

**EXAMINERS' COMMENTS
SPRING (SUMMER) 2009 EXAMINATIONS**

**FUNDAMENTALS OF FINANCIAL ACCOUNTING
Stage – 1**

Question No.2

(a) Revenue Recognition from Sale of Goods:

This part of the question required the examinees to list out the criterion regarding revenue recognition from sale of goods as laid down in IAS-18. Examiners observed the following:

- Standard of English language was very poor.
- A few examinees understood the required criterion regarding revenue recognition from sale of goods as laid down in IAS-18 Revenue. The majority explained the definition and many of them even wrote about classification of revenue.

(b) Deviation from International Accounting Standards:

This part of the question asked examinees to state when an enterprise can deviate from International Accounting Standards.

- This was the most difficult part of the question paper as only one or two examinees attempted it correctly. All others depended on guesswork with no idea of the IASs.
- Again poor English standard was noticed.

(c) Effects of Transactions on Accounting Equation:

This part of the question required the examinees to show the effects of transactions (increase/ decrease) on assets, liabilities and owners' equity. Performance of the examinees was generally good.

- A few examinees, incorrectly, filled in the column of shareholders' equity in addition to filling of the relevant boxes of the equation.
- A few of them, unnecessarily, wrote the words 'increase' / 'decrease' in addition to the required symbols. Some also crossed other columns after filling in the symbols.
- Some of the examinees that had no knowledge of the accounting equation filled in the columns at random.

Question No.3

(a) Preparation of Bank Reconciliation Statement:

This part of the question required the examinees to prepare a bank reconciliation statement. This was an easy part and the examinees performed well. However, following shortcomings need to be taken care of:

- Majority of the examinees failed to prepare the bank reconciliation statement in statement form. They made two columns i.e., Books and Bank and reconciled.
- Some of the examinees wrongly entered the cash book column entries in to the bank column and vice versa. Mistakes were made more on cash book side as compared to bank side.
- Many examinees did not bother to write particulars of the entries made and only figures were mentioned.
- A few could not mention the "Heading".

(b) Adjusting Journal Entries in relation to (a) above:

This part of the question required examinees to pass adjusting journal entries for items appeared on the bank reconciliation statement.

- A very few examinees made all the entries correctly. Only one or two entries out of four were found to be correct.
- Examinees were also confused about the entry relating to repair expense—office equipment. Many treated it as miscellaneous expense. Others considered it as office equipment etc.

Question No.4

(a) Advantages of Accounting Packages:

This part of the question required examinees to state the advantages of accounting packages / ERPs as compared with manual system. Generally, examinees replied satisfactorily except committing the following mistakes:

- Many examinees stressed on the weaknesses of the manual system rather than mentioning the advantages of accounting packages / ERPs.
- Most of the examinees expressed two or three points and repeated those in various forms.
- Advantages of accounting systems / ERPs in a sequential form was lacking.

(b) Accounting for Bills of Exchange:

This part was based on accounting for bills of exchange. Examinees were asked to prepare journal entries in the books of both seller and buyer, if (i) the bill was honoured and also, if (ii) the bill was dishonoured. Performance of the examinees was satisfactory. Following mistakes need attention by the examinees:

- In sub part (i), many examinees could not mention correct titles of accounts while preparing journal entries. For instance, instead of Accounts Receivable - Asim and Accounts Payable - Qasim, they wrote only Asim and Qasim.
- In sub part (ii) of the question, examinees were not aware of the required treatment in relation to noting charges in the books of both Qasim and Asim.
- Examinees repeated the entries made in (i), which was unnecessary.
- Some examinees made entries in the books of the bank and wasted their time.

Question No. 5

(a) (i) Conditions for Recognition of Development Expenditure as an Asset:

In this part of the question, examinees were asked to state under what conditions an enterprise could recognise development expenditure as an asset (IAS-38).

- A few examinees knew the conditions under which an enterprise could recognise the development expenditure as an asset under IAS-38 Intangible Assets. They explained the intangible assets and listed them, instead.

(ii) Definition of Inventories:

This part of the question required the examinees to define inventories as per IAS-2.

- A few could define inventories as per the relevant IAS.
- The majority explained the classification of stocks or methods of costing / handling the stocks.

(b) Revision of Life of an Asset:

Requirement of this part was computation of depreciation expense for the year, after a major overhaul increased the useful life of the asset.

- Examinees calculated the year-wise depreciation but many forgot to total it for five years (2000 to 2004).
- Depreciable amount after overhauling was not shown by almost all the examinees.
- Examinees did not assume the method of depreciation.
- Some examinees calculated depreciation after considering overhauling expenses right from year 2000.

(c) Perpetual and Periodic Inventory Systems:

This part required examinees to pass journal entries to record sales and purchases under (i) perpetual and (ii) periodic inventory systems. Overall, examinees did well. Some mistakes were committed as under:

- Most of the examinees made inventory cards, which were not required at all.

- Sales entries were correctly made by the majority, but they failed to make entries for purchases, as they could not understand the term 2/10 and the requirement to record the purchase at net cost.

Question No. 6

This question required the examinees to prepare **(a)** an Income Statement, **(b)** a Statement of Financial Position and **(c)** Notes to the Financial Statements from a trial balance and certain adjustment data.

(a) Income Statement using Classification of Expenses by Functions:

- Excepting a few, almost all the examinees failed to work out correct cost of goods sold due to non-charging of Rs.8,000 inventory loss to cost of goods sold and ultimately could not work out gross profit, as well.
- Some charged this inventory loss to operating income and others charged it even after operating expenses.
- Examinees failed to charge financial charges after operating income. They included this expense with other expenses.
- Many could not write title "Income Statement" correctly.
- Only a few examinees classified the expenses into cost of goods sold, administrative expenses, selling expenses and financial charges.
- Correct presentation of income statement was lacking in some cases.

(b) Statement of Financial Position:

- Majority of the examinees failed to understand the terminology "Statement of Financial Position" and treated it other than the balance sheet.
- Those who prepared statement of financial position, could not work out correct amounts of current and long-term liabilities. Examinees, once again, failed to understand 'notes payable next year' and they charged it to long-term liability.
- Similarly, most of the examinees omitted inventory from the current assets.
- Some other mistakes like incorrect calculation of depreciation, non-deduction of accounting depreciation from non-current assets and not showing the land under non-current assets, were also noticed.
- Equity balance, in most cases, was wrong due to incorrect calculation of net profit.

(c) Notes to the Financial Statements:

This part of the question was a surprise to the examinees. They did not understand it and many examinees theoretically explained the notes to the statement of financial position. Hardly a few could make notes of administrative and selling expenses. None of the examinees could make non-current assets schedule correctly.

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**EXAMINERS' COMMENTS
SPRING (SUMMER) 2009 EXAMINATIONS**

**BUSINESS ECONOMICS
Stage – 1**

SECTION "A"

Question No.2

(a) Monopoly as a disadvantage to consumers, whereas perfect competition is good for consumers, but not fruitful for the entrepreneurs:

Majority of the examinees have attempted this part of the question but they just mentioned very few characteristics of both the market situations. Very few among them used diagram to explain the features. Very notable point in this is that they have not explained the main requirement of the question i.e., perfect competition is good for the consumers but not fruitful for the entrepreneurs. However, the answers given by the examinees were extremely different from suggested answers in which technical approach was adopted and terms like Marginal Social Benefits and Marginal Social Cost were used.

(b) Factor(s) determining the consumers' behaviour:

This question is highly disputed and majority of the examinees could not follow this question. Very few examinees attempted this question. Irrelevant answers to this question are found. Examinees had no idea about the consumers' behaviour. Examinees were confused among price, quality and timely delivery.

Question No.3

(a) Illustration of proportions using supply-and-demand diagrams with justifications of economic effects:

In these two parts the examinees just repeated the same sentences contained in the question instead of explaining and reasoning it out. Majority have just discussed simple law of demand and law of supply without using the applications of the said laws in the question.

(i) Economic repercussions on the imposition of levy to reduce the pollution and dependence on insecure foreign resources by the government:

Most of the examinees were confused between "expansion and contraction" of demand and rise and fall of demand. They used diagrams but those were wrong diagrams. Most of the examinees did not discuss the elasticity of demand and supply of petrol. They simply discussed that petrol price went up so, demand would go down. Effect on change of supply was not discussed by them at all.

(ii) Natural calamity (flood) increases the income of farmers:

This part of the question was actually meant to test the applications of examinees' knowledge on the concept of demand and supply due to uncontrolled environment. Some of the examinees were highly confused. They took it otherwise. However, some of the examinees got the point. However, the question was simple and easy.

(b) Differentiation between large scale and small scale production; advantages (economies) and disadvantages (diseconomies) for both forms of production:

Examinees failed to write correctly the concepts of large scale and small scale production and also remained unable to distinguish between them. However, the advantages and disadvantages of both the scale of production were explained at length and found up to the mark. Examinees did not know that it required only three (03) points whereas they wrote more than six (06) points, so they consumed more time just for nothing.

SECTION "B"

Question No.4

(a) Optimum population theory:

The question was simple but the examinees could not understand well. Not even a single examinee mentioned Malthusian Theory of Population. No diagram was given by any examinee. Almost none of them explained the concepts and features of optimum population theory. Some of them quoted the definition of economics presented by Prof. Robbins i.e., science of scarcity and choice. It is true that almost none were able to provide the correct answers matching with the requirements of the question.

(b) Purchasing power parity:

Most of the examinees failed to understand the basic concept of purchasing power parity theory. They took it as local purchasing power. Instead of explaining the purchasing power parity theory examinees just wrote that purchasing power parity helps in determining the value of currency that promotes international trade. However, the basic requirement of the question is to explain the concept of value of currency determination by purchasing power parity theory and their impact on international trade. The examinees failed to discuss the main issues of the question such as purchasing power parity (PPP) is a theory which states that exchange rates between currencies are in equilibrium when their purchasing power is the same in each of the two countries. This means that the exchange rate between two countries should equal the ratio of the two countries' price level of a fixed basket of goods and services.

Question No.5

(a) Failure of financial institutions, on financial system:

This part of the question required examinees to discuss the impact of failure of financial institution on financial system and economy at large and their opinion about the increase in the rate of discount by State Bank of Pakistan in controlling the inflation. The examinees explained the second component quite satisfactory but ignored the first component of the question. However, there was no need to explain the various measures to be taken by State Bank of Pakistan to control the financial institutions.

(b) Measurement of gross domestic product (GDP) by Product-Expenditure Approach:

Majority of the examinees failed to explain measurement of gross domestic product (GDP) by product-expenditure approach which says the business organization provides final goods and services to house hold (people) and the people pay for their (expenditure). So, money expenditure by the people represent the money value of all goods and services produced. GDP is measure of market value of all final goods and services with in the country in one year.

SECTION "C"

Question No.6

(a) Hindrances in growth of agriculture sector in Pakistan:

Majority of the examinees gave vague answers. The words in the question clearly indicate that examinees should not discuss credit situation because it is cheaply available in Pakistan. The examinees should answer that, why the Agriculture is not growing in spite of cheap credit.

(b) (i) Economic assistance to developing countries:

In this part the examinees were found confused in explaining the various forms of economic assistance to developing countries. They mixed this part with benefits of the assistance. This question was simple and straight. However, some examinees were confused missing out the issues such as grants, foreign loans, and technical assistance.

(ii) Benefits and costs of foreign economic assistance to Pakistan:

Examinees explained at length the benefits of the foreign economic assistance but unable to list out the various problems in availing the assistance by poor countries such as the burden of debt servicing is increasing as time passes. The tied loans given to a developing country raise the economic cost of the donor country if it is faced with inflation, an import substitution industry established by foreign assistance may continue depending on the import of essential raw material from the rich countries and there may be political strings attached to the bilateral loans.

**EXAMINERS' COMMENTS
SPRING (SUMMER) 2009 EXAMINATIONS**

**BUSINESS LAWS
Stage – 1**

SECTION "A"

Question No.2

Sources of Law:

This question tested knowledge of the examinees regarding the sources of law in the legal system of Pakistan. Majority of the examinees did not attempt the question. Even those who tried to answer could hardly score pass marks. The following were witnessed:

- Some mixed up different sources of laws.
- Nature of each source was not explained well and examples were given by a small number of examinees.
- The legislative source was explained relatively in greater detail and the legislative process was unduly described.
- Some examinees were not clear in the matter and mentioned specific laws, types of laws or details of set-ups of the courts of law.

SECTION "B"

Question No.3

(a) (i) Kinds of Consideration:

Examinees were expected to describe various kinds of consideration in this part of the question. Most of the examinees did not secure required marks, which indicated their lack of knowledge regarding the Contract Act, 1872. Only a few examinees defined different kinds of consideration correctly.

- Examinees had different notions of kinds of consideration.
- Some examinees elaborated the meaning of consideration and process of its evolution. Some discussed the requirements for validity of the consideration.
- Many examinees did not give examples of past, present and future considerations.

(ii) Validity of Inadequate Consideration:

This part required examinees to explain whether a contract without adequate consideration could be valid or not. Most of the examinees failed to obtain required marks, whereas some did not even attempt the question.

- Many examinees wrongly contended that inadequate consideration rendered the contract invalid or voidable.
- Some even construed inadequate consideration as no consideration or unlawful consideration.
- The point of free consent was highlighted by a few examinees.

(iii) Contract without Consideration:

There is a rule "No consideration, no contract". However, there are occasions when this rule does not apply. Examinees were supposed to mention these exceptions. The majority, once again, could not secure pass marks. Some of them could not follow the question for want of adequate knowledge of the subject.

- Many examinees discussed the rule, rather than, the exceptions to the rule as required.

(b) (i) Partnership at Will:

This part required an explanation of the partnership at will. Most of the examinees could not attempt this part successfully, which showed that they had no concept of this topic.

- Some of them thought it was a partnership formed with the willingness of all the partners or a firm without documents or registration.
- Some examinees defined partnership or its registration process.
- A few examinees discussed the dissolution aspect and effect of serving notice by any partner.

(ii) Partner's Liability for an Act of Firm:

Every partner is liable for acts of his firm. But to what extent? This part required examinees to throw some light on this matter. This part, also, was not attempted, properly, as it was totally misunderstood by the examinees.

- It related to unlimited liability of a partner to third parties but most of the examinees have gone astray and wasted their time.
- The joint and several liability was not identified in most of the cases.
- They discussed the general instead of specific liability for an act of the firm.
- Others discussed the obligations of a partner towards his/her firm or internal liabilities.
- The fact of existence of unlimited liability was also omitted.

Question No.4

(a) Bill of Exchange vs. Promissory Note:

This part, merely, required a comparison of *bill of exchange* and *promissory note*. Only, some of the examinees were able to differentiate between them.

- Most of the examinees could not mention the points of distinction completely.
- Some examinees discussed the two items separately rather than presenting them in a comparative form.
- Examinees mostly mentioned the points of similarities.

(b) (i) Rules relating to Sale by Mercantile Agent:

This part asked examinees to write about the rules relating to sale by a mercantile agent with regard to transfer of title in the goods. Most of the examinees defined sale by mercantile agent, but they could not quote the rules relating to sale by a mercantile agent with regard to transfer of title of goods.

- Many examinees discussed 'sale by mercantile agent' in general, whereas, they were expected to discuss it with regard to transfer of title in goods.
- Some examinees discussed the sale policies, business conduct of a mercantile agent etc.

(ii) Misappropriation of Sale Proceeds by Mercantile Agent:

Examinees could not follow rules regarding sale by a mercantile agent. In fact, the mercantile agent can pass good title and the sale by mercantile agent is valid, provided that he got possession of goods or a document of title to goods with the consent of the owner.

- Most of the examinees were able to correctly draw the conclusion but could not present argument / reasoning in support of the conclusion, which was specifically asked for.
- Relevant case law was not mentioned by any examinee.
- Some examinees, unduly, held the buyer responsible in the matter.
- Some examinees, improperly, concluded inadequate consideration as ground for recovery from the buyer.

SECTION "C"

Question No. 5

(a) (i) Works Council and its Functions:

In relation to workers' participation and dispute resolution under the Industrial Relations Act, 2008, examinees were supposed to describe works council and its functions. The majority of the examinees failed to impress and secure the required marks due to lack of knowledge of this Act.

- Most of the examinees were not aware of the provisions of the prevailing IRA-2008. They mentioned the arguments before the new law.
- Some mentioned that the government established the works council.

(ii) Negotiations relating to Differences and Disputes:

In this part, examinees were asked to mention the procedure relating to negotiations for resolving differences and disputes under IRA-2008. Most of the examinees attempted this part, but only a few could succeed in obtaining desired marks.

- Some examinees discussed the topic in general terms.
- Some others elaborated role of labour courts etc. Most of them ignored the role of works council.

(b) Daily Hours of Work, Types of Holidays and Leave with Pay Allowed:

This part tested the knowledge of examinees about the provisions of the Factories Act, 1934, relating to the above matters. Most of the examinees could not answer the question properly due to lack of practical knowledge about the Factories Act, 1934, covering the aforesaid areas.

- Some examinees went beyond the scope of the question, which was not required at this level of studies.
- They mentioned usual office of factory timings instead of the legal provisions.
- Some mentioned weekly hours instead of daily hours asked for.
- Examinees, while discussing various types of leaves were generally not aware of the number of leave days admissible and confused the numbers within different categories.
- 'Compensatory holidays' were rarely discussed.

Question No.6

(a) Examinees were asked to provide a brief account of the social security benefits available to an employee under the Social Security Ordinance, 1965 on account of the following:

(i) Social Security Benefits for Injury or Disablement:

Examinees, mostly, failed to explain social security benefits for injury or disablement properly.

- Some examinees discussed injuries, which was not required.
- Some examinees discussed disablement and its kinds in detail.

(ii) Social Security Benefits for Survivor's Pension:

This part of the question was a little better attempted than the former. However:

- many examinees discussed EOBI or Government pension instead of the survivor's pension.

(b) Go-slow, Collective Agreement and Shift Working:

This part sought comments of the examinees, under Industrial and Commercial Employment (Standing Orders) Ordinance, 1968, on **(i)** Go-slow, **(ii)** Collective Agreement and **(iii)** Shift Working. Most of the examinees failed to give proper and brief comments regarding working in the factories. It was a simple question requiring just definitions but many examinees could not do justice to this question as well, which showed their poor preparation.

- Some examinees attributed the go-slow to defective power supply, machinery breakdown etc.
- Many examinees were not able to properly define collective agreement. Some of them thought it should be signed by all employees.
- Examinees described the shift working in general terms without mentioning the legal provisions.

**EXAMINERS' COMMENTS
SPRING (SUMMER) 2009 EXAMINATIONS**

**BUSINESS ENGLISH
Stage – 1**

Question No.2

(a) Changing the sentences into indirect speech:

Generally, the examinees' responses were wrong which reflected that their concept was not clear and the skills of narrating in spoken and written language has syntactical inaccuracies.

(b) Changing the voice:

Most of the examinees responded incorrectly.

Question No.3

(a) Forming the adjectives and to make sentences from given nouns:

Mostly examinees did not attempt this question and those who answered, their responses could not form correct adjectives and their sentences. Neither forming of proper adjectives was reported for all the five nouns even by a single examinee nor their proper use made in the framed sentences. Examinees are advised to know how words change their form and meaning when such transformation takes place. Consulting and making use of any standard book on the subject would prove helpful.

(b) Matching the given idiomatic phraseology with correct meanings:

This question proved tough for examinees, though they were required to match only the meanings from the given options, still examinees did not reflect any familiarity with these phrases of the targeted language. It seems that examinees lacked in proper understanding and meaning of phraseology. Improvement can be acquired by more reading about it. In this instant case, majority of examinees failed to correctly and properly match the given phraseology.

Question No.4

(a) Identifying words as noun(s), verb(s), adjective(s), adverb(s) and preposition(s):

The task was to identify each underlined word as to which part of speech does it belong. Very poor performance was reported by examinees. Very few were sure about placing all the given words correctly. Many were ignorant about words, which change form by inflexion and, with each change in form, the meaning of new word also changes. Failure of majority in making correct classification simply proves that young learners of the subject were not mindful to take grammar seriously.

(b) Fill in the blanks with suitable words:

Given task for this part was to make choice of the most suitable word / phrase from four given choices for each of the eight sentences. Because of poor comprehension skill and poor knowledge about meaning of given words / phrases, the responses of majority of examinees were poor yielding wrong answers.

Question No.5

Comprehension Passage:

The answers reported by majority of the examinees were poor in terms of relevance. Most of them restored to unintelligently reproduced text of the passage itself. A proper understanding of the message of the given passage was absent from these writings. Short, relevant and well-worded answers were reported by a very few. The examinees are advised to improve their comprehension skills by reading more and more of writings of passages on subjects of interest and everyday use.

Question No.6

“Essay”:

A very few treated the topic meaningfully in terms of relevance but composed answers lacked in coherence and logical development of material. Paragraphing and correct syntax was also poor. Faults of writing skills was common. Reading and more purposeful reading of newspapers articles, books on current affairs, watching

debates on electronic media etc., would lead to improve and update their knowledge. They should learn to form their own opinion on any issue that may confront them in their real life. They should also realise that any exercise in free composition also requires proper application of grammatical concepts while composing an essay on a given topic. There were abundant spelling mistakes and very weak structure of sentences. General knowledge of the examinees is also very weak. They do not know how to construct arguments and no discourse connections or thesis sentences are used.

Question No.7

Letter writing:

Examinees are recommended to use left aligned format. However, often the salutation and endings were incorrect and often capitalisations were used incorrectly too. There were a lot of spelling mistakes of common words, subject verbs disagreement and usage of wrong tenses.

- (a) For this part of the question, the examinees were asked to compose a dunning letter, using suitable language so as to retain the customer on one hand and to make recovery of dues on the other hand. With the exception of a very few writings, most of the composed letters were poor in structure and display of material. Short of use of appropriate language, most of the writers adopted poor threatening tone.
- (b) It required to compose a letter to be sent to a large number of applicants to appear for written test, interview and group discussion. Message of the letter was to carry clear information on the given points assuming other necessary details. Composed letters were far from being satisfactory. Language and vocabulary used was poor. Display of material was also not appealing. A very few, however, performed well.

Question No.8

Imaginary essay on world without certain I.T inventions:

The given question was an interesting and thought provoking exercise. Writings reported as answers for this question showed that the given task was not taken seriously in proper spirit. Without caring for scope of the multi-dimensional question, simply praise, ease and comfort drawn from I.T inventions was made. There were many missing links in the chain of expressed thoughts and logic. Substances of material used was lopsided. Structures of framed sentences were weak and poor. Writings took form of poor essay, least convincing and appealing. The composers of the answer should have also mentioned that techno-addiction may corrode human intellect. Too much dependence on I.T inventions may lead to create an artificial universe. Many examinees did not understand what was asked for. The answers were not adapted to the specific questions posed and most of the examinees said they did not want to return to the 1900's.

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**EXAMINERS' COMMENTS
SPRING (SUMMER) 2009 EXAMINATIONS**

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

Question No.2

(a) Definition and benefits of costing system:

Examinees faced difficulty in defining costing system properly. Similarly, instead of discussing the benefits of costing system they discussed the types of costing system, like job order costing, process costing, marginal costing etc., which was not required.

(b) (i) Conversion cost:

A number of examinees was not familiar with the term 'conversion cost' and included cost of material in conversion cost. Moreover, the examinees did not follow the principle that fixed cost remains same with the change in the production level within certain limits.

(ii) Cost of goods sold and (iii) Income statement:

The examinees did not take care to read the requirements of the question before attempting it. As such they prepared these statements at budgeted production level of 90,000 units instead of 60,000 units actually manufactured during the year ended December 31, 2008. Those who calculated figures for 60,000 units, did not have the concept of fixed and variable costs and their behaviour with the variation in volume. They simply used the figure of Rs.50/- per unit of fixed factory overhead and put the figure of fixed FOH of Rs.3 million in cost of goods sold statement instead of Rs.4.5 million (i.e., Rs.50 x 90,000 units).

Question No.3

(a) Perpetual inventory card on FIFO and weighted average methods:

Some examinees did not solve the question in a systematic way not showing separate columns for receipt, issue and balance.

(b) Computation of minimum and maximum limits of inventory and re-order level:

Majority did not have any idea of inventory management and did not learn the formulae of relevant indices. They are advised to practise the numerical questions considering the construction and logic of different parameters of material control. Majority of examinees did not attempt the question. Others were not clear what is being asked. Although the question was very simple.

Question No.4

(a) Methods of remunerating labour:

The examinees failed to explain properly the three systems of remunerating the labour namely (i) day rate (ii) piece work and (iii) Taylor differential piece rate particularly in terms of increase in production and increase in wages accordingly. Those who attempted the question, answered with common sense while they should explain it in a professional way.

(b) Schedule of daily earnings, effective hourly rate and the labour cost per unit:

In spite of clear requirement of the question majority of examinees did not work out the effective hourly rate and effective rate per unit and stopped their calculations just to calculate daily earning.

Question No.5

(a) & (b) Calculation of overhead rates on different bases:

Single factory overhead rate and department-wise FOH rates based on direct labour cost could not be worked out as percentage by majority. The amount of applied FOH based on direct labour hours using single rate and department-wise rates was not computed correctly.

(c) Cost of a Job No.309:

Majority of the examinees failed to calculate the cost of Job No.309 using the overhead rates as calculated in section (a) & (b) of the question which indicated lack of studies/ preparation of the examinees.

Question No.6

(a) Objectives of process costing:

Objectives of process costing were not clear to examinees. As such majority failed to answer the question properly. Some examinees were not able to narrate even what process costing is? In this part of the question many examinees confused with process costing and costing system (Question No.2) because sometimes they substituted the answer with each other or sometime they gave same explanation in reply to both of these questions.

(b) Standard cost card – Specimen:

This part of the question was generally not attempted. Those who attempted, presented the specimen as if they were unaware of the basic terminology of Cost and Management Accounting because they included material variance, labour rate variance and factory overhead variance in the standard cost. Some provided “variance analysis” and some presented “job order cost sheet” while others produced the specimen of “cost of production report”.

(c) Calculation of breakeven points:

- (i) The examinees did not include variable selling cost under the head of the variable cost.
- (ii) Similarly, hiring cost of machine was not included by several examinees in the fixed cost for calculating breakeven point after hiring.

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**EXAMINERS' COMMENTS
SPRING (SUMMER) 2009 EXAMINATIONS**

**MANAGEMENT AND MARKETING
Stage – 2**

SECTION 'A' "MANAGEMENT"

Question No.2

(a) Efficiency and effectiveness / coordination and cooperation:

This was straightforward question requiring explanation of effectiveness and efficiency and differentiation of coordination and cooperation. The examinees correctly defined efficiency and effectiveness. However, they could not point out the difference between coordination and cooperation.

(b) Quality control and inspection:

There were two requirements of this part of the question. The examinees were required to define quality control and enumerate several problems with the quality control and inspection. It was surprising to note that examinees were not even able to define quality control which is concerned with checking and reviewing work that has been done. Overall performance in this part of the question was not satisfactory.

(c) Stakeholders – External stakeholders relationship:

Examinees could not make a difference between stakeholders and stockholders. Stakeholders include stockholders unions, suppliers, and many others who directly influence an organization. Thus every stockholder is stakeholder as well but every stakeholder is not essentially a stockholder. Most of the examinees defined stockholders rather than stakeholders. Hardly any examinee had given the process of managing the stakeholders.

Question No.3

(a) Causes of job stress:

Examinees mostly, attempted this question based on their general knowledge. As a result they skipped such important discussion as organization stressors, the role of disposition, group stress etc. Majority of the examinees had clear idea regarding causes of job stress and what managers can do to reduce employees' stress levels. It was strange to note that only few examinees described the sign of job stress properly. Either the examinees had missed this part or were unable to attempt the same. Examinees were required to explain the signs of stress and there are only three signs like Psychotical, Physiological and Behavioural signs and explain how to get rid of them through time management, organization factors etc. Few examinees were able to answer it correctly. Understanding of the question was the problem in general.

(b) Social learning:

Few examinees attempted first requirement of the question i.e., 'social learning' properly. However, it was noted that majority of them was unable to explain the processes by which models influence an individual with regard to social learning. Examinees were required to define social learning and the process by which the models influences the individuals like retention process and attentional process etc. Overall there was very poor performance in this part of the question as examinees were not even able to define social learning.

(c) Decision making process:

Majority of the examinee could not attempt this part of the question correctly, it is simply learning through observation and direct experience. This was marks gaining question and examinees were expected to write decision making process which includes identifying a problem, identifying decision criteria, allocating weights to the criteria, developing alternatives, analyzing alternatives, selecting an alternative, implementing the alternative and evaluating decision effectiveness.

SECTION 'B' "MARKETING"

Question No.4

(a) Basic strategies for growth of an organization:

Only a few examinees had a clear idea regarding basic strategies that are required for organizations' growth. In fact this question required in-depth study and understanding of different strategies regarding 'product / market expansion, market penetration, market development and product development. Majority of the examinees were unable to answer it properly.

(b) Hybrid marketing systems:

This question related to 'hybrid marketing' which was answered by many examinees but only a few were able to mention the examples, which were desired in the question. Examinees were required to define the hybrid marketing systems and asked to explain how they are hard to manage. A few could able to answer the first requirement of the question i.e., hybrid marketing system and there was very weak performance in second requirement of the question. It is hard to manage because of conflict and control as more channels compete for customers and sales.

(c) Major steps in media selection for advertising:

This was marks gaining question requiring only steps of selecting media which are deciding on reach, choosing among major media types, selecting specific media vehicle and deciding on media timing. The performance of the examinees in this part of the question was satisfactory.

Question No.5

(a) Behavioural segmentation for dividing market behaviourally:

No discussion on behavioural segmentation could actually take place. The examinees wrote about the process of segmentation, geographical demographic but did not touch the behavioural segmentation viz. occasions benefit sought, usage rate and loyalty status. The question related to 'behavioural segmentation desired examinees to explain bases of dividing market behaviourally. Only some of the examinees were successful to explain and cover points like 'occasions benefits sought, usage rate and loyalty status.

(b) Importance of middlemen to the producers:

Examinees elaborated the role of middlemen, channel distribution and assortment of product etc., but skipped financial support aspect. The requirement of this part of the question was to highlight the importance of middlemen.

(c) (i) Sales promotion and advertising:

Many examinees were successful in describing and differentiating sales promotion and advertising in a befitting manner. Majority of them were able to differentiate between sales and advertisement.

(ii) Push and pull strategies:

Majority of the examinees were unable to differentiate between push and pull strategies successfully. These are simple marketing terms in which the push strategy is used for sales force and trade promotion to push the product through channels and pull strategy is must for spending a lot on advertising and consumers promotion to induce the final consumers to buy the product; therefore examinees must be aware of the same.

**EXAMINERS' COMMENTS
SPRING (SUMMER) 2009 EXAMINATIONS**

**BUSINESS MATHEMATICS & STATISTICS
STAGE-2**

SECTION "A"

Question No.2

(a) Inverse of Matrix Method:

This part required examinees to solve a set of two equations using inverse of matrix method. As expected they performed well. However, they lacked simplification skills.

(b) Partial Derivatives:

Here, bivariate total revenue and cost functions of two products were given and examinees were asked to determine the number of units of each product that should be produced and sold to maximize profits. The majority could not do it correctly.

- Common errors were that examinees did not find second derivative of the function and they did not understand, how, this problem should be solved by means of partial derivative.
- They solved it by total differentiation, which showed that examinees had no clear concept.

(c) Break Even Analysis:

This part based on breakeven analysis, required examinees to determine the number of units sold to breakeven. It proved to be a marks-scoring part.

(d) Arithmetic Progression:

This part tested examinees on the topic of arithmetic progression and provided a good chance to them to gain easy marks. However, they were unable to solve this part by using appropriate formula of series. They just used their own method.

(e) Partial Fractions:

In this part, examinees were tested on the topic of partial fractions. They were asked to resolve a fraction into its partial fractions. Performance was not satisfactory in this part.

- They solved it by general partial fraction method.
- After finding the values they also integrated it, which was not required.

Question No.3

(a) Total Cost Function:

In this part, marginal cost function and total cost for a specified number of units, were given. Task was determination of total cost function. Generally, performance of examinees remained satisfactory.

(b) Derivative by Limit Approach Method:

Here, examinees were asked to determine derivative of a function using limit approach. Performance remained satisfactory. Some of the examinees failed to solve it correctly.

- Exact formula was not known to the examinees.
- They just solved the problem by direct method.

(c) Compound Interest:

Examinees were supposed to find the amount of interest when amount of loan, period of loan and interest rate were given. In this case also, most of the examinees were unable to understand the requirement of the question and committed following errors:

- Most of the examinees used incorrect formula and failed to differentiate between 'S' (future value of annuities), 'A' (present value of annuities) and 'R' (size of an annuity).

- Many of the examinees were also not learned in finding out the correct value of interest.

(d) Determination of Mid-Point:

In this part, two points of a line segments were given and mid point was to be determined. Performance of the examinees remained average.

- Some examinees were unable to use the correct formula.
- They tried to find mid-point by using graph paper.
- The majority had wrong basic idea about mid-point.

SECTION “B”

Question No.4

(a) Finding Missing Values Using Mean and Variance:

In this part, mean, variance and the values of three of the five observations were given. Remaining two observations were required to be found. Poor showing by the examinees, was noted in this part.

- Even those who approached it, correctly, failed to arrive at the correct answer due to poor mathematical and solving skills.
- Some examinees had even no knowledge of variance and mean.

(b) Coefficients of Correlation and Determination:

Examinees were required to compute and interpret coefficients of **(i)** correlation and **(ii)** determination. Performance of the examinees was average.

- Only a few examinees interpreted the solutions well.
- They applied incorrect formula.

Question No.5

(a) Basic Concepts and Rules of Probability:

This part was based on simple and basic probability rules. Examinees generally, responded poorly to this part.

- A very few examinees showed good understanding of the concepts and solving skills on this topic.
- Examinees used wrong and irrelevant formula for solving this part.
- They had not much knowledge and concept about the simple and basic probabilities and their rules.

(b) Normal Probability Distribution:

In this part, examinees were tested regarding their abilities to solve a problem on normal distribution. Examinees' performance remained average.

- The formulation of probability statement and use of 'z' table was not done appropriately.
- They could not understand the requirement of the question.

SECTION “C”

Question No.6

(a) Cost Slops and Critical Path of Network:

On the basis of given data, examinees were required to calculate cost slops and critical path of a network. This part elicited good responses from the examinees.

(b) Least Cost Schedule:

In relation to **(a)** above, this part required least cost schedule for the network, showing all durations from normal time – normal cost to crash time – crash cost. Examinees performed satisfactorily. However:

- the majority failed to construct the least cost schedule by crashing the normal activities.

Question No.7

(a) Formulation of Linear Programming Model:

The task, here, was formulation of the linear programming model for determining the mix of two foods that will minimize cost but will ensure minimum daily requirement of two vitamins found in these foods. Majority of the examinees took advantage of this part and gained pass marks. However, the following errors were noted:

- Clarity of exposition was missing due to lack of concepts.
- Some of them failed to write the actual inequalities (constraints) and the table.

(b) Use of Corner-Point Method:

Using the corner-point method, linear programming model as given in **(a)** above, was required to be solved. Unsatisfactory performance was noted in this part. Common errors were as under:

- Due to poor solving and practicing skills, the correct solution could not be arrived.
- Graphs sketched by many examinees were wrong.
- They had no idea how the inequalities should be used in a minimization model and how to obtain feasibility region or area.

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**EXAMINERS' COMMENTS
SPRING (SUMMER) 2009 EXAMINATIONS**

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

SECTION 'A' "HARDWARE"

Question No.2

(a) Pen-based technology:

In this part "pen-based technology" was asked to explain. Majority of the examinees provided their answers with fairly shallow knowledge of the topic and did not elaborate their answers according to the requirement of the question. Pen-based technology is used in computers that accepts input from a stylus (inkless pen) used directly on the computer screen.

(b) Document imaging and advantages of image processing system:

The performance of most of the examinees in this part remained average with lack of in-depth concept of the 'document imaging' and advantages of 'image processing system'. It seemed that this question was misunderstood by many examinees and thought that it referred to graphics designing tools and techniques. Document imaging means converting documents into electronic images.

(c) Source data automation devices:

Only a few examinees were familiar to define the concept of source data automation whereas, majority did not have proper understanding about the 'source data automation' and answered for traditional devices like keyboard, mouse etc. Source data automation (SDA) is the process of capturing data electronically at the point where it is generated. Some SDA / scanning devices are ATM cards, point of sale (POS) terminal, biometric devices etc.

Question No.3

(a) Magnetic storage devices; Redundant Array of Independent Disks (RAID) storage provides fault tolerance capacity:

Majority of the examinees knew about magnetic storage devices but most of them did not have the idea of RAID. A large number of examinees wrongly included CD and DVD in the list of magnetic storage devices. Many of the examinees did not properly explain how RAID storage provides fault tolerance capacity. Magnetic disks are the most common form of secondary storage devices. A few types of magnetic storage devices are floppy disks, hard disk drives, RAID storage etc.

(b) Salient features of hardware devices:

Many examinees had written more than what was required for these single mark questions. Examinees should avoid writing unnecessary details which are not related to the required answer and that wastes their time.

(i) Data Bus:

This part was fairly easy for most of the examinees. A bus is a common pathway across which data can travel, within a computer.

(ii) Firmware:

Very few examinees were familiar with firmware and most of them inadequately explained it. ROM (read-only memory) is also known as firmware and cannot be written on or erased by the computer user.

(iii) Infrared Port:

This part was fairly easy for most of the examinees. Infrared port is used for wireless, data transfer and is available to hardware peripherals such as printers, keyboard, mouse.

(iv) Smart Card:

Majority of the examinees could not explain it properly. A smart card contains a microprocessor and a memory chip. A smart card / optical card is a plastic, laser card used with an optical card reader (replacement of the conventional magnetic-strip).

(c) Graphical User Interface (GUI):

The explanation and examples given by most of the examinees on GUI were not correct. Some examinees misunderstood and some wrote long note on graphic cards and various display cards. Examinees are advised to read the questions carefully and understand what is being asked for instead of starting the answer in haste. Graphical user interface (GUI) is a human-computer interface (i.e., a way for humans to interact with computers) that uses windows, icons and menus and which can be manipulated by a mouse.

SECTION 'B' "SOFTWARE"

Question No.4

(a) Functions of the data communication software:

Majority of the examinees could not understand this question and explained it as a software application for general communication between user like email and other office communication applications. Most examinees described chatting clients and Internet browsers instead of communication software features in general. Communication software can be defined as the programs that support communication protocols, control (drive) communication hardware, and the interface with the operating system and the user that enable the exchange of data and information.

(b) Explanation of the software terminologies:

Majority of the examinees did not have proper concepts of multitasking, multithreading, spooling and virtual memory. Part **(i) Multitasking:** The performance of the examinees against this part was below average. Multitasking is the concurrent use of the same computer to accomplish several tasks. Each task may require the use of a different program, or the concurrent use of the same copy of a program by several users. **(ii) Multithreading:** In this part only few could explain correctly. An operating system is known as multithreading when several processes (tasks) may be run at the same time. The applications consists of a sequence of instructions known as "threads". **(iii) Spooling:** It was explained poorly by majority of the examinees. Spooling can be defined as simultaneous peripheral operations on line. Also, writing output data at high speeds on to magnetic tap / disks from which it can be transferred to slow speed devices such as printer. **(iv) Virtual memory** was also explained poorly by examinees. Virtual memory is the use of secondary storage devices as an extension of the primary storage of the computer, thus giving the appearance of a larger main memory than actually exists.

Question No.5

(a) User friendly accounting software package:

Most of the examinees were able to define software only and were not able to explain different user friendly accounting software packages available in the market. Examinees were not able to identify the facilities provided by most accounting software (especially taking Peachtree as an example). They were unable to give examples of other similar software. Some of the user friendly accounting softwares are QuickBooks, Peachtree Accounting, Simply Accounting, MYOB Plus and MYOB Accountedge, and Fundware by Kintera.

(b) Features of the following web programming languages:

(i) Hyper text mark up language HTML was explained well by majority. HTML is the basic language understood by all www clients. HTML is a set of commands that specifies the position, size and colour of text, the location of graphic information, and the incorporation of sound and video. **(ii) Extensible mark up language XML:** Examinees showed their lack of knowledge. Extensible mark up language is not a web page format description languages like HTML. Instead, XML describes the contents of web pages by applying identifying tags or contextual labels to the data in web documents. **(iii) JAVA** was not elaborated well by the majority. JAVA is an OOP language created by sun Microsystems. It is used for internet / web programming. **(iv) VBScript:** It was poorly defined by majority of examinees. VBScript is Microsoft's planned candidate for an internet scripting language. VBScript source code is embedded in HTML, and downloaded to the client in the HTML file, where it is compiled and executed in association with its runtime libraries.

(c) Differentiation between the following terminologies:

(i) Procedural / non-procedural languages was defined by shallow knowledge. Procedural language requires programming discipline, such as C / C++, JAVA, COBOL, Perl. In non-procedural language that does not require writing traditional programming logic. Also known as a “declarative language”. **(ii) Computer language / package:** Majority of the examinees did not provide related answers to this question. Computer programming language is a series of commands or codes that a computer can translate into the electronic pulses that underlie all computing activities e.g., BASIC, COBOL etc., while package is an application that focus on a particular subject, such as word processing or spread sheet and is sold to business and general public. **(iii) Assembler / compiler:** Examinees defined compiler well but assembler was elaborated rarely. Assembler for an assembly language is a computer program to translate between lower-level representation of program or it is a software to convert an assembly low-level language to high-level language such as binary code or object code. Compiler translates source code form high-level programming language to a lower-level language. It compiles whole program at a time e.g., C language etc. **(iv) Software / firmware:** Software was explained well but firmware was not defined correctly. Many mistook firmware to mean freeware or even proprietary software used within a firm. Software is a general term used to describe a collection of computer programs, procedures and documentation that perform some tasks on a computer. Firmware which is software programmed resident to electrically programmable memory devices on board or other types of integrated hardware carriers e.g., ROM (BIOS) etc.

SECTION ‘C’ “NETWORK & SECURITY”

Question No.6

(a) Available tools to protect the information in network against intrusion or misuse:

Most of the examinees were not able to explain the concept of intrusion detection system (IDS) and similarly were not able to give the examples of IDS products. Only few examinees could appropriately deliberated upon the tools available to protect the information in network against intrusion or misuse. An intrusion detection system (IDS) monitors network traffic for suspicious activity and alerts the system or network administrator.

(b) Voice messaging:

Most of the examinees did not have proper understanding of the concept and failed to discuss the technologies like VOIP. They simply listed speakers, headphones and microphones. Voicemail is a centralized system of managing telephone messages for a large group of people. The term is also used more broadly, to denote any system of conveying voice message, including the answering machine.

(c) Factors contributed for the growth of Local Area Network (LAN):

Most of the examinees defined computer networks but failed to explain reasons for its growth. Majority of examinees could not comprehend as to what was asked. Though almost all the examinees mentioned something as their concepts of LAN but that was not focused on the factors that contributed to growth of LAN. A local area network (LAN) is a group of computers and associated devices that share a common communications line or wireless link. Fast / gigabit and wireless LAN technology has grown exponentially.

**EXAMINERS' COMMENTS
SPRING (SUMMER) 2009 EXAMINATIONS**

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

WORD PROCESSING:

The overall performance of the examinees in this part remained average. Error free spelling, correct font, correct style, correct size and placement of graphic are basic ingredients of an appropriate reply. If there is any table, margin, alignment of text and use of subscript / superscript etc., it should also have same importance and due weightage in the marking scheme too. It is very important to note that many examinees attempted the MCQs on the question paper and thus created problem for assessment of script. It shows that examinees always avoid to read the instructions carefully.

SPREADSHEET:

The first question in which, the table with the given data and headings was asked to print in MS Excel. The examinees could not present data in the appropriate format and even some of examinees could not draw the lines of tables. They did not view it in print view mode. A fairly large number of examinees either did not apply the formulae properly or did not select the right source resulted in wrong answers. The majority of the examinees could not adequately use the bar chart-option provided in the Excel package. Specially, improper printing of bars and missing field names was observed. Examinees are advised to note that in questions related to Spreadsheets, the overall layout is equally important as that of placing the right formulae for getting the correct answers / values.

DATABASE:

Very few examinees attempted this part and still the database part proved the most difficult area for most of the examinees. Those who attempted Database part could not get hold of the answers properly which showed that they did not practice well. In this question it is easier to track any mistake made. Examinees must give extra care while defining the structure of the Database as this provides the basis for all the data which may generate wrong results in filter / calculation based questions.

PEACHTREE:

The overall performance of the examinees remained average in this part. It was observed that in many cases the examinees started answering the questions in haste without reading or understanding as to what exactly was asked. The debit / credit mistakes while making 'general journal' entries led to the wrong answers in the report by many of the examinees. In some scripts 'current balances' were missing and not printed as it was asked in the question. Most of the examinees either could not correctly prepare the 'sales journal' or left this part un-attempted or with blank report. Wrong entry of the data also created wrong results in the balance sheet in a large number of cases. Many of them had given five to seven pages extra with prints of 'General Ledger'.

POWERPOINT:

This was the most easiest part of this practical examination and the overall performance was remained above average. However, the major mistakes committed were: the box format was missing, selection of wrong fonts, improper use of bold, italic and bullet features. The use of appropriate size and placement / position of graphic (if used) is of prime importance and have marks allocated for each. The examinees must view their slide in view mode (F5) to check how it will be presented after printing.

**EXAMINERS' COMMENTS
SPRING (SUMMER) 2009 EXAMINATIONS**

**FINANCIAL ACCOUNTING
Stage-3**

Question No.2

(a) Joint Venture and Co-Venture Accounts:

In this part of the question, examinees were required to prepare Joint Venture Account and Co-Venture Account. This part was very simple and the majority succeeded to answer, correctly. However, they did not prepare the working to arrive at the joint venture loss and, hence, lost some marks. Some examinees failed to attempt the question correctly and made the following common mistakes:

- They did not post the transactions in the accounts, correctly, in their respective debit or credit sides.
- They failed to calculate the bank settlement amount, correctly.
- They did not calculate the joint venture loss amount, correctly.

(b) Value of Credit Sales:

In this part of the question, the examinees were required to calculate the amount of credit sales. This part also proved to be the easiest one and the majority of the examinees attempted this part, correctly, by drawing a debtors account. However, some examinees could not attempt the question, correctly, due to committing mistakes of wrong postings of transactions in debit and credit columns of the debtors account.

Question No.3

Accounting Treatment of Royalties:

This question tested examinees' understanding of **(a)** Royalty Payable Account, **(b)** Royalty Receivable Account, and **(c)** Royalty Suspense Account. With the exception of a few, no one was able to prepare these accounts correctly. Generally, following mistakes were made:

- Sales of sub-licensee (production + opening stock - closing stock) were not calculated, correctly.
- In the Royalty Payable Accounts, royalty on sub-licensee's production was not included.
- In the Royalty Receivable Accounts, the difference between the royalty paid and received on sub-licensee's production and sales respectively, was not taken to Profit and Loss Account.
- Amount of shortworking, in year 2006, had to be adjusted against excess working in year 2007 and the balance amount was to be taken to Profit and Loss Account in the same year (2007), but it was carried forward to year 2008.
- Some examinees prepared journal entries, which was not required.

Question No.4

Dissolution of Firm:

The examinees were asked to prepare **(a)** Partners' Capital Accounts, **(b)** Realization Account, and **(c)** Bank Account. The majority solved this question properly and obtained good marks. However, some examinees could not solve the question, correctly, and made the following common mistakes:

- They did not work out the realization gain, correctly.
- They did not post the transactions in all the three accounts, correctly.

Question No.5

Accounting for Revaluation of Non-Current Assets:

The examinees were required to prepare journal entries relating to revaluation of two machines for the years 2007 and 2008. This question was based on IAS-16. Majority of the examinees could not attempt the question, correctly, which showed their lack of knowledge of the aforesaid accounting standard. Following shortcomings were noted:

- The examinees could not calculate revaluation gain / loss correctly.
- They could not calculate the depreciation after revaluation of the machines, correctly.
- The examinees could not make journal entries for the revaluation of the machines for both the years i.e., 2007 and 2008.

Question No.6

Preparation of Financial Statements:

Requirement of the question was to prepare **(a)** Profit and Loss Account including appropriation of the profit for the year, and **(b)** Statement of Financial Position. Overall, performance of the examinees was satisfactory. However, following shortcomings were found:

- Most of the examinees could not calculate gross profit, correctly, because they included the expenses of *power, heat and light* and *wages and salaries* in the *cost of goods sold* without making any assumption in this regard.
- Some used account form in preparing the Profit and Loss Account.
- Most of the examinees could not calculate the bad debt expense for the year, correctly.
- Income tax was not deducted out of the operating income for the year, rather, they appropriated the same out of the retained earnings, and hence, they could not calculate the net profit correctly and lost marks.
- Most of the examinees did not prepare the Profit and Loss Appropriation Account. Some of them prepared Statement of Changes in Financial Position in lieu of it, hence, lost marks.
- In Statement of Financial Position, the examinees failed to classify the items into non-current assets, current assets, shareholders' equity, long-term liability and current liabilities.
- A large number of examinees included interest expense in the operating expenses.
- Preference dividend was treated as an expense.
- Examinees could not prepare non-current assets schedule, properly.

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**EXAMINERS' COMMENTS
SPRING (SUMMER) 2009 EXAMINATIONS**

**BUSINESS TAXATION
Stage – 3**

SECTION "A"

Question No.2

- (a) The question tested examinees' concept of "Income Splitting" under section 90 and section 91 respectively of the Income Tax Ordinance, 2001:**

The examinees failed to comprehend the real concept behind "Income Splitting" and answered in general terms and using irrelevant matters. Income splitting scope was missed out by majority of examinees who failed to appreciate the transfer of assets between spouses as persons revocable, irrevocable or otherwise, and the taxability of income thereon.

- (b) The taxability of rental income between spouses following the transfer of vehicle with or without consideration:**

The examinees did not read the question carefully and wrote answers on the pros and cons of transfer of vehicle / transfer fee, instead they failed to discuss the practical implication of the taxability of rental income between spouses arising after transfer of vehicle.

- (c) Identification of Pakistan Source Income or Foreign Source Income for five (5) given cases and the selection of grounds for identification of the source:**

Majority attempted this part, the source was correctly stated by few whereas some used hit or miss techniques. The reasons or grounds of the answers selected were incorrect or irrelevant. The key point of distinction between these two sources were based on specific provisions such as section 101(a), section 101(b) etc., of the Income Tax Ordinance, 2001 which formed the basis of selection of the two sources. Overall the performance was poor in this question.

Question No.3

- (a) The question required examinees to state Rule 29 of the Income Tax Rules, 2002, with regard to maintenance of records for "Income from business":**

The answers were not correctly attempted, those who were aware also wrote very few lines. Majority wrote frivolous points. The examinees failed to explain that every taxpayer deriving income chargeable to head "Income from business" shall maintain proper books of accounts, documents and records for sums of monies received and paid, sales and purchases made etc.

- (b) It was specifically required (i) provisions applicable to "Resident Individual" under Rule 14 of the Income Tax Rules, 2002 to determine the number of days an individual is present in Pakistan. (ii) to workout the residential status as per Rule 14 of the Income Tax Rules, 2002.**

It appears that the examinees did not read the questions requirements carefully, secondly they did not plan their answers properly. Even though majority attempted, but marks attained were poor due to lack of exam techniques and appreciation of what constitute a residential day in Pakistan excluding days of transit.

Question No.4

- Individuals tax computation requiring presentation of total income and the income tax liability for the tax year:**

The examinees basically lacked knowledge in respect of several tax provisions, such as marginal relief, property income, FTR income, House Rent Allowance (HRA), Gratuity Fund taxability and the misconception between total income and taxable income. Examinees performance was very disappointing at this stage, which showed

lack of preparation and exam practice. If properly prepared the examinees would have secured maximum marks from this question.

Question No.5

(a) The question required provisions of the sales tax laws for refund of input tax.

This part of the question was not properly understood and without carefully dissecting the meaning, the examinees wrote everything about 'input tax' but failed to adhere to the refund of Input tax. This shows examinees' lack of in-depth study and the general approach to the question.

(b) Differentiation between exempt supply and zero rated supply showing main distinctions.

Whereas in this part the performance was reasonable apart from presentation in tabular form, the answers were upto the mark.

Question No.6

Under the Customs Act, 1969 the analyses were required for (a) between (i) Draw back on the export of imported goods (ii) Audit, whereas part (b) required as per Federal Excise Act, 2005 explanation for "Basis of duty charged" and "Establishment and Franchise".

This was straightforward question, the examinees "made a meal" of this. The foremost problem was not understanding the questions, answering the question by writing out of the context and not adhering to statute. The other disturbing trend was reproduction of question, repetition of the same point over and over again with illegible writing rampant in the answer script.

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**EXAMINERS' COMMENTS
SPRING (SUMMER) 2009 EXAMINATIONS**

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

Question No.2

Forecast of operating results:

Question was simple but performance was not good. The scripts lead to a feel that examinees did not know the concept of direct costing. Fixed and variable expenses were not dealt with as required in direct costing. Examinees were not able to calculate the variable manufacturing cost of May 2009 which might simply be calculated by adding 10% to the amount of July, 2008. Some examinees used the term "Gross Profit" instead of "Contribution Margin". Some examinees included fixed factory overhead in variable cost. There is need to clearly understand the concept of marginal costing and to present it. Examinees are advised to practise because it was reflected that mistakes were made due to lack of practice. Reconciliation of profit was not attempted correctly. The reconciliation of profit under present method and suggested costing method was asked but the examinees gave their suggestions regarding adoption of direct costing method and produced lengthy description on this matter which was not required.

Question No.3

Process costing:

Although the question was simple but most of the examinees produced their answers partially correct. Valuation of inventories and passing journal entries were catch points but very few could do justice and attempted it correctly. Examinees mixed up the concept of FIFO and Average valuation of inventories. They could not understand the percentage of completion of material and conversion cost like material that was added at start of the process hence product was 100% completed as to material. Examinees ignored the defective units that were to be added in transferred out units. Most of the examinees did not attempt the journal entries correctly to record the inventories. This shows that they did not have concept of chronological flow of recording cost accounting information. Those who attempted journal entries passed their entries either with wrong account heads or with wrong amounts. Some examinees prepared work-in-process ledger account instead of passing entries. There was clear indication from the examinees answers that they attempted the questions half-heartedly and they were short of practice. Unnecessary calculations were made because they had no idea to pick up relevant data from the given information.

Question No.4

Standard costing:

The common mistake was the consideration of cost of material, which made almost all the answers incorrect. Labour and overhead costs are given in question. Balance was the material cost that was wrongly calculated by majority. It was simple to calculate the material price variance by just deducting the material usage variance (which was given in the question) from total variance but most of the examinees failed to calculate it correctly. In spite correct calculations of variances, some examinees ignored indicating these variances as favourable or unfavourable or wrongly indicated. Sales mix and final sales volume variances could not be attempted with confidence. Majority of examinees did not have basic concept of standard costing and therefore found unable to analyse variances. They did not know the simple formulae of determining the standard costs. Examinees should realize that standard costing is an important area for Cost and Management Accountants and they should have command over the topic.

Question No.5**Cash budget and projected income statement:**

Very poor performance was observed in cash budgeting. Examinees included depreciation in the cash outflow. Cash inflows could not be determined correctly because most of the examinees could not understand the recovery pattern. Similarly, in cash outflows, payment pattern was not correctly understood. While preparing projected income statement they could not differentiate between sales and cash collections.

Most common mistakes were:

- Quite a number of examinees made 'T' account.
- A number of examinees had considered collection as income while computing the projected income statement.
- Very poor presentation and format of Cash Budget.
- Separate monthly budgets were prepared on three or more sheets instead of "one page / sheet format" for three (03) months.
- Overdraft shown as positive balance.
- Depreciation was wrongly shown as cash budget item by some examinees.
- Three (03) months' income statements were prepared separately instead of one Income Statement for the period of three (03) months.

Question No.6**Transfer pricing:**

The most common mistake was the computation of variable cost rendering answers of part (i) wrong. Most of the examinees calculated margins for both division "A" and "B" without understanding the requirement of question to calculate the same for the special order. Most of examinees failed to reply the correct answer regarding management decision to transfer @ Rs.300/- per component. Some of them did not know the way to calculate the contribution margin (CM) and deducted the fixed cost from sales to arrive at the CM. They provided unnecessary and illogical calculations and working to support their findings without proper justification and reasons. It seemed that majority did not read the question properly and could not justify their solution while giving comments which should be to the point in term of 'yes' or 'no', then emphasising with supporting detail but most of them tried to fill the pages after pages without having knowledge on which they were commenting.

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**EXAMINERS' COMMENTS
SPRING (SUMMER) 2009 EXAMINATIONS**

**PRESENTATION & COMMUNICATION SKILLS
Stage-3**

Question No.2

Culture in communication and national & individual variables affecting communication process:

Most of the examinees gave satisfactory reply to the significance of culture in communication. They were able to elaborate national and individual variables affecting communication process. Culture plays a significant role in communication and culture represents behavioral characteristics of a group. For instance there are certain religious restrictions in one culture and the violation of such restrictions by someone from other culture would certainly affect the communication between the two.

Question No.3

(a) Buffers:

A good number of examinees was able to explain "Buffer" satisfactorily. However, there were only some examinees who gave proper reply to the desired three examples. Buffer can simply be described as a positive or neutral reader oriented statement that reduces the impact of a bad news.

(b) An inter-office memorandum:

Mostly the reply was very casual related to inter-office memorandum to Managing Director informing him about fire at the factory. It was noted that the data specified was not impressive. In few cases presentation was also not upto the mark.

Question No.4

(a) Characteristics of oral media with written media:

The examinees justified their answers by describing characteristics of oral media and written media. It was noted that features described of the two medias for selecting appropriate medium of communication was not satisfactory.

(b) Internal-office memorandum:

This question required examinees to draft an internal memo informing the employees regarding change in working schedule. Here it was also desired to mention the reasons for the change. Mostly the examinees covered the first part successfully, however, many of them did not cover the reasons for the change, thus they could not get good marks. Overall, all the examinees replied and drafted the memo but it was noted that in few cases the reasons for this change and extended office timing was not answered in a befitting manner. Here the answers were again given in a casual way.

Question No.5

(a) Non-verbal consideration:

A number of examinees was able to meet the requirement of the question regarding non-verbal consideration that a speaker should take care of for presentation. However, some of the examinees could not justify the reply as desired in the question. Non verbal aspects of presentation are speakers personal appearance, body language, facial and eye expressions, voice characteristics, and multimedia presentations.

(b) Talk of the town:

It was nice to note that examinees discussed different news like terrorism in Swat, load shedding, water shortage, sewerage problem, unemployment etc. They were able to pin point the problems and came up with the suggestions to solve the current problems.

Question No.6**(a) Personal curriculum vitae:**

Examinees did explain personal curriculum vitae and its contents but they missed one important point that CV be set in a way that persuades the employer to take action in favour of the applicant. Job application is a kind of sales letter as we offer our services to a company and we ourselves are the products. Similarly like a sales letter, job application should also be written with the help of AIDA structure.

(b) A report regarding the staff-turnover and labour unrestness:

The question related to draft a report for the Chairman from General Manager – HR regarding real causes of staff-turnover and labour unrest. Some of the examinees justified the answers meeting the requirement of the question. The examinees were provided with the following elements of the report i.e.,

- Introduction
- Comparative Studies
- Promotion Policy
- Conclusion
- Recommendation

The examinees should have covered all these points specifically. It was noted that few students answered the question in general manner crafting it as a memo. It was clearly mentioned in the question that report must consist of the above-specified elements and some of the examinees tackled the question successfully and replied point wise.

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**EXAMINERS' COMMENTS
SPRING (SUMMER) 2009 EXAMINATIONS**

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

Question No.2

Consolidated Statement of Financial Position:

The examinees were required to prepare the consolidated statement of financial position as per the relevant IASs. A mixed response was received from the examinees. A few observations are as under:

- Only a small number of examinees were able to understand that Guava Limited was an associate of Melon Limited. They treated it as a subsidiary of Melon Limited.
- Most of them failed to calculate the correct figures of land and building, non controlling interest, goodwill, group retained earnings and investment in associates.
- Presentation of the statement was not up to the mark. There were a lot of cuttings and overwritings as well.

Question No.3

Amalgamation:

Examinees were required to prepare journal entries relating to amalgamation of two companies and opening statement of financial position of the new company. Examinees performed satisfactorily in this question. A few deficiencies, however, were noted as under:

- Some examinees prepared realization account in the books of the amalgamated companies and gave opening journal entries in the books of the new company, which was not asked for, in the question.
- Many examinees calculated goodwill @ 10% instead of 12% of net valuation of respective businesses of each company.
- A few examinees closed the assets and liabilities to revaluation account or purchase consideration account instead of realization account.
- A large number of examinees failed to calculate correct amount of capital in the statement of financial position of the new company.
- A few of them did not close the cash account to realization account.
- Some examinees, erroneously, included amount of debentures in the calculation of purchase consideration.
- Assets of one of the companies, with the exception of land and building, were to be taken at a reduced valuation of 10%. Examinees, wrongly, reduced the cash amount as well.

Question No.4

Basic Earning per Share (EPS):

The examinees were required to calculate the basic earning per share (EPS) for **(a)** 2006 as initially reported, **(b)** 2006 as reported in 2007 financial statements, **(c)** 2007 as reported in 2007 financial statements and **(d)** 2008 as reported in 2008 financial statements. An average performance was witnessed in this question. Common mistakes committed by the examinees were as under:

- A large number of examinees did not deduct the preference dividends to arrive at "profit available to ordinary shareholders".
- Most of the examinees, wrongly, added 20% bonus shares to calculate the total number of ordinary shares outstanding. In this way they double added bonus shares that were already included in the balance of outstanding ordinary shares as at June 30, 2006.

- Many examinees, incorrectly, construed profit before interest and taxes as profit available to the ordinary shareholders.
- The majority was not conversant with the calculation of the adjustment factor necessary for restating the 2006 basic EPS for rights issue.
- Most of the examinees failed to calculate the 2007 basic EPS including effects of rights issue simply because they were, mostly, unable to calculate the denominator used in the formula.
- They had no idea of the theoretical ex-rights value.

Question No.5

(a) Splitting the Compound Financial Instrument:

Examinees were required to split the compound financial instrument into its liability and equity components on initial recognition. The majority did not attempt this part of the question. Only some of them could arrive at the correct answer. Following lapses were found:

- Some examinees, unnecessarily, pass the journal entries for the issuance of bonds and interest payable on bonds.
- This part exposed the lack of mathematical proficiency of the examinees.

(b) Accounting for Taxation:

Examinees were asked to (i) compute the amounts of tax payable for 2006, 2007 and 2008, (ii) pass journal entries relating to taxation and (iii) find out effective tax rates for the years as mentioned above. Again it was an easy part of the question. Overall, satisfactory performance was observed in this apart. Most of the examinees correctly computed the amounts of tax payable for the years 2006, 2007 and 2008. However, the examinees were not having any fair idea as to how to prepare the journal entries to record income tax. A few deficiencies were discovered as under:

- A few examinees incorrectly added installment sale amounting to Rs.36,000 to pre tax profits in the year 2006 instead of deducting it to arrive at taxable profit.
- Many examinees added back Rs.24,000 and Rs.12,000 relating to installment payments to the pre tax profits of the years 2006 and 2007 instead of adding these amounts to the pre tax profits of the years 2007 and 2008.
- A large number of examinees incorrectly divided the income tax payable by pre-tax financial income to compute the effective tax rates instead of using income tax expense in the numerator.

Question No.6

(a) Construction Contracts:

As per IAS 11 *Construction Contracts*, the examinees were required to define "fixed price contract" and state the conditions to be satisfied to reliably estimate the outcome of a "fixed price contract." Overall, poor performance was observed in this part of the question.

- Most of the examinees tried to explain the "fixed price contract" instead of defining it.
- They crafted their own definitions instead of providing what were given in the relevant IAS.
- Some of them, who had reasonable knowledge of the topic, were not able to, properly, transfer it onto the answer scripts due to poor English.

(b) Recognition of Revenue from Sale of Goods:

The examinees were required to state the five conditions necessary to recognize revenue from sale of goods as per IAS 18 *Revenue*. Again, almost all the examinees attempted this part of the question very poorly.

- They produced irrelevant arguments in support of their answers, which showed that they had no idea about the topic.
- A few examinees prepared the format of income statement and wasted their valuable time.

(c) Terms as per IAS 17 Leases:

Examinees were required to define **(i)** minimum lease payment, **(ii)** interest rate implicit in the lease and **(iii)** lease term as per IAS 17 *Leases*. Very poor performance was noted in this part. Instead of defining, most of the examinees tried to explain these terms with the help of irrelevant details, which reflected their indifference toward the study of IASs.

(d) Terms Relating to Financial Instruments:

The examinees were required to define **(i)** held to maturity investments and **(ii)** loans and receivables as per IAS 32 *Financial Instruments: Presentations*. Poor performance was noted in this part too. Comments expressed in part **(c)** above are also relevant in this case.

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**EXAMINERS' COMMENTS
SPRING (SUMMER) 2009 EXAMINATIONS**

**INTEGRATED MANAGEMENT
Stage – 4**

SECTION "A"

Question No.2

(a) Checklist of questions helpful for an organization in determining its specific strength and weakness:

This was a simple question, unfortunately most of the examinees could not meet its requirement. They provided four questions in four different functional areas like management, marketing, finance, operation, R&D and MIS without determining specific weaknesses and strengths. It was noted that they knew the substance but unable to assemble as per requirement of the question. Only few examinees understood the theme that what the examiner had asked.

(b) Mission and vision statement:

Most of the examinees were able to differentiate between mission and vision statements and described the core values. They did mention five (05) stakeholders along with nine (09) essential elements of mission statement. The question was clear and simple. Mission statement describes what business you are in and who your customers are. It is the step which moves your strategic planning process from present to the future. In vision statement, the vision is not true for the present environment but framed only for future and a strategy will need to develop a compelling vision of future. Performance was remained average in this part.

Question No.3

(a) Objectives of the organization:

A number of examinees did justice to the question and was able to define objectives of the organization and how can objectives translate into strategic management process. They were able to discuss the meaningful formulating objectives and its importance to keep the organization. However, they need to improve more on this area. Attaining the goals or objectives are the end results of the organization's operation. Objectives are the specific targets or standards against which actual performance can be measured.

(b) Threats-Opportunities-Weaknesses-Strengths (TOWS) Matrix:

Some of the examinees were successful in writing TOWS Matrix and covered nearly all the important points of SO, WO, ST & WT strategies. However, many examinees just wrote TOWS stand for threats, opportunities, weaknesses and strengths. It was noted that many examinees either forgot or did not know answer to the last part of the question asking how strategies help linking the organization to mission and objectives. The performance of the examinees was unsatisfactory and they were unaware what the examiner had actually asked. Strategy help limiting the organization to mission and objectives by implementing strategy and gaining greater commitment from employees. Mission and strategy lie at the very heart of the strategy implementation. They identify precisely what must be accomplished to achieve an organization's strategic goals.

SECTION "B"

Question No.4

(a) Characteristics of the project life cycle and project operational & tactical strategies:

The question was simple and required examinees to write the characteristics of the project life cycle. The examinees did mention the steps of project life cycle but missed to write characteristics as desired. Some of the examinees could not differentiate project operational strategies and tactical strategies successfully. Overall, the performance of the examinees was satisfactory in this part. The characteristics of project life cycle may include:

- What technical work should be done in each phase?
- Who should be involved in each phase?
- Cost and staffing levels are low at the start, higher towards the end and drop rapidly as the project drawn to a conclusion.
- The probability of successfully completing the project is the lowest and hence risk and uncertainty are the highest at the start of the projects.

(b) Factors of risk quantification during the assessment of a project:

This was a very important question covering identification and quantification risk elements of the project. The examinees did not give appropriate answers to all parts of the question. In fact they wrote about risk, its identification and quantification but the reply was not upto the standard. Risk quantification involves evaluating risk and risk interactions to assess the range of possible project outcomes.

Question No.5

(a) Duties of a project manager:

It was simple question and it was noted that a good number of examinees replied it in a befitting manner. They were successful to explain duties of project manager and their execution. Mostly all the points were covered and explained. It seems that examinees had ideas of managers' responsibilities and most of them performed satisfactorily. Among the duties of a project manager few are outline planning, detailed planning, obtain necessary resources, teambuilding, communication, coordination, monitoring and control, problem-resolution, quality control.

(b) Social feasibility:

Many examinees wrote feasibility, project feasibility, technical feasibility, financial feasibility and lastly about social feasibility. They were supposed to describe social feasibility only and why the same is conducted the time of evaluation. In many cases answer to 'why' element was missing or could not be answered properly. Any project is likely to have effects upon people, both those in the organization concerned and those outside it. The social feasibility of a project depends on the nature and extent of those effects.

SECTION "C"

Question No.6

(a) Problems of team working:

Majority answered and discussed 'team working has its own problems and constraints' successfully. They were able to describe point-wise pitfalls successfully. Among the problems and constraints in a team development few are:

- Awareness of group norms
- Too much discord
- Personality problems
- Rigid leadership and procedures
- Differences of opinion and political conflicts of interest
- Too much harmony
- Corporate culture and reward systems
- Too many meetings

(b) Social stakeholder:

A number of examinees was successful to describe in details basic social stakeholders. However, in many cases different stakeholders were mentioned but the details were missing or had not been upto the mark. Social stakeholders may include shareholders, employees, customers, the local community, generally society (regional and national) and international communities. These groups are considered social stakeholders because they can be affected as well as affect for better or worse by / or on the business activities of an organisation.

Question No.7

(a) External environment:

Many examinees were successful in discussing the composition of two layers of external environment. They almost covered both the layers of the external environment, the general environment and the task environment. Few examinees started writing about internal environment and external environment whereas, the internal environment details were not asked. The external environment is everything outside an organization that might affect it or the major forces outside the organization that have the potential to significantly influence this likely success of products and services.

(b) Listening skills for a good listener:

It was a simple and an important question. Majority covered and answered to this question but irrelevant answers were noted in a number of cases. There was no need to write about verbal and nonverbal communication and then to write few lines on good listening. The characteristics of a good listener are be prepared to listen, be interested, keep an open mind, keep an ear open for the main ideas, listen critically, avoid distraction and take notes.

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**EXAMINERS' COMMENTS
SPRING (SUMMER) 2009 EXAMINATIONS**

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

SECTION 'A'

Question No.2

(a) (i) Chief Executive:

Examinees were asked to describe a chief executive.

- They could not define a chief executive properly and correctly as per the Companies Ordinance, 1984.
- They made mistakes in stating that a chief executive 'must' be a director and is appointed by shareholders in a general meeting, instead of saying that he 'may' be a director and is appointed by the directors.

(ii) First and Subsequent Chief Executives:

Examinees were required to mention when first and subsequent chief executives would be appointed under sections 198 & 199 of the Companies Ordinance, 1984, respectively.

- Examinees, generally, did not describe well the sub-part i.e., appointment of subsequent chief executive.
- Some described 'how' instead of 'when' appointment is made.
- Some did not mention the subsequent appointment upon falling of a vacancy.
- Besides, correct time was also not mentioned in many cases.

(iii) Ineligibility for Appointment as Chief Executive:

This part required examinees to mention the persons who were not eligible to be appointed as Chief Executive under section 201 of the Companies Ordinance, 1984. In effect, this part merely required a reference to section 187 of the Ordinance.

- Generally covered well, but some examinees wrongly mentioned that chief executive would be disqualified if not remaining member of the company.

(iv) Removal of Chief Executive:

Here, the examinees were supposed to state the various manners in which a chief executive could be removed from his office under section 202 of the Companies Ordinance, 1984. The majority attempted it well.

- Examinees made mistakes in saying that the majority or 2/3 of the directors can remove a chief executive. Instead, he can be removed by a resolution passed by not less than 3/4 of the directors or by the company by a special resolution.

(b) (i) Bonus Issue:

Definition of bonus issue was required, here. Hardly, a few could define bonus issue, properly.

- Examinees' description did not cover all the important features of a bonus issue e.g., having been issued to existing shareholders; it does not increase the proportion of shareholding etc.

(ii) Conditions for Bonus Issue:

Examinees were asked to state the conditions applicable for issue of bonus shares by listed companies, as stated in the Companies (Issue of Capital) Rules, 1996. Performance of the examinees remained unsatisfactory.

- It appeared that most of the examinees were not aware of the requirement under the relevant Rules.
- Examinees mentioned the procedure, rather than, the conditions applicable for issue of bonus shares.

Question No.3

(a) Fixed and Floating Charges and Crystallization of Floating Charges:

This part required a comparison of fixed and floating charges. In addition, examinees were required to mention the circumstances, under which, floating charges would crystallize and become fixed. Performance of the examinees was not satisfactory.

- A few examinees were able to list all the points.
- Some examinees interpreted fixed and floating charges as fixed and floating rates of interest.

(b) (i) Rules and Procedures for Calling a General Meeting:

This part tested the knowledge of the examinees in relation to calling a general meeting in the light of the Companies Ordinance, 1984. Most of the examinees attempted this part unsatisfactorily.

- Many examinees could not identify that the company is a public limited company.
- Many examinees missed the point that requisition for meeting is first to be given. Some even suggested to directly approach SECP in the matter.
- Minimum voting power of the requisitionists was wrongly mentioned as 25% instead of 10%.
- Some examinees assumed it was first annual general meeting or usual general meeting.

(ii) Vacation of Office by, or Ineligibility of Directors:

Examinees were required to write about the circumstances, under which, the office of the directors could be vacated or the director could become ineligible. Average performance was noted in this part.

- Some examinees wrongly assumed disqualification of the two directors being physically unfit due to hospitalization.

SECTION 'B'

Question No.4

Only a few examinees could attempt this question satisfactorily.

(a) Eligibility Criteria of Registration of Stock Exchange:

This part asked examinees to state the eligibility criteria for registration of a stock exchange with reference to the Securities and Exchange Ordinance, 1969.

- Examinees, generally, were not able to give answers correctly.
- Many examinees mentioned the way a stock exchange should work, rather than, the eligibility criteria of registration of a stock exchange.
- Some examinees discussed the conditions for listing of a company on the stock exchange.

(b) Information Included in Confirmation from Member to Customer:

With reference to the Securities and Exchange Rules, 1971, here, the requirement was the content of the confirmation sent by the member to its customer as and when an order of a customer was executed.

- Many examinees were not able to identify that the 'member' is that of the stock exchange and providing information upon execution of his customer's order.
- Some examinees discussed the process of execution of order rather than providing information for the executed order.

(c) Eligibility Conditions for Establishment of Non-Banking Finance Companies (NBFC):

This part asked for the eligibility conditions necessary for the establishment of a NBFC as enumerated in section 3 of the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003.

- Many of the examinees could not understand the question.
- Examinees discussed the conditions applicable to NBFC, whereas, the section mentioned in the question pertained to the conditions applicable to the sponsors, proposed directors, chief executive and chairman of the Board.

SECTION 'C'

Question No.5

(a) Notice and Agenda for First Meeting:

Examinees were supposed to draft a notice for the first meeting, the directors called soon after the incorporation of a limited company. Agenda presumed for such meeting was also required. The majority attempted this part but the performance remained below average.

- Most of the examinees, generally, were not able to identify whether it was the first meeting of directors or the first general meeting.
- Examinees mentioned only a few of the agenda items and omitted various items necessary for the first meeting of directors, such as, approval of prospectus or statement in lieu of prospectus, production of certificate of incorporation and a copy of the memorandum and articles of association as registered etc.
- Some examinees mixed up the agenda items for general meeting with the directors' meeting.
- Notice was generally not complete with respect to the date, day, time and venue.
- The format of the notice was also not proper e.g., some drafted it like a business letter.

(b) Special Resolution for Shifting of Registered Office:

This part required drafting of a special resolution regarding shifting of registered office of a company to another province. This part was attempted by the majority but only a few were able to draft the resolution correctly.

- Mostly, examinees were not aware that the matter required amendment in the Memorandum and that resolution had to mention shifting of registered office from province of Sind to Punjab.
- The format of the resolution was mostly improper e.g., like a letter, minutes of a meeting or proposal to convince shareholders.
- Some wrote it like minutes of past event.
- The details of the procedures were also mentioned in some instances.
- The justifications or reasons for the shifting were described in great detail in the resolution itself.

Question No.6

(a) Statutory Registers Maintained by a Company Secretary:

Examinees were required to list out the different statutory registers, which a company secretary had to maintain. Performance remained unsatisfactory in this part.

- Examinees listed only a few registers and some even mentioned those that are not maintained by the secretary like books of accounts.

(b) Duties of Company Secretary during a General Meeting:

A company secretary performs various duties during a general meeting. Examinees were expected to highlight these duties. Only some of the examinees could attempt it correctly.

- Secretary's duties before or after the general meeting were mentioned in the answers, instead, such as sending notice, receiving proxies, dispatch of minutes.
- Some of the important duties were omitted, such as recording of attendance, checking quorum, taking notes or recording the proceedings for drafting minutes etc.

**EXAMINERS' COMMENTS
SPRING (SUMMER) 2009 EXAMINATIONS**

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

Question No.2

(a) Terms Relating to Employee Benefits:

Examinees were required to define the **(i)** Defined Contribution Plan and **(ii)** Actuarial Gains and Losses. A few examinees could, correctly, define these terms as per IAS 19 *Employee Benefits*. Many examinees tried to explain these terms instead of defining them. Following common errors were brought to light:

- Most of them explained contribution plan instead of defined contribution plan.
- Many examinees explained different benefits plans for employees.
- Some, wrongly, suggested employees' contribution to this plan.

(b) Deferred Taxation:

This part asked examinees to state the deferred tax consequences of revaluation of a non-current asset if **(i)** the asset would be used by the entity throughout the life of the asset or **(ii)** alternatively, it would be sold at revalued amount. Though, most of the examinees tried to attempt this part of the question but overall, poor performance was observed. Following mistakes were noted:

- Very few examinees could calculate the tax base and deferred tax liability in the first situation, where the entity was expected to recover the carrying value of the asset by using it.
- Moreover, in the second situation, where the entity was expected to sell the asset, most of examinees wrongly believed that there would be no deferred tax liability on tax gain.
- Examinees mixed up two different situation of the question.
- Most of the examinees did not understand how to calculate timing difference and deferred tax.

(c) Problem on Employee Benefits:

On the basis of given data, this part expected examinees to calculate **(i)** Actuarial Gain / Loss, **(ii)** Net Cumulative Unrecognized Actuarial Gain and **(iii)** Actual Return on Plan Assets. In this part of the question, below average performance was observed. There were hardly a few examinees that justified their answers and secured good marks. Following were observed:

- In calculating the net cumulative unrecognized actuarial gain at the year-end, many examinees wrongly deducted the "current service cost" and "past service cost-vested" from, instead of adding them to the opening balance of the present value of obligation.
- Most of the examinees could not calculate the correct figure of "actuarial gain/loss to be recognized" at year-end and "actual return on plan assets" for the year.
- Many examinees performed a number of unnecessary calculations that made no sense.

(d) Research and Development Costs:

This part was based on IAS 38 *Intangible Assets*. Two situations were given and examinees were supposed to explain whether expenditures under each situation should be capitalized or expensed out in the same period in which they occurred. Overall, good performance was observed in this part of the question. Most of the examinees produced logical arguments while explaining the two scenarios. Some shortcomings were, however, noted as given here under:

- There were a small number of examinees that, correctly, mentioned the criteria to recognize an intangible asset.
- A few examinees tried to impress with irrelevant details.
- Some construed IAS-38 as IAS-16 and wrote about non-current assets rather than intangible assets.

Question No.3

(a) Exchange Gain and Loss:

In this part of the question, the examinees were required to calculate exchange gain/loss to be included in the financial statements. Most of the examinees failed to understand the requirement of the question, though; each foreign currency was correctly converted into Pak Rupees by almost everybody. A few observations are as under:

- A large number of examinees, unnecessarily, passed journal entries to record the foreign currency transactions.
- Most of the examinees did not use correct signs to differentiate between assets and liabilities.
- Many examinees failed to convert the closing balances of each currency using year-end exchange rates.
- Some calculated the differences in the foreign currencies instead of translating them into Pak Rupees.

(b) Methods of Business Valuation:

The examinees were required to compute the values per share on the bases of (i) Assets Valuation Method (net assets), (ii) Earnings Yield Method and (iii) Dividend Yield Method. The overall performance of the examinees remained satisfactory in this part of the question. A few observations, however, are as under:

- In "assets valuation method", many examinees did not calculate the correct figure of "net assets". They wrongly took the book values of the non-current assets instead of the fair values. Moreover, a substantial number of examinees did not take into account Term Finance Certificate while calculating the liabilities.
- In "Earnings yield method", instead of dividing the average profit after tax over the last five years by the earnings yield, many examinees incorrectly divided the profit after tax of 2008 by the earnings yield.
- In "dividend yield method", instead of dividing the "annual dividend" by 9%, the dividend yield of the competitors, to calculate the total market value of the company, many examinees wrongly divided the "annual dividend" by 15%, the average yield on investment in the industry. Moreover, a few examinees erroneously calculated dividend payout ratio as value per share under this method.

Question No.4

(a) Note (Schedule) on Disposal of Non-Current Assets annexed to the Financial Statements:

This part asked examinees to prepare a note (schedule) on disposal of the non-current assets as per the Companies Ordinance, 1984. However, it is a matter of great concern that with the exception of a small number of examinees, they were not familiar with the requirements of the Ordinance, in this matter.

- Though, almost all the examinees prepared the schedule on disposal of the non-current assets, they did not particularly show the column of mode of disposal and particulars of the buyers.
- A few examinees passed journal entries on disposal of the non-current assets.
- Many of them failed to put together the assets with book values below Rs.50,000/-.

(b) Policy on Non-Current Assets annexed to the Financial Statements:

In this part of the question, the examinees were required to draft a suitable policy in respect of non-current assets. An overall poor performance was observed in this part of the question. Most of examinees were not having any fair idea how to attempt this part of the question. They just produced irrelevant details in support of their answers. Following shortcomings were observed:

- Many examinees wasted their time by explaining the part (a) rather than presenting a suitable policy as regards the non-current assets.
- Some even prepared journal entries and ledger accounts, which was uncalled for.

CASE STUDY

Segment Reporting:

The examinees were required to work out operating results by segment as per disclosure requirements IFRS 8 *Operating Segments*. The overall good performance was observed in the case study. However, a few observations are as under:

- The total of inter-segment sales revenue as well as cost of inter-segment sale was required to be eliminated as adjustment from the total sale and total cost of goods sold of Sabih Ltd. However, a large number of examinees were not able to make these adjustments properly.
- A large number of the examinees did not apportion the administrative expenses in proportion to external sales as stated in the case study.
- A substantial number of examinees did not follow the proper format of disclosure requirement of IFRS 8 while working out the operating results by segment.
- Few examinees categorically pointed out that “Pesticides” was not a reportable segment, since it did not meet any one of the three quantitative thresholds as given in paragraph No.13 of IFRS-8.
- Many examinees just produced the summary of the IFRS 8, which did not earn any mark for them.

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**EXAMINERS' COMMENTS
SPRING (SUMMER) 2009 EXAMINATIONS**

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

Question No.2

(a) Difference between ordinary least-square and multiple regression analyses.

Many examinees did not answered this part. Those who attempted it failed to explain the difference properly.

(b) Breakeven analysis:

A fair number of examinees attempted this question carelessly and their calculations were restricted upto contribution margin. They did not deduct fixed expenses to reach the net operating profit. There were three (03) alternatives and solution could be presented in tabular form but examinees were confused and attempted each alternative separately causing wastage of time. Breakeven point under given three (3) situations were not calculated properly due to the fact of wrong calculation of fixed cost. Overall sales figures to achieve a target profit was also not calculated correctly. Since the calculation of sales figure was incorrect therefore, calculation of net operating income was also wrong.

Question No.3

Discontinuation of operations:

Question was very clear as to how the closing down of Lahore Factory would result changes in various costs and sales and how the overall profit of the company was going to be affected? Most of the examinees tried to attempt the question, but due to insufficient knowledge and practice very few could attempt it properly and accurately. Expansion of Islamabad or Karachi factories were two different options. Some examinees mixed up calculations for both despite the wrong calculation of number of boxes to be sold. The amount of royalty was wrongly worked out in case of entering into contract on royalty basis and reduction of sales apart from wrong calculation of contribution of Karachi and Islamabad factories respectively. Conclusion was not made properly stating unnecessary details which was not required.

Question No.4

(a) Maximization of contribution margin:

Majority of examinees wrongly calculated the units which could be produced, keeping in view the limiting factors. Calculations of contribution of both parts were also wrong.

(b) Availability to meet maximum demand:

Due to incorrect calculation in (a) above examinees failed to indicate that maximum demand could not be met because of limiting factors, but company would earn a maximum contribution in case of 'popular'.

(c) Alternate arrangement to maximize profit:

Separate calculations should be made for each part if sale was reduced for each part by 10% and selling unused hours at Rs.3,000 per hour for each machine. Instead the examinees mixed up the calculation of both parts and made unnecessary calculations. Their decision was not based on facts and calculations.

Question No.5

(a) Criticism on payback and simple rate of return methods:

Most of the examinees attempted this well. However, a number of examinees gave unnecessary explanations. The real criticism include ignorance of time value of money and cash inflows after recovery of investment.

(b) Recommendation on the basis of IRR:

The calculation of net cash flow was correct upto 4th year. In 5th year majority went wrong. There were wrong calculations of depreciation and adding it back to net of tax cash flow for discounting purpose.

Question No.6

(a) Replacement of machines with different lives:

Decision based on simple NPV was not correct while number of examinees decided to purchase the machine on this basis instead of annualized equivalent values of each machine.

(b) Life cycle costing and its benefits:

This part of the question was theoretical and simple, but number of examinees confused and produced wrong answers relating the life cycle costing to investment in assets. They also mixed up life cycle costing of product with life cycle of machines having different lives. Among the benefits are best use of physical assets at the lowest total cost and making explicit the trade-in-time, machine down time, set up cost and quality cost.

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**EXAMINERS' COMMENTS
SPRING (SUMMER) 2009 EXAMINATIONS**

**RISK MANAGEMENT AND AUDIT
Stage-5**

Question No. 2

(a) Risk faced by the company and type of losses; risk management techniques to mitigate losses:

Very few examinees were able to describe partially the types of risk faced by the company i.e., price risk, credit risk and pure risk. In the same way examinees could not specifically mention the losses in lieu of normal profit, extra expenses, bankruptcy cost etc. While describing management techniques to mitigate losses, examinees stated the techniques only with reference to insurance. They ignored the techniques of 'avoidance' and 'diversification' etc.

(b) Risk identification approaches:

- (i) Examinees were successful to state the approaches of risk identification, however, they described them half heartedly as their explanations were confusing.
- (ii) While pointing out the approach (of risk identification) in (a) they suggested all approaches including environmental approach which was not relevant in the case.

Question No. 3

(a) Significant doubts about going concern assumption:

Examinees successfully mentioned the review of management plans and obtaining written representation from management for future actions. However, they failed to point out obtaining audit evidence regarding existence or non-existence of material uncertainty.

(b) Audit procedure for obtaining sufficient appropriate audit evidence to evaluate feasibility of management plans:

An average response by the examinees was noted in this part of the question, where majority ignored the elements of audit procedure such as analysing cash flows, reviewing terms of loan arrangements and inquiring the existence of litigation and claims etc.

Question No. 4

(a) Five fundamental principles under code of ethics for professional accountants:

The explanations required only one to four sentences for each principle. Some tried to explain them but with poor expressions and illogical manner. Many examinees failed even to indicate the captions of all five principles as mentioned in the code of ethics. It appeared that majority was not serious in their studies and wished to get through luck and fluke.

(b) The examinees were asked to assume the role as an auditor in reference to the following:

(i) Steps before accepting the offer as an auditor:

Communication with previous accountant, confirmation of formal offer of appointment are included in the steps for accepting the audit. However, examinees produced irrelevant answers which were not expected from aspiring professional accountants.

(ii) Information before planning first audit:

Answers of the examinees were limited to state only one or two information like previous accounts and auditors report etc., whereas they could not include item such as names and addresses of partners, partnership argument, contribution of each partner, list of staff, internal control procedures etc.

Question No.5

(a) Eligibility criteria for engagement of quality control reviewer:

The eligibility criteria of quality control reviewer and auditor was mixed up by the examinees. Usually irrelevant explanations were given by the examinees e.g., the quality control reviewer should have satisfactory rating and he is appointed by ICAP. The non-seriousness of the examinees is clearly reflected with such answers which is not expected from potential professionals.

(b) Responsibilities of audit committee as required in code of corporate governance:

Out of various responsibilities, examinees repeated few of them in different ways even they failed to take **tips** from the question in which it is clearly indicated to **describe the responsibilities** (of audit committee) with reference to **internal and external auditors, internal controls** and **review of interim and annual financial statements**. If examinees read the question carefully, they could develop various (points of) responsibilities intelligently.

Question No.6

(a) (i) Cost auditor's observation and conclusion as per the Companies (Audit of Cost Accounts) Rules, 1998:

Some examinees were able to produce the answers partially correct while majority narrated various points with guess and discussed the topics which were not relevant to the question.

(ii) Two specific company's representations/ statements submitted along with Cost Auditor's Report:

The answer of this question was very simple but examinees were unable to state that statement of capacity and statement of stock-in-trade should be **submitted with cost auditor's report**. Those who stated the names of statements failed to state that licensed, installed and utilized capacities in terms of machine hours/ production units are included in the statement of capacity. Similarly, examinees did not mention the break-up of stock-in-trade i.e., raw materials, work-in-process, finished goods and other stocks.

(b) New client's cost audit and its procedure and cost audit under the head of power and energy:

In performing cost audit, the background of industry and entity must be known to cost auditor. In this regard knowledge/ information may be obtained from discussion with senior personnel, relevant publications and visiting different departments and premises of the entity. Similarly, legal and regulatory framework in which the entity operates, the organizational setup and functional divisions must be considered by cost auditors. However, examinees failed to deliver the answers as required. It seemed that they appeared in the examination without preparation. Moreover, examinees were not able to give cost audit procedure of 'power and energy'. They failed to produce relevant answers on this topic.

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**EXAMINERS' COMMENTS
SPRING (SUMMER) 2009 EXAMINATIONS**

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

Question No.2

(a) Cash Budget for the half year:

- Large number of examinees did not correctly calculate the collection from customers and payments for purchases of goods i.e., 80% of the following month's sale.
- To maintain the minimum level of cash balance of Rs.800,000 at the end of each month, borrowing in multiple of Rs.40,000 was required to take place in the beginning of the month. However, there were few examinees who were able to correctly calculate the loan required in the months of April & June. Moreover, the principal repayment of loan of Rs.160,000 was not correctly shown for April 2008.
- Interest was required to be paid along with the repayment of the principal as clearly stated in the question. As such interest @ 12% per annum for two months was required to be paid in May considering the borrowing at the start of April and repayment of loan at the end of next month. However, almost all the examinees incorrectly calculated the interest only for one month.

(b) Valuation of a company applying different ratios:

- In calculating the market price per share using the Price/ Earning ratio of Sunshine Company, the examinees were required to find earning per share (EPS) at the end of the year using the 4.5% growth in earning (Rs.4*1.045). However, almost all the examinees were not able to calculate the correct growth rate which can be calculated assuming that EPS will grow as per dividend growth rate i.e., 4.5%.
- The examinees were also required to calculate the value of Sunshine Company using the Dividend Growth Model. Due to incorrect calculation of growth rate the examinees could not calculate the correct value of Sunshine Company.
- Almost all the examinees produced irrelevant arguments while discussing significance of value of Sunshine Company for the acquiring company.

Question No.3

(a) Factoring receivables:

- Most of the examinees incorrectly calculated the financial cost (interest) of factoring.
- In the same way, many examinees did not calculate correctly the cost of debtors' financing through bank overdraft. Instead of calculating the interest @ 12% on debtors of Rs.20 millions (Rs.10,000,000*2), they calculated the overdraft charges on debtors amounting to Rs.1,232,767 which would be factored.
- Almost all the examinees also did not take into account the cost of remaining 25% debtors to be financed through overdraft while calculating the cost of factoring option.
- Many examinees calculated factoring fee charges @ 1.25% on sale of Rs.25 million instead of 50 million.

(b) Inventory management – EOQ:

- There were a few examinees that were not having any fair idea what the formula of EOQ is. They considered 48 weeks incorrectly in a year instead of 52 weeks while calculating the annual demand.
- Some examinees incorrectly multiplied EOQ or annual demand by holding cost per unit to calculate the carrying cost.
- There were many examinees who did not take into account the saving in purchase price (trade discount) while considering the financial impact of changing to the new supplier. The comments offered by the examinees on the change to new supplier were also not appealing.

Question No.4

Best financing alternative on the basis of IRR of lease vs. loan option:

Almost all the examinees tried to attempt this question by comparing the NPV instead of IRR of lease and borrowing options, however very clear cut requirement is given for IRR in the question.

Question No.5

(a) Risk of short term investment portfolio:

Overall poor performance was observed in this part of the question as most of examinees were unable to attempt it. Although, the risk of the portfolio could be measured by the weighted average beta factor for the shares in the portfolio and the weights should be the market values and not the number of shares of the shares.

(b) Buy, Hold, Sell of shares on the basis of overall risk:

Almost all the examinees correctly calculated the “required rate of return” of shares in the portfolio. However, it was not clear to many of the examinees that they were supposed to recommend Buy, Hold or Sell the shares in the portfolio based on the “required rate of return”. Examinees failed to point out that it was not a well diversified portfolio as it consisted of shares in only five companies. Moreover, many failed to identify that Sheikh Umar’s portfolio was having abnormal, non-systematic risks in addition to the systematic risk.

Question No.6

(a) Growth of capital investment;

- There were only few examinees who correctly added up interest as well as capital gain on investment in bonds. Most of the examinees did not take into account the capital gain to arrive at “total rupee return”.
- The examinees were required to calculate the “Nominal rate of return” as $\text{Rs.140} / 1080 = 12.96\%$. However, most of the examinees incorrectly divided the interest of Rs.120 by par value of the bond or cost of the bond. A few incorrectly answered the “total rupee return” of Rs.140 as “nominal rate of return”.
- There were a few examinees who answered this part of the question correctly. Though, real rate of return could be calculated by applying the formula.

(b) Stock splits

Some examinees did not correctly calculate specially the “new number of shares” in case of five-for-three stock split and four-for-seven reverse stock splits.

(c) (i) Maximizing EPS assuming EBIT of Rs. 80,000:

In this part of the question, the examinees performed well and secured good marks.

(ii) & (iii) Breakeven level for plan I & plan II and determination of EPS at this level:

A large number of examinees was able to calculate breakeven levels of EBIT for each plan of capital structure. However, there was hardly any examinee who correctly stated the identical EPS for Plan I and Plan II.

**EXAMINERS' COMMENTS
SPRING (SUMMER) 2009 EXAMINATIONS**

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

SECTION "A"

Question No.2

(a) Data transmission with reference to OSI model:

Most of the examinees failed to explain how the data transmits from one computer to other computer. Very few examinees gave the reference to OSI model. Majority tried to explain e-commerce rather than data transmission. Though, an illustration / diagram was not required but a figure showing the data transmission via OSI protocol stack was a very good example. Examinees should try to represent their concepts via figures where appropriate and useful. Open Systems Interconnect (OSI) model developed in early 1980s as a proof-of-concept model that all vendors could use to ensure that their products could communicate and interact. The OSI model contains seven layers, each with specific functions. Each layer has its own responsibilities with regard to tasks, processes, and services.

(b) Types of software resources:

This part of the question was attempted by majority of the examinees. However, examples were not provided or examinees just listed 'application software'. Software resources categorization i.e., system software vs. application software, general purpose application programs vs. application specific programs was missing in most cases.

Question No.3

(a) Benefits of using expert system and problems in developing and using it:

Majority examinees did not know about expert system. Those who wrote benefits were limited to general benefits e.g., efficiency, cost or time saving which can be achieved by any software. Hardly any examinee explained the problems of expert system. Very few points regarding benefits and application of expert systems and even fewer points regarding its limitations were mentioned. The major benefits of an expert system are increased output and productivity, increased quality, reduced downtime, capture of scarce expertise, flexibility, easier equipment operation, elimination of the need for expensive equipment, operation in hazardous environments, accessibility to knowledge and helpdesks and reliability.

(b) Software development life cycle (SDLC) its purposes and phases:

A few examinees defined software development life cycle (SDLC) satisfactorily but they were unable to provide the 'purpose of using SDLC'. Majority of them did not know SDLC. This was a simple question. Feasibility and requirements phases were not mentioned in most of the cases. A software development life cycle is a logical process that systems analysts and systems developers use to develop a software (applications) package. SDLC has several phases, such as feasibility, requirements, design, development, implementation and evaluation.

(c) Prototyping:

Majority of the examinees explained it and discussed how does it help software engineers in software development. Prototypes are mostly provided to end-users for review and testing was needed to be mentioned. Prototyping is the process of developing a system through the rapid development and testing of code.

SECTION "B"

Question No.4

(a) Typical categories of authentication; two-factor authentication; TOKEN based authentication devices:

In this part of the question it seems that examinees had no idea about categories of authentication. The two-factor authentication was missing and their examples were also missing. Working of TOKEN based devices was not explained in most cases. Which category of authentication they belong to was completely missed by

almost all the examinees. Working of TOKEN based authentication was not elaborated. Also, the last part was not answered by majority of examinees. Probably because the question covered more than one topic, examinees over looked one or two. Authentication is typically categorized as something you know, something you have and something you are.

(b) Hiring and termination procedures practiced by an IS auditor:

Majority explained the hiring and termination with reference to HR manager not as an IS auditor. Checks of IS auditor to ensure the practice of procedures was not properly understood by them. What should be reviewed by IS auditor in HR policies was needed to be mentioned specifically rather than just saying 'review HR policies'. Hiring procedures ensure that employees are subjected to drug screens and background checks, where local laws permit, prior to beginning work within an organization. Termination procedures ensure that access to company systems and facilities is revoked before a disgruntled employee can cause damage and that company property is returned. Inadequate hiring or termination procedures would expose the company to sabotage or abuse of privileges that could result in an information security compromise.

SECTION "C"

Question No.5

(a) Laws and regulations affecting IS audit:

The second part of the question regarding 'organization's level of compliance' with external requirements was missing. Organizations obligations / requirement to comply with government and external requirements related to computer system practices and controls and the manner in which data are stored, used, processed, transmitted and exchanged all needed to be answered while discussing the effects of laws and regulations on IS audit. Several countries, because of growing dependencies upon information systems and related technology, are making effort to establish added layers of regulatory requirements concerning IS audit. The contents of these legal regulations are:

- Establishment of the regulatory requirements
- Organization of the regulatory requirements
- Responsibilities assigned to the corresponding entities
- Correlation to financial, operational and I.T audit functions

(b) Unnecessary system outage, its controls and media control:

This part of the question was completely missed out in most cases. Majority who attempted it could not score high marks due to lack of knowledge. Examinees did not have any technical knowledge regarding this topic. Configuration change management was at the core of the answer to this question but was never mentioned by any examinees. Media controls ensure that information stored on data-storage media remains confidential and is protected from premature deterioration or destruction. Inadequate media transportation, storage, reuse, and disposal policies and procedures expose organization to possible unauthorized disclosure or destruction of critical information.

(c) Contracting; its elements and purpose besides third-party outsourcing:

Contracting was explained but different elements of a contract and purpose although given but inappropriately commented upon. Formal / logical five (05) elements of contract i.e., offer, consideration, acceptance, legal purpose and capacity were not described properly. Contracting is generally used when talking about outsourcing, but this is not always the case. Contracts can be between the organization and the customer or partners.

**EXAMINERS' COMMENTS
SPRING (SUMMER) 2009 EXAMINATIONS**

INFORMATION SYSTEM AND I. T. AUDIT (PRACTICAL)

Stage – 6

Practical Paper No.1

Majority of the examinees failed to calculate the last column 'amount' due to wrong calculation of "actual teaching hour" and "hours to be paid". Majority examinees did not apply the correct condition in column "hours to be paid" which was clearly mentioned in question. Few examinees did not calculate "total amount" of each faculty A, B, and C respectively.

Practical Paper No.2

Some of the examinees filled even those cells which were not applicable. Examinees did not know what was asked and tried to fill data without establishing the logic and then selecting the right conditional formula. Some of the examinees even did not understand that grading calculation is based on remaining 40 marks and 60 marks had already given.

Practical Paper No.3

Majority of the examinees failed to calculate 'capital gain', 'broker commission' and 'net cash flow' correctly. In this question most of examinees entered the wrong 'share rate' in 'sale rates' column that caused the wrong result in rest of columns.

Practical Paper No.4

Some of the examinees could not calculate 'payment due date' and few enter the data without using formula which caused the values incorrect and led the wrong total in fomula-6 and fomula-7. Some of the examinees left column 'discount availed' blank or tried to fill it at their own and arrived at wrong result of "net sales".

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**EXAMINERS' COMMENTS
SPRING (SUMMER) 2009 EXAMINATIONS**

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

Question No.2

(a) Emphasis of cost leadership strategy:

The overall performance of examinees was remained below average in this question. Most of the examinees did not express that a cost leadership strategy usually focuses on high efficiency, low overhead, limited perks, intolerance waste, intensive screening of budget requests, wide spans of control, rewards linked to cost containment and broad employee participation in control efforts.

(b) Conditions when low cost provider strategy work best:

A large number of examinees also stated irrelevant conditions for implementing the low cost provider strategy in a best way. This strategy works best when there are vigorous price competition, standardized products differentiation that has value to the buyers, utilization of product by the buyers, low switching cost and new entrants use of low price product strategy.

(c) Pitfalls of low cost provider strategy:

Most of the examinees were not having any clear idea about three pitfalls of low-cost provider strategy i.e., lower profitability, not emphasizing avenues of cost advantage and becoming too fixated on cost reduction. It was quite visible that examinees had not prepared the topic properly.

Question No.3

(a) Difference between vision and mission statement:

An average performance was observed in this question. Majority was able to differentiate between vision and mission statement. The examinees were successful to express mission statements which they came across.

(b) Contribution of mission statement towards planning and performance measurement:

Examinees failed to state that mission statement could play an important part in the planning process by providing a framework within which the plans must be developed, a focus on strategies, a screening device for unacceptable project, practices and activities and a communication device to establish a common acceptable corporate culture.

(c) Stakeholders addressed in well defined mission statement:

Examinees rightly mentioned the stakeholders addressed in a professionally well defined mission statement of the company. Several examinees were also having fair idea of financial benefits of strategic management but they could not explain the non-financial benefits.

Question No.4

(a) Developing and altering organogram:

Examinees agreed to the statement "Developing and altering organogram (organization cart) is an important tool for forming a strategic management process" but they failed to support the statement logically.

(b) Successful implementation of strategies:

Examinees failed to express that strategy implementation means "change". Similarly, they could not explain that successful strategy implementation requires support of discipline and hard work from motivated managers and employees.

(c) Optimal organizational structure for a given strategy:

Majority failed to explain functional structure, divisional structure and matrix structure and their merits and demerits. They produced irrelevant answers that showed lack of determination and commitment on the part of the examinees to appear for the examination.

Question No.5

(a) Contingency planning as basic premise of strategic planning process:

There was hardly any examinee who correctly defined the contingency plans as “alternative plans that can be put into effect if certain key events do not occur as expected”. Though the examinees tried to elaborate the topic but their arguments were not relevant as well as convincing.

(b) Different contingency plans:

Some examinees correctly described the contingency plans commonly established by firms e.g., when competitors withdraw from market, sales objective are not reached, demand of new products exceed plans, certain disaster occurs and obsolescence of product due to technological advancement etc.

(c) Having alternate strategies:

Though most of the examinees believed that firms must have alternative strategies, but they could not express that alternative strategies serve as contingency plans in case selected strategies do not work.

(d) Logical & sequential steps for contingency plan:

The examinees did not have idea that a seven steps process is involved in effective contingency planning which includes identification of beneficial & unfavourable events, determination of trigger points, assessing benefits and harms of each contingent event, developing economical plans compatible with current strategy etc. Though, most of examinees tried to attempt it but they just reproduced some of the contingency plans instead.

(e) Real life example and steps for contingencies threatening the businesses:

Few examinees tried to quote some examples of contingencies from real life of businesses but there was hardly any examinee who suggested the steps for overcoming the contingencies threatening the business.

(f) Mitigating the risk by internal audit and compliances:

The examinees were not having any fair idea how internal audit can be used as an instrument to help the organizations meeting strategies as well as mitigating the risk. They just tried to answer it by producing the illogical and irrelevant arguments based on their guess work.

Question No.6

In this scenario based question examinees were required to investigate the reasons of lower net income despite achieving the sales more than target and launching special advertising campaign to increase profitability considering other factors like decrease in sales volume and quality of goods.

(a) Choosing a product for advertising campaign:

There were many examinees who calculated correct figure of contribution margin percentage of each product but they did not recommend the Jelly having the highest contribution margin for a special advertising campaign.

(b) Ways to increase profitability and change of suppliers:

It was clearly mentioned that 15% reduction in sales was anticipated due to expected low quality of products as a result of using material from new supplier. However, there were many examinees who incorrectly assumed 15% increase in sales. Some examinees also wrongly assumed that “other operating cost” would also decrease along with the variable cost of material purchased from the new supplier. A few examinees calculated the breakeven point in case of all the three products though, it was not asked in the question.

(c) Reasons of lower income than projected with supportive calculations:

There were hardly few examinees who arrived at correct figures of decrease in net income of each product as a result of changing supplier of raw material.

(d) Cost-volume-profit (CVP) analysis assumptions:

Majority failed to mention six (6) assumptions of cost-volume-profit analysis out of the following:

- All other variables remain constant.
- A single product or constant sales mix.
- Total costs and total revenue are linear functions of output.
- Profits are calculated on a variable costing basis.
- The analysis applies to the relevant range only.
- Costs can be accurately divided into their fixed and variable elements.
- The analysis applies only to a short-term time horizon.
- Complexity-related fixed costs do not change.