calculate the dividend for 2010 and addition to Retained Earnings.
- A large number of examinees tried to solve the question by calculating the liquidity, profitability, activity and solvency ratios and wasted their valuable time.
- Most of the examinees either did not attempt the second part of the question or failed to calculate the correct figure of (new) additional funds needed (AFN) at 80% capacity utilization for net fixed assets.

Question No.3

(a) Expected return under tight policy, moderate policy, and relaxed policy:

- Many examinees incorrectly calculated 60% debt of current assets instead of total assets. Resultantly, they also calculated incorrect figure of interest on debt, taxes, net income and return on equity.
- A few examinees either incorrectly calculated interest on debt @ 20% instead of 15% or calculated interest on current assets. In the same way, they incorrectly calculated the tax @ 30% instead of 35%. Moreover, a few examinees did not deduct the interest from EBIT while calculating the tax.
- A few examinees did not correctly calculate the return on equity. Instead of dividing the net income by equity, they divided EBIT by equity.
- Many examinees incorrectly calculated EBIT as Rs.120 million instead of Rs.20 million.

Overall riskiness of the firm under each of three policies for current assets:

- The examinees were not able to state that lower current assets would cause higher risk of inadequate liquidity and lower inventories might mean lost sales and expensive production stoppages.
- Moreover, as a result of reducing current assets i.e., accounts receivable, the firm would have to implement tougher collection policy, shorter collection period and offer higher discounts on early accounts receivable collection.

(b) Best level of safety stock:

- Examinees did not correctly calculate the total cost of safety stock by adding the cost of carrying safety stock and annual stock out cost.
- They also incorrectly calculated the EOQ and wasted their precious time.

Question No.4

(a) Outcome of the project if the initial investment is Rs.100 million:

- The overall performance was below average in this part of the question. The examinees could not understand the question fully.
- Many examinees incorrectly calculated the weights of debt and equity as 30% and 70% respectively.
- Instead of adding the 2% risk adjustment factor in the WACC, many examinees increased only cost of equity by 2% before calculating the WACC.
- While calculating the Gordon's Growth Model, a substantial number of examinees incorrectly considered D1 as Do although it was clearly mentioned in the question that the project would result in Rs.7 million cash savings at the end of the first year.

(b) Initial investment of the new project if flotation costs for selling debt and equity are considered:

- The overall poor performance was observed in this part of the question.
- Most of the examinees had no idea how to find the initial investment of the new project considering the flotation costs.
- They also used incorrect weights while calculating the weighted average cost of flotation. Moreover, to find the true cost of the project, they incorrectly added the figure of flotation cost into initial investment of Rs.100 million instead of dividing it by '1-flotation cost %'.

Question No.5

(a) Present value of the project:

- Many examinees incorrectly considered market research of Rs.225,000 and invested sum of Rs.1,100,000 over past two years as cash outflow although it was sunk cost and irrelevant for decision makings.
- Many examinees calculated the PV of the project by using 12% discount rate being cost of equity, although they were required to use 10% WACC because the level of investment required was very small compared to the size of the investment.
- A large number of examinees did not use the replacement cost of material of Rs.37.50/unit (Rs.32.5-Rs.10+Rs.15).
- Many examinees did not deduct the depreciation of Rs.375,000 (Rs.1500,000/4 years) from total overhead of Rs.637,500 (Rs.42.50 x 15,000 packets).
- Examinees failed to consider redundancy cost savings of Rs.1150,000 as cash inflow in year 0.

(b) NPV if sale of 12000 packets per year are made only:

- The overall performance remained poor in this part of the question.
- Most of the examinees could not correctly answer this part of the question due to mistakes they committed in part (a).
- Very few examinees correctly reduced the contribution margin calculated in part (a) by Rs.82,500 (Rs.27.50x 3000 units) before calculating the PV and NPV of revised annual sale of Cura.

(c) NPV if yearly advertisement expenses are increased to Rs.312,500:

- Most of examinees also did not perform well in this part of the question.
- This part of question was carrying three marks but examinees tried to solve it as a full fledged separate question.
- Again, hardly few examinees were able to correctly reduced the contribution margin by Rs.62,500 (Rs.312,500-250,000) calculated in part (a) due to increase in advertising before applying the discount factor @10% WACC.

Question No.6

(a) Number of shares to be sold and number of rights required to buy one share in right issuing:

- A few examinees, however, incorrectly divided the “funds to be raised” by current market price of a share Rs.30 instead of subscription price of Rs.24.

(b) Calculation of theoretical ex-right price:

- Many examinees did not calculate the value of right correctly.
- Instead of taking the difference of theoretical ex-rights price and subscription price Rs.4.8 (Rs.28.8-Rs.24) and dividing it by 4 i.e., number of rights required to buy a share, they incorrectly took the difference of current market price of a share and subscription price before dividing it by 4 rights.
- The examinees could also calculate the correct value of the right Rs.1.20 by just deducting the theoretical ex-right price from current selling price of a share (Rs.30-Rs.28.8).

(c) The effect of the rights issue on a shareholders’ wealth under different options:

- Most of the examinees could not correctly answer this part of the question due to incorrect calculation of theoretical ex-right price and value of the right in part6 (b)
- A few examinees incorrectly assumed the sale of 1,000 shares by the friend of CEO instead of selling 1,000 rights.

(d) The real circumstances which support the shareholder’s claim of loss in personal wealth due to right issue:

The comments offered by the examinees to explain this part of the question were illogical, immature and unconvincing.

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**EXAMINERS' COMMENTS
FALL 2010 EXAMINATIONS**

**INFORMATION SYSTEM & I. T. AUDIT
Stage – 6**

SECTION – “A”

Question No. 2

(a) (i) Computer hardware owned and managed within a corporation:

This part of the question required examinees to produce brief elaboration on computer hardware owned and managed within the corporations like corporate headquarters, regional processing centres, workgroup processors and individual workstations. Some examinees did not understand the question and wrote general decision making rather than relating to I.T system. Their knowledge about headquarters and regional processing centres was not upto the mark.

(ii) Centralized and decentralized approaches and distinction of intermediate situation from these two approaches:

Most of the examinees had not clear concept of the differentiation between centralized and decentralized approaches and distinction of intermediate situation from these two approaches. Resultantly, they were found confused for answering it correctly. Some of them wrote the generalized answers rather to write specific. Examinees who attempted it could not identify the factors on the basis of which differentiation could be done. When talking about centralized and decentralized approaches, and their differences, there are four aspects that must be discussed and without any of them, comparison would remain incomplete: (i) the hardware aspect, (ii) data location aspect, (iii) software aspect, and (iv) ownership and control aspect. These aspects actually make the differentiation. Rarely, students were able to distinguish based on these criteria.

(b) Principle-Based System Analysis (PBSA):

Examinees failed to produce correct answers to this part of the question, which required them to define Principle-Based System Analysis (PBSA). It seemed like they had no concept to relate 'PBSA', 'IS' and 'Project'. Very few examinees provided relevant examples. PBSA application to work systems need details on how it can be used to help in various phases of the project rather than giving general answers and specific information on how it is used at (i) initiation phase, (ii) how to do project phase, (iii) how it helps when difficulties arise in the execution of the project, (iv) how to gauge success factors etc.

Question No. 3

(a) Expert system:

This part of the question examined the students to elaborate 'expert system' and its 'building blocks' as an I.T specialist to capture and utilize the vast and diverse experience of a top executive position-holder who is considered as a hub of tacit knowledge. Hardly any examinee could provide explanation of expert system properly. Some students wrote generalized definition, but failed to identify the components. The basic or principal parts of every expert system is knowledge base and inference engine. Every other detail on building blocks will extend from these two principal parts. Explanation on these lines were not there in many of the cases. Other details on knowledge base, knowledge representation, reasoning methods were not explained properly. It appeared the weakest question among all.

(b) Intellectual property and its differentiation from other copyright laws:

Examinees had vague understanding of copyright laws and protection of intellectual property rights. Copyright laws protect the literary expression of an idea, not the idea itself, for the life of the author plus 50 years. While, patent laws protect for 17 years inventions or discoveries having distinguishing features that are innovative, useful and not obvious. This is the real difference between copyright law and intellectual property law and could suffice and could have been much better answer as compared to long details on assets on which copyright laws are applied.

SECTION – “B”

Question No. 4

(a) System Development Life Cycle (SDLC):

The assigned task was to describe phases involved in SDLC. These phases are in fact quite logical and easy to understand and missing any of the phase would lead to one or the other problems, e.g., when design phase is skipped the system will be poorly implemented and becomes hard to maintain. If requirements phase is missed, it might end up with a product that does not fulfill client’s needs. Many students mentioned only four phases of SDLC and did not mention others. Also, the past phase is ‘not implementation’. There is another phase ‘post implementation’ after that, and it assesses the adequacy of the system and project cost-benefit or return on investment (ROI) measurements.

(b) Elements or dimensions of a project plan:

Explanation of a project using a constant area triangle of (i) cost and resources, (ii) time (duration), and (iii) deliverables was the correct way to answer this part and was not there in majority’s answers. However, some of them did not attempt it.

(c) Audit procedure and classification of audits:

Missing part in this question is ‘audit procedure’. Few students were confused to write all types of audits, instead they wrote different types of information systems audit and lost valuable marks. Many of them were unaware of integrated audits that combine financial and operational audit steps and is performed to assess the overall objectives within an organization related to financial information and assets safeguarding, efficiency and compliance.

Question No. 5

(a) Business Continuity Planning (BCP) and Disaster Recovery Planning (DRP):

The auditor’s tasks in ascertaining the appropriateness of BCP and DRP, the answers needed the details of the tasks for auditor and then how it can be achieved i.e., through interviews and determining whether all the stakeholders understand their roles and responsibilities with respect to business continuity strategy. These tasks were not clearly defined, although written in generalized way.

(b) Crucial factors for reviewing the BCP:

Overall performance of the examinees in elaborating the crucial factors, which should be considered when reviewing the BCP, was remained satisfactory. Logical sequencing of plan is essential in reviewing a BCP properly. An answer without proper sequence of review is likely to be misunderstood and may not have the right efficacy of review.

(c) Emergency procedures during the evaluation of DRP:

Emergency procedures were confused with ‘providing solution’ instead of ‘evaluation’ by majority of the examinees. Sometimes a transaction can re-enter in the system through recovery process. It needs to be separately identified from the normal transactions. Similarly, the presence of written procedures blueprints, hardware inventory and wiring diagrams are must for emergency procedures and should always be checked. Students did not give the right emphasis on these main aspects of DRP evaluation.

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EXAMINERS' COMMENTS
FALL 2010 EXAMINATIONS
MANAGEMENT ACCOUNTING-BUSINESS STRATEGY
Stage – 6

Question No. 2

(a) Porter's Five Forces Model for competitive analysis:

The overall performance in this part of the question was not good. Mistakes committed by the examinees are as under:

- A large number of the examinees did not produce the relevant material, key points, examples, illustrations etc., to support their arguments. Moreover, many examinees produced too short answers just partially covering the basic points of the topic.
- Many examinees were not conversant with the topic. They just produced the irrelevant details. They even did not correctly mention the heading of the five-Force Model of Competition. A few examinees explained the bargaining power of suppliers under the heading of bargaining power of consumers and vice versa.

(b) Three steps for using Porter's Five Forces Model:

Most of the examinees performed poorly in this part of the question. They had no fair idea of the topic and just produced irrelevant details. Many examinees incorrectly mentioned the steps involved in the strategic management process while answering this part of the question.

Question No. 3

(a) Boston Consulting Group (BCG):

Most of the examinees performed well in this part of the question. A few mistakes committed by the examinees are as under:

- Many examinees did not explain the concept of Boston Consulting Group matrix and others did not correctly draw the graph of relative market share of divisions.
- Many examinees ignored mentioning the relevant intensive, integration; concentric diversification and retrenchment or divestiture strategies while explaining the question marks, stars, cash cows and dogs.
- Examinees also failed to mention the major benefits of BCG.

(b) The dimensions of culture while making strategic choices:

Mistakes committed by the examinees are as under:

- Instead of mentioning the importance of culture while choosing a particular strategy, a large number of examinees incorrectly mentioned how to change culture in an organization or what are the strategies of changing the culture.
- There were many examinees that explained the concept and component of a culture but missed to mention the degree of supportive culture needed to make a strategy successful and what ability a manager should possess to change the firm's culture.

Question No. 4

(a) Definition of strategies:

The examinees performed well in this part of the question.

(b) Three types of "intensive strategies":

The overall performance was good in this part of the question. However, following shortcoming were noted as under:

- Many examinees instead of explaining the intensive strategies incorrectly mentioned the integrated strategies. In the same way, a few examinees mentioned corporate strategy, business strategy and operational strategy as intensive strategies,

- Many examinees were not having any clear concept of market penetration, market development and product development strategies. Moreover, they incorrectly mentioned the guidelines of market penetration while explaining the market development or product development.

Question No. 5

(a) Three broad types of organizational structures in the context of implementing the strategy:

The performance of most of examinees remained below average in this part of the question. A few lapses made by the examinees are as under:

- A large number of the examinees did not explain the concept of the 'organizational structure'.
- Many examinees did not have a clear concept of the functional structure, divisional structure and strategic business unit (SBU) structure. Moreover, they did not mention the classification of divisional structure according to geographic area, product, process and distinct production processes. A large number of examinees also failed to discuss the advantages and disadvantages of the each type of organizational structure.
- A few examinees, instead of explaining the strategic business unit (SBU) structure, incorrectly elaborate matrix structure.

(b) Managing resistance to change during implementation stage of strategic management process:

Overall an average performance was observed in this part of the question. Though, most of the examinees stated three commonly used strategies i.e., a force change strategy, the educative change strategy and rational or self-interest change strategy but many examinees could not describe four steps of Jack Duncan's rational or self interest change strategy. Many examinees did not properly describe the three commonly used strategies for managing resistance to change.

(c) Four "contingency plans" usually followed by organizations:

The overall performance remained good in this part of the question. However, many examinees produced irrelevant details and they incorrectly described the process of preparing a contingency plan instead of mentioning the situations on the bases contingency plans are established.

Question No. 6

(a) Accounting cash flow, operating cash flow (OCF) and free cash flow:

The examinees' performance was below average in this part of the question. Most of the examinees correctly calculated the accounting cash flow but they were not able to find the correct figure of operating cash flow and free cash flow. Instead of calculating the OCF (EBIT +depreciation-taxes), most of the examiners calculated the cash flow from operating activities as per IAS 7. Again, many examinees were having no idea of finding free cash flow (OCF-Net fixed assets investment–Net current assets investment) as they incorrectly calculated the cash flow from investing and financing activities.

(b) Interpretation, comparing and contrasting of various cash flows:

Most of the examinees remained unable to properly answer this part of the question partially due to incorrect calculation of OCF and free cash flow in 6(a).

(c) Evaluation of pro forma statement to examine the expected results of various actions and approaches:

The overall performance remained poor in this part of the question. Instead of expressing the six steps in performing financial analysis i.e., preparation of income statement before balance sheet, use of percentage of sales method for projecting cost of sales etc, most of examinees calculated the liquidity, solvency, activity and profitability ratios and wasted their precious time.

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