

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

**Question No. 2**

**(a) Computation of goodwill:**

This part required the computation of goodwill of three companies under two different assumptions: (i) earnings of each company in excess of 6% of net assets to be capitalized at 20% and (ii) earnings to be capitalized at 7.5%. In response to sub-part(i) most of the examinees were able to calculate 6% of net assets, but could not work out the excess earnings and eventually failed to capitalize it to compute the correct figures of goodwill. Some of the examinees worked out goodwill on identifiable net assets directly for sub-part(ii). The majority fared well, however, there were some examinees who did not have any clear concept of capitalization.

**(b) Payroll Accounting**

This sub-part provided data regarding the number of units produced by a group of factory workers and wage rate per unit. Examinees were required to compute each employee's wage ensuring that a minimum guaranteed wage was required to be paid even if the units produced by a particular worker fell below average. Most of the examinees just multiplied the rate with the number of units produced in order to arrive at the wages of the workers ignoring the fact that minimum guaranteed wage was to be paid even if amount of wage was less than the minimum amount. There were some examinees who multiplied number of units produced with 40 hours and also by Rs.40. (per unit rate) that was also incorrect.

**Question No. 3**

**(a) Definition of Net Realisable Value and Fair Value:**

This part required examinees to define (i) Net Realisable Value and (ii) Fair Value as per IAS-2. The majority of the examinees displayed their lack of proper knowledge at least in respect of these terms. They just tried to fill pages without proper description as per the relevant standard.

**(b) Inventory Accounting:**

From the given date of purchases and sales of inventory by a company, examinees were asked to compute the cost of ending inventory using (i) First-In-First-Out and (ii) Weighted Average methods under perpetual inventory system. Examinees responded satisfactorily to this part. Some common mistakes committed by the examinees were as under:

- Some of them wrongly tried to solve using LIFO method.
- 'Cost of Sales' column was shown as 'Sales' column.
- They committed mistakes in rounding off rupees.
- In many cases average prices were incorrectly calculated.
- Some examinees tried to calculate the required figures mathematically instead of using the proper format.

**Question No. 4**

**(a) Accounting Terms and Types of Errors:**

This part required a brief definition of (i) Amortization, (ii) Revenue Expenditure and Capital Expenditure and (iii) Errors that may occur in respect of financial transactions. Examinees performed satisfactorily in this part with the following exceptions:

- Some of them did not know the revenue and capital expenditure as well as the difference between them.
- Very poor English language was used.
- Some of them failed to understand the requirements of the question and explained errors of the accountants in preparing financial statements instead.

**(b) Adjusting Journal Entries and Correction of Net Income:**

This part gave a list of adjustments and the net income before these adjustments. Examinees were expected (i) to give Adjusting Journal Entries and (ii) to compute the Corrected Net Income after taking these adjustments into account. Examinees responded poorly to this part. They committed following common mistakes.

- One month's advance advertising expense was incorrectly worked out by the majority. They took full year's expense instead.
- Wages paid for machinery installation was lying in the wages expense account. This account was to be credited and machine account to be debited. However, they debited 'machine wages account' or used some different terms.
- Most of them could not compute "corrected net income" because they did not know as to which expenses wrongly reduced/ increased the net income.

**Question No. 5**

**Preparation of Depreciation Schedules:**

This question made available such data as cost, useful life, productive life and residual value of a machine. In addition, expected number of units to be produced in the next four years were also given. Examinees were required to prepare separate depreciation schedules using (i) Straight-Line (ii) Units of Production and (iii) Double-Declining Balance methods. Overall, performance of the examinees was satisfactory. Nevertheless, following shortcomings were observed:

- A number of examinees did not prepare schedules as required by the question.
- Some examinees did not deduct the residual value from the cost while calculating depreciation under 'units of production method'.
- Some of them failed to workout correct rate in double-declining method [Rate:  $2 \times (\frac{1}{4} \text{ year})\% = 50\%$ ].
- The majority worked out depreciation for the fourth year as well under double-declining method, although, no depreciation was to be charged in that year.

**Question No. 6**

**Income Statement and Closing Entries:**

In this question, examinees were given a trial balance and data for closing entries. They had to prepare (a) Income Statement and (b) Closing Entries. As far as part (a) was concerned, performance of the examinees was satisfactory to some extent but response to part (b) was very poor. While marking the scripts, following omissions were revealed:

- The arrangement and presentation of income statement was quite unsatisfactory.
- Instead of preparing income statement, many examinees made trading and profit and loss account.
- Many examinees calculated salaries, rent and bad debt expenses wrongly, because they did not take into account accrued salaries, prepaid rent and allowance for doubtful debts while computing these figures.
- Net sales could not be worked out correctly, because, they failed to deduct Rs.1,000 (amount of purchase return wrongly credited to sales) from given figure of sales. For that matter, while computing cost of sales, purchases return was taken as Rs.3,000 in place of Rs.4,000 (3,000 + 1,000). They also, wrongly, deducted discount allowed from the sales.
- Some of them wasted their precious time in preparing adjusted trial balance and adjusting journal entries, which were not required.
- Many could not distinguish between closing and adjusting entries. They produced the latter in place of the former.
- They did not know how to close revenue and expense accounts into revenue summary account. In addition, how to close revenue summary account and drawing account into capital account.

**EXAMINERS' COMMENTS  
SPRING 2010 EXAMINATIONS**

**BUSINESS ECONOMICS  
Stage – 1**

**SECTION "A"**

**Question No. 2**

**(a) Economic Role and Functions of Governments:**

Examinees mixed the price stability with price control which is contrary to free market economy. Nobody had written about defence and highways activity of government. Most of the examinees could not follow the requirements of the question. They failed to elaborate the functions of governments regarding economic aspect such as:

- Governments increase efficiency by promoting competition, curbing externalities like pollution, and providing public goods;
- Governments promote equity by using tax and expenditure programs to redistribute income toward particular groups;
- Governments foster macroeconomic stability and growth by reducing unemployment and inflation while encouraging economic growth through fiscal policy and monetary regulations.

**(b) (i) Opportunity Cost:**

Almost all examinees had pretty good idea of opportunity cost, however very few examinees demonstrated the proper definition of it i.e., 'opportunity cost' is the cost of alternative forgone.

**(ii) Difference between Shift of Demand and Movement along Demand Curve:**

Most of the examinees did not have the clear concept of shift of demand and movement along demand curve. Examinees got confused with the basic definitions. Hence, they failed to demonstrate the answer correctly. However, some examinees were able to illustrate the difference between two terminologies i.e., shift in demand is the change in demand due to factors like income of consumer, weather, taste or fashion etc., and movement along demand curve refers to law of demand where demand changes due to change in price when other factors like weather, fashion and income of consumer etc., remain unchanged.

**Question No. 3**

**(a) Market Equilibrium:**

Most of the examinees had idea about market equilibrium having no clear concept of market mechanism at too high and too low prices. They simply referred the law of demand and law of supply. Most of the examinees defined market equilibrium without illustration.

**(b) Specialization and Division of Labour:**

Examinees were not able to clearly define specialization. Specialization occurs when people and countries concentrate their efforts on a particular set of tasks. It permits each person and country to use the best advantage of the specific skills and resources that are available. One of the facts of economic life is that, rather than have everyone do everything in a mediocre way, it is better to establish a division of labour i.e., dividing production into a number of small specialized steps or tasks. A division of labour gives an edge to tall people to play games like basketball, numerate people to teach, and persuasive people to sell cars. It sometimes takes many years to receive the training for particular careers. Most of the examinees knew the concept of division of labour and specialization but they could not succeed in providing proper differences between them.

## SECTION "B"

### Question No. 4

#### (a) Macroeconomic Goals:

Most of the examinees perceived it in the context of microeconomics. Employment was taken as salaried class employment, output was demonstrated as labour output only and price stability was defined in simple terms. The examinees had to explain about the theory of growth employment and prices rather than how to achieve these goals only. The examinees failed to explain the macroeconomic goals which exhibits that they did not possess clarity of concept.

#### (b) Fiscal and Monetary Policies:

Only few examinees had clear idea about fiscal and monetary policies. In fiscal policy examinees discussed about public expenditure and taxation whereas in monetary policy examinees discussed about money supply and demand only. They did not go in detail. The answer must include the fact that government expenditures come in two distinct forms. First there are government purchases. These comprise spending on goods and services like purchase of tanks, construction of roads, salaries and so forth. The other part of fiscal policy, taxation, affects the overall economy in two ways. To begin with, taxes affect people's incomes. By leaving households with more or less disposable or spendable income, taxes tend to affect the amount people spend on goods and services as well as the amount of private savings. Private consumption and saving have important effects on investment and output in the short and long run. In monetary policy examinees were unable to discuss that restricting the money supply leads to higher interest rates and reduced investment, which, in turn, causes a decline in GDP and lower inflation. If the central bank is faced with a business downturn, it can increase the money supply and lower the interest rates to stimulate economic activity.

### Question No. 5

#### (a) Factors of Inflation:

Most of the examinees had an idea about factors of inflation. However only few were able to give proper examples. Although examinees mentioned monetary and fiscal policy to control it but failed to provide details in this regard. They also described the ways to control inflation. Few of the examinees were able to explain the factors of inflation correctly but without examples. They did not discuss that inflation can be controlled by giving people relaxation in their lives such as tax reduction, price stability etc.

#### (b) Obstacles to Economic Development of Pakistan:

Examinees applied their general knowledge in this part of the question. Many examinees provided suggestions to mitigate the obstacles, which were not required in the question. However, examinees mentioned obstacles like external debt, budget deficit, persistent deficit in balance of payment, deficiency of capital, rapidly growing population and low level of technology.

## SECTION "C"

### Question No. 6

#### (a) Contribution of Agriculture Sector in Economic Development of Pakistan:

Majority of the examinees discussed it properly. Some of them took it as "Problems of Agriculture". Some examinees also interlinked the role of agriculture with the financial and industrial sectors. Majority of the examinees discussed the points like providing food and fibre, transfer of labour surplus, sources of foreign exchange earning, rural welfare and contribution to growth.

#### (b) Reforms made by the Government to improve the Industrial Backwardness:

In this question examinees had to write reforms made by the government but they came up with suggestions to reduce the backwardness of industrial sector. Very few of them discussed credit facilities, tariff protection, establishment of large industrial estates, foreign investment, fiscal and monetary incentives, privatization program and other market approaches to be used for the improvement of industrial sector.

**EXAMINERS' COMMENTS  
SPRING 2010 EXAMINATIONS**

**BUSINESS LAWS  
Stage – 1**

**SECTION "A"**

**Question No. 2**

**(a) (i) Passing of bill without involvement of both the Houses (National Assembly and Senate):**

Most of the examinees could not identify that money bill can be passed without involvement of Senate. Some examinees correctly replied in the affirmative but submitted wrong grounds for it. They misconstrued 'Ordinance' as example of bill that can be passed by one house alone. It means that examinees did not know that "A money bill is originated in the National Assembly and after being passed by it is sent to the President direct for assent. A money bill is not transmitted to the Senate". Whereas in case of ordinance "When the National Assembly is not in session and the President feels that a law in respect of any activity is urgently required, he has power to promulgate an ordinance. Such ordinance has the force of law and is as effective as an Act of the Parliament. If the ordinance is not presented or passed by the National Assembly within 4 months it would stand repealed".

**(ii) Assert on Bill previously returned by President:**

Few examinees described the correct and complete procedure. Many examinees failed to point out that President is bound to give consent when the bill is again passed in joint sitting of two houses.

**(b) Categories of Laws of Pakistan:**

The 'four categories' of laws i.e., public law, private law, civil law and criminal law were not identified by many examinees. Those who identified the categories could not correctly explain their examples. The definitions of 'categories' were generally improper. The matter was also mingled up with British legal system whereas the question was Pakistan specific. Examples were given in few instances. Not only this, examinees mixed up different laws that are sub-part of the public laws and private laws.

**SECTION "B"**

**Question No. 3**

**(a) (i) Delivery of Goods:**

The term "delivery" defined by the most examinees correctly. However, some examinees demonstrated it in vague phrases i.e., "transfer of goods from one place to another" instead of demonstrating proper definition of delivery i.e., "voluntary transfer of possession from one person to another".

**(ii) Types of Deliveries of Goods:**

Three types of deliveries i.e., actual delivery, symbolic delivery and constructive delivery had not been properly differentiated. Many examinees confused 'actual' delivery with payment and ignored the 'physical' aspect of the delivery. 'Constructive' delivery was misconstrued as some thing constructed for delivery which is actually wrong. In many cases, proper examples were not given. Examinees particularly failed to describe symbolic and constructive deliveries.

**(iii) Acceptance of Goods by Buyer:**

The term "Acceptance" could not be explained as per the Sales of Goods Act, 1930. Instead of discussing how acceptance takes place under the legal provisions, many examinees discussed either how goods should be checked or how to confirm that supply is in order etc. In the context of acceptance, they had to discuss the points like intimation to the seller about his acceptance of the goods, retaining of goods after lapse of a reasonable time without intimating his rejection to the seller and doing act inconsistent with the ownership of the seller like uses, alters, re-sells or pledges the same etc.

**(b) Consent and Factors of Free Consent:**

Examinees gave unnecessary and lengthy details of each of the five factors i.e., coercion, undue influence, fraud, misrepresentation and mistake whereas the question required just listing of those factors. Some examinees did not even correctly spell "Coercion and Undue influence".

**Question No. 4**

**(a) (i) Essential Characteristics of Partnership:**

Examinees failed to describe essential characteristics of partnership like lawful purpose of business, contractual relationship and profit shared in agreed ratio as per the Act, on the contrary they discussed unrelated aspects of partnership like its business advantages and the way of conducting this type of business etc. Many examinees had the wrong concept that equal sharing of profit is must in the partnership.

**(ii) Dissolution of Partnership by Court:**

Examinees answered the overall dissolution of partnership whereas they had to answer in the context of court involvement. Examinees had to mention the points like a partnership is dissolved by court when a partner of the firm: (a) has become of unsound mind (b) permanently incapable of performing his duties as a partner (c) is guilty of conduct likely to adversely affect the business of the firm (d) wilfully and persistently commits breach of agreement relating to management of the affairs of the firm (e) transfers whole of his interest to a third party without the consent of other partners.

**(b) (i) Negotiable instruments and its Essential Elements:**

Few examinees were able to give simple and proper definition of negotiable instruments as per the Negotiable Instruments Act, 1881. However, some of the examinees had described the essential elements of negotiable instruments like certain time, unconditional and mere delivery etc.

**(ii) Contract of Indemnity and Contract of Guarantee:**

Many examinees confused the terms indemnity and guarantee with 'product warranty'. However, a contract of indemnity is a contract by which one party promises to save the other from loss caused to him by the contract of the promisor himself or by the conduct of any other person. A contract of guarantee is a contract to perform the promise or discharge the liability of a third person in case of his default.

**SECTION "C"**

**Question No. 5**

**(a) Different Categories of Workers:**

Some examinees discussed categories of workers with reference to the Factories Act, 1934 and in terms of age/ gender etc., whereas it was with reference to Standing Order Ordinance, Section "10 C" which is totally different. Examinees had to express the term probationer and badli etc., in the explanation of this question.

**(b) (i) Service Period for the Entitlement of Bonus:**

The examinees answered this question by the general understanding regarding the bonus in any organization. Actually, they had to answer it with the reference of 10-C of the Standing Orders relating to the payments of bonus i.e., 90 days in the relevant year.

**(ii) Time for Payment of Bonus After Closing of Financial Year:**

Irrational and illogical time periods had been discussed such as immediately after the close of year. Some examinees wrote lengthy replies instead of simple straightforward answer. The understanding of the matter was not upto the mark as they were unable to mention the period of three months from the close of financial year.

**(c) Disablement and its Kinds:**

In some cases, examinees did not discuss the sub-categories of the two types of disablement i.e., partial disablement and total disablement under Workmen Compensation Act, 1923. Overall they understood the requirements of the question and hence answered it correctly.

**Question No. 6**

**(a) (i) Definition of Factory:**

Factory means any premises, including the precincts thereof, where ten or more workers are working, or were working on any day of the preceding twelve months, and in any part of which a manufacturing process is being carried on or is ordinarily carried on with or without the aid of power, but does not include a mine, subject to the operation of Mines Act, 1923 (IV of 1923). It is noteworthy that only few examinees were able to provide the standard definition of "Factory".

**(ii) Information Required Before Commencing of Work in each Season of a Seasonal Factory:**

Related to occupiers of a seasonal factory who have to send a notice to the inspector, examinees were almost failed to give the correct answer. Lack of knowledge was shown in this regard. They had to discuss the points like communication address of the factory, nature and amount of power to be used, nature of manufacturing process to be carried on etc. It is suggested that examinees have to attempt the question as defined in the Act because usually general explanation and explanation in the wording of laws and Acts portray different meanings.

**(b) Exclusion Specified in Section-1 (3) of Industrial Relations Act, 2008 for Employment:**

Most of the examinees listed just few items. Very few examinees were able to give names of the establishment or industry excluded under section 1(3) like: Police, any installation or service exclusively connected with armed forces of Pakistan including ordnance factory, Pakistan Security Printing Corporation, Pakistan Security Papers Ltd., and Pakistan Mint etc. Examinees did not have the clarity of understanding of this question and failed to exhibit the correct answer.

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**EXAMINERS' COMMENTS  
SPRING 2010 EXAMINATIONS**

**BUSINESS ENGLISH  
Stage – 1**

**SECTION "A"**

**Question No. 2**

**(a) Do as directed:**

This subpart of the question contains transformation i.e., change of voice of interrogative imperative sentences into active and passive vice versa. Some of the sentences were required to be changed structurally. This part of the question was not attempted very satisfactorily. Simple conversion to interrogative, changing of voice, or making sentences into negative could not be adequately made by the majority. Especially change of voice and making a sentence complex were poorly attempted.

**(b) Fill in the blanks with given parenthesis:**

This part of the question required examinees to complete the sentences by inserting the blank with some given linking adverbs. Majority of the examinees completed this question correctly.

**Question No. 3**

**(a) Complete the sentences in correct or most likely way:**

In this part of the question examinees were required to pick up the correct option from the given four options after each sentence. The completion was to be made making choice of one of the four alternatives provided for each sentences as (a), (b), (c), and (d). Examinees faced problem in dealing with the perfect tenses as well as the continuous tenses.

**(b) Formation of certain parts of speech:**

This part of the question was related to formation of certain parts of speech of the given words. The question was inadequately attempted. Examinees had no idea how to convert various words from noun to adjective or adverb. Only the verbs were converted successfully and very few examinees got the adverb of the word "calculation" right i.e., "calculatedly". A thorough and constant revision of parts of speech should be undertaken by examinees for improvement and updating their knowledge.

**Question No. 4**

**(a) Idiomatic expressions:**

The part of the question required examinees to give the correct meanings of the five idiomatic expressions and to use each expression in their own composed sentences. This part of the question proved too difficult and posed an undesirable problem for the examinees. Majority of them failed to comprehend and could not get good marks. Majority failed to give the meanings of the idioms and just made sentences. The most difficult expression was found to be "be all Greek."

**(b) Match the given sentences with the similar given explanations:**

The task relating to matching each of the eight given small sentences as (a) to (h) with explanation from (1) to (10) was not satisfactorily performed by many of the examinees. Majority of the examinees failed to understand the gestures/ expressions and they could not even differentiate between 'nodded' and 'scowled'. Mismatching was apparently reported because the examinees were not sure what the expressions meant and when each can be used. The most top two difficult words for the examinees were "I chucked" and "I grinned".

## SECTION "B"

### Question No. 5

#### Comprehension passage:

The question was on 'Reading Comprehension' regarding the conventional examination system. The questions given under the paragraph were not properly picked up and the performance of the most of the examinees was below average. Examinees had the tendency to reproduce / copy answers from the text and guess at the answers. There was an inability to use their own words and titles were often too general. In majority, whatever writings produced as answers for questions (a) to (d) were stated in vague and faulty language. The examinees had problem with grammar, syntax and usage while composing answers. They forgot that words are tools of the trade and a good communicator must learn to build structures which are not merely purpose-built but also pleasant and elegant.

### Question No. 6

#### Essay writing:

For this question, five topics listed as **(a)** How can Global Peace be achieved **(b)** How Electronic Media can contribute in promoting Literacy Development **(c)** Impact of Inflation on our lives **(d)** The Role of Cottage Industry in Pakistan, and **(e)** My Role Model. The examinees reported the composed essay on the topic of his/her choice and almost all the topics were considered for composing essay by different examinees but the produced writings were found poor in content relevance, language and display of conceived material. Examinees need to know that an essay is evaluated as a whole. The essays attempted showed weak syntax, grammar and tense usage as well as incorrect application of subject-verb agreement cases. The context indicated surface level analysis and demonstrated that examinees do not read the newspapers and do not keep abreast of latest current affairs. Poor penmanship, disregard of spelling properly, use of short forms of words (SMS style), punctuation mistakes and grammatical errors were rampant and are reported as common faults of examinees.

### Question No. 7

#### Letter writing:

- (a)** The assigned task was to prepare a report, in a letter style, to be addressed to Business Class Advisor (Coordinator). The report had to carry proposals with regard to five points as listed in the task. The tone had to be of respect as the report was addressed to Class Coordinator. With the exception of a very few, selection of proper format, organization, coherence and presentation of conceived answers was distinctly poor. Clarity, correctness and appropriateness were rarely found in most of the composed answers. Reading more about composing letter reports is advised.
- (b)** This part of the question tested the knowledge of examinees on the topic of drafting a circular letter drawing attention of all departmental heads of different departments. Answers provided for this part of the question were mostly poor in content relevance, clarity and accuracy of material. An attractive or befitting opening was not provided. The closing of the circular letter was also poor. Adequate display and good penmanship was also not practiced in the composed writings. Most of the examinees did not describe present state of affairs of workplace. Mention of enhanced physical facilities – clean and noise-free atmosphere, better lighting arrangements and drinking water facilities etc., were mentioned by only a few. More reading of letters and keeping the framed answers within the limit prescribed in a given exercise is advised.

**Question No. 8****Reply to a friend's letter:**

The question required examinees to compose a reply in response to a letter received from a friend who, while living outside the city, wished to hear news and information about friends, class results, cricket tournament, changes in the library and any unusual happening that occurred during his/her absence from the city. Qualitatively, the framed letters were deficient in organization, coherence and presentation. Apparently the examinees, in general, had problems with grammar and usage. Instead of furnishing details on each item of enquiry, most of the examinees furnished details in a running prose passage form. The young learners of Business English are reminded that suitable words are tools of the trade. In order to become a good communicator they must learn to build structures, which are not only purpose-built but also pleasant and elegant. Examinees are advised to avoid weakness of thought and expression which occurs when one fails to give careful consideration to ideas one has formulated; avoid poor presentation of ideas as it creates confusion.

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**EXAMINERS' COMMENTS**  
**SPRING 2010 EXAMINATIONS**  
**FUNDAMENTALS OF COST AND MANAGEMENT ACCOUNTING**  
**Stage-2**

**Question No.2**

**(a) Three phases of cost accounting:**

Examinees generally failed to state three phases of cost accounting i.e., cost determination, cost planning/control and cost analysis for decision making.

**(b) Four control accounts for cost determination:**

Like part (a) examinees were not clear what control accounts are primarily maintained for determining the cost i.e., material, factory overhead control, work-in-process and finished goods accounts.

**(c) Cost of goods manufactured & sold:**

This part of the question was conceptual and numerical simultaneously. Majority wasted their time in calculating the figure of material cost while it was given at bullet No.1 of the question. This shows that examinees did not bother to read the question paper carefully. Moreover, majority failed to apply the balancing technique of T account. They could arrive easily at the required figures just by calculating labour, overheads and putting the figures of inventories at April 1 and April 30.

**Question No.3**

**(a) Features of FIFO or LIFO:**

This question was attempted well by the examinees. In this question various features of FIFO or LIFO method were given to indicate the relationship with FIFO or LIFO. However, it was perceived that they attempted it on the basis of trial and error. Examinees wasted the time in reproducing the question which was not required.

**(b) Material control:**

This question was very simple and required some mathematical calculations to arrive at the indices relating to material costing and control. The performance of the examinees was much disappointing. They ignored the steps of BODMAS causing incorrect answers for no reason except non-seriousness. A number of examinees did not have the idea to calculate absolute maximum inventory and cost per order.

**Question No.4**

**(a) Preparation of Payroll Sheet:**

This question was so simple and required to prepare payroll sheet of four (4) workers. It was very much surprising that a large number of examinees failed to calculate the correct amount of wages of each worker. Those who calculated correctly could not mention the 'direct' and 'indirect' labour separately. Another significant mistake was noted that some examinees deducted the taxes after deducting advance. Moreover, some examinees deducted taxes on net pay instead of on gross pay.

**(b) Apportionment of service departments' overhead:**

Examinees showed their lack of preparation in attempting this question. They did not have the idea of distribution of overhead and the types of departments i.e., production and service departments. It must be noted by the examinees that each working carries some marks and all working should be shown clearly by them. In this question overhead distribution rates for each service department should have been shown clearly to distribute the overheads.

**Question No.5**

**(a) Equivalent production and conversion cost per equivalent unit:**

Examinees performed well in this question. However, some of them failed to present their answer, in clear and simple manner. They produced process cost sheet to arrive at the conversion cost per equivalent unit thus wasting much time.

**(b) Standard cost card and cost of budgeted output:**

This part of the question proved difficult for the examinees. They completely failed to prepare standard cost card using the data and variances given in the question which showed their inability to understand the calculations of variances. As such, reverse calculation for the amount of cost elements with the help of variances could not be made. Resultantly, they failed to calculate the cost of budgeted output of 7,000 units. Examinees are advised to be serious while studying standard costing as it is very important topic for the management accountants to analyse and control the costs.

**Question No.6**

**(a) &(b) Material and labour variances:**

Overall performance remained satisfactory. However, some examinees calculated the price variance at the time of consumption despite clear indication that “materials price variance is reorganized when materials are purchased”.

**(c) Income statement under absorption costing and direct costing:**

Majority of the examinees was unaware of the concept of “absorption” and “direct” costing. They showed contribution margin while preparing income statement under absorption costing and gross profit in the income statement under direct costing method.

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**EXAMINERS' COMMENTS  
SPRING 2010 EXAMINATIONS  
MANAGEMENT AND MARKETING  
Stage – 2  
SECTION 'A' "MANAGEMENT"**

**Question No. 2**

**(a) Improvement in communication process:**

A good number of examinees was able to handle first requirement of question successfully related to 'definition of communication'. The second requirement of question desired how communication process can be improved to achieve goals. They were supposed to explain steps to improve communication process. They should know perception differences, emotions, inconsistencies between verbal and nonverbal communication and trust. The explanation of these aspects should have been covered in the answers. A few examinees could point out and discuss perceptual differences, emotional reaction, inconsistency and trust aspects in improving communication.

**(b) Motivation and its basic assumptions:**

'Motivation' can be defined as a person's degree of commitment. Motivation is an effective encouragement strategy and managers / leaders should be on the constant look of the employees to find which factor consistently motivates them. Examinees were generally confused about the basic assumptions of motivation. They explained the theories but could not relate to the requirements of the question.

**Question No. 3**

**(a) Line authority, staff authority and functional authority:**

This was simple and straightforward question related to line authority, staff authority and functional authority. The majority of examinees had a vague idea and their answers were not upto the mark. They did not know that 'line authority' is based on legitimate power, 'staff authority' is based on expert power and 'functional authority' both on legitimate and expert powers. These are basic terms which examinees must know clearly. By definition every authority is based on legitimate power. 'Line authority' is directly responsible for achieving organizational goals. Similarly, 'staff authority' provides support services and 'functional authority' is meant for controlling activities of other departments as they relate to specific staff responsibilities. Most of them could not relate the types of power to the kind of authority being explained.

**(b) Controlling and qualities of effective control system:**

It was noted that nearly all the examinees were able to explain the term 'controlling'. Few examinees relied on their guesswork and their answers were not found specific. They must understand clearly the qualities of an effective control because these will help them in their practical lives. Very few of the examinees could list and explain the qualities of an effective control system correctly. 'Controlling' is a process of monitoring activities to ensure the proper accomplishment as planned. The qualities of an effective control system are accuracy, timeliness, economy, flexibility, understandability, reasonable criteria, strategic placement, emphasis on the expectation, multiple criteria and corrective action.

**SECTION 'B' "MARKETING"**

**Question No. 4**

**(a) Target market:**

First requirement of the question i.e., 'target market' was explained successfully by majority of the examinees. However, it was noted that they were failed to explain 'target market strategies'. This should have covered undifferentiating marketing, differentiating marketing, concentrated marketing and micromarketing. There is, however, great variation in responding to the part regarding 'marketing strategies'. A 'target market' consists of a set of buyers who share common needs or characteristics that the company decides to serve. Market targeting can be carried out at several different levels such as undifferentiated marketing, differentiated marketing, concentrated marketing, micromarketing, local marketing and individual marketing.

**(b) Marketing plan and its contents:**

This was a simple question related to a 'marketing plan'. Marketing plan is a guiding document. Its contents are (i) Executive summary and table of contents (ii) Current marketing situation (iii) Opportunity and issues analysis (iv) Objectives etc. It was the simplest question, however, it escaped the attention of examinees while preparing for examination. In real life examinees have to prepare marketing plan thus they must be crystal clear about the items included in this plan. The examinees staggered around but could not present the clear concept of what was asked.

**Question No. 5**

**(a) Service characteristics:**

Many examinees explained services, types of services, benefits of services and importance of services, whereas these were never required by the question. The question simply asked to discuss 'service characteristics'. Few examinees were able to understand the question and discuss characteristics of service such as intangibility, inseparability, variability and perishability. The examinees misled toward providing after sales service. Understanding of a question is an important aspect while preparing for examination but it is only possible when an intensive program of studies is charted.

**(b) Business buying decision process:**

The question tested the knowledge of examinees regarding the stages in business buying decision process. Most of the examinees explained from consumer viewpoint i.e., need, want, product, place, price, promotion etc. In fact, this was never required. Business buying decision process covers recognizing the problem, items required, suppliers search, proposal solicitation, suppliers selection, order routine specification and performance review. Few examinees were able to understand and reply the question successfully. Business buying decision process is different from consumer buying. Business buying may relate to merchandizing or else as an input in some manufacturing process. In problem recognition and general need description stage we decide for what should be product / raw material specification? What can be the cause to mistake? Examinees went astray to explain business acquisition plans and mergers. Most of them confused it with the general decision making process and its phases.

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**EXAMINERS' COMMENTS  
SPRING 2010 EXAMINATIONS**

**BUSINESS MATHEMATICS & STATISTICS  
Stage – 2**

**SECTION "A"**

**Question No. 2**

**(a) Application of Linear Equation:**

This part required (i) determination of slope-intercept form of an equation, (ii) meaning of slope therein and (iii) prediction of weekly supply at market price of Rs.250. Following shortcomings were noted:

- The equation of the line was to be determined in the form of  $q = mp + k$  (as clearly mentioned in the question) but some examinees attempted to obtain it in the form  $y = mx + k$ . This indicated that they did not bother to take care of what was asked and required.
- In determining  $q = mp + k$ , the first step was to find value of slope i.e.,  $m = \frac{q_2 - q_1}{p_2 - p_1}$ . Some examinees incorrectly wrote  $m = \frac{p_2 - p_1}{q_2 - q_1}$ .
- Some examinees could not find the value of 'k'.
- Graph of the line was not required but some attempted to draw it.
- Most of the examinees could not correctly interpret the meaning of the slope in this application.

**(b) Compound Interest:**

This part was based on compound interest and examinees were asked to compute the amounts that an investor would obtain after five years if the investment was compounded quarterly. Following shortcomings were observed:

- Some examinees confused the simple formula of  $S = P(1+i)^n$  with the formulae used in annuity calculation.
- Some examinees were not conversant with the difference between 'yearly' compounding and 'quarterly' compounding.

**(c) Inverse of a Matrix:**

Performance of examinees remained satisfactory in this part. Nevertheless, examinees committed following mistakes:

- Some examinees could not calculate the determinant  $|A|$  of the given matrix A.
- Most of the examinees used incorrect notations for cofactors namely  $a_{ij}$  instead of  $A_{ij}$ .
- Some did not bother to transpose the matrix of cofactors,  $A_c$ , and to use the correct notation for determinants.
- They were not clear about whether to find the inverse by applying the Gaussian Elimination procedure or by using the matrix of co-factors.

**Question No. 3**

**(a) Restricted Domain and Range of a Function:**

It was a simple question but examinees wasted a golden opportunity to secure easy marks. Following deficiencies were observed:

- Most of the examinees did not give reasons for lower limit and upper limit in determining the restricted domain and range.
- Some of them did not write domain and range in proper form of interval or set notation.
- They did not mention the result.

**(b) Use of Quadratic Formula:**

This part required solution of the given equation by means of above formula. In spite of an easy question, examinees committed following mistakes:

- Many examinees did not know how to put the equation into standard form i.e.  $ax^2+bx+c=0$  before using the quadratic formula.
- Because of the imaginary / complex roots, some examinees were mistaken to conclude that there existed “no solution”.
- Some of them tried to prove the left-hand-side equal to  $\frac{1}{2}$ .
- Basic algebraic rule (i.e., LCM) was not known to many examinees.

**(c) Anti-Derivatives:**

Examinees were asked to perform integration of product of two functions. They could not perform well to solve the question because of following reasons:

- Lack of knowledge of integration rule.
- Some of them did not know how to apply the rule  $\int [f(x)]^n f'(x)dx = \frac{[f(x)]^{n+1}}{n+1} + C$  and some did not care about adding constant C for this indefinite integral.
- They did not use proper method (i.e., simple rule of integration). Some used the integration by parts technique which was not necessary.
- Examinees were not conversant with the difference between definite and indefinite integral.

**(d) Derivatives:**

Examinees were required to find the derivative of ratio of the given functions. Performance by examinees remained unsatisfactory. They showed following deficiencies:

- Some examinees did not know the difference between  $f(x)$  and  $f'(x)$ . Some did not apply the proper rule

i.e.  $\frac{d}{dx}\left(\frac{u}{v}\right)$  and some wrote  $\frac{d}{dx}[\ln(5x+4)] = \frac{1}{5x+4}$  ignoring the rule for composite function.

**SECTION “B”**

**Question No. 4**

The question was split into two parts (a) Determination of Regression Line and (b) Conditional Probability.

**(a) Regression Line:**

An average number of examinees performed well. Following were the deficiencies in this regard:

- For the equation of regression line  $y=a+bx$ , values of ‘a’ and ‘b’ were not correctly found.
- Examinees tried to find the values of ‘r’, ‘ $\sigma_x$ ’, ‘ $\sigma_y$ ’ but could not obtain the correct value of ‘b’ and hence that of ‘a’. Ultimately the predicted value of sale for advertising expenditure of Rs.60 was incorrect.
- Examinees did not use the proper general regression line equation i.e.,  $y = a + bx$ .

**(b) Conditional Probability:**

This part tested the knowledge of examinees regarding conditional probability. Poor performance was witnessed in this part and they committed errors as mentioned hereunder:

- Many examinees did not use proper symbolism for the considered events.
- Some examinees did not know the use of formula for the conditional probability and even its concept. A number of examinees failed to identify the problem (as to which formula could be applied). They seemed to be confused and wrongly used  $P(A \cup B) = P(A) + P(B) - P(A \cap B)$  instead of using the formulas of  $P(A/B) = P(A \cap B) / P(B)$  and  $P(B/A) = P(A \cap B) / P(A)$ .

### Question No. 5

#### (a) Binomial Distribution:

Poor performance was noted in this part. Common mistakes are given below:

- Many examinees did not know that the question was of binomial experiment / binomial probability distribution. They did not have the understanding of “at most” and “at least” in order to obtain the correct probabilities and then adding the requisite number of terms for the final answer.
- A large number of examinees could not perform well because they did not understand the problem and they did not know the probability distribution rules. Some examinees used inappropriate formula.

#### (b) Test of Hypothesis:

This part also exposed the lack of knowledge of the examinees in this topic. Following shortcomings were brought to light:

- Many examinees did not find the significance level, ‘ $\alpha$ ’, and so the proper value of ‘t’. They did not consult the table for ‘t’.
- A good number of examinees could not calculate the lower and upper limits of the interval.
- They wrongly used ‘z’ test, instead of ‘t’ test. It showed they did not differentiate between ‘t’ or ‘z’ test.

### SECTION “C”

### Question No. 6

#### Network Analysis:

This question provided optimistic, most likely and pessimistic time estimates of a number of activities in respect of a small project. Examinees were required to (i) compute expected duration and variance of each activity, (ii) draw the project network and identify all paths through it, (iii) point out the expected project length and (iv) find out the probability that the project would not meet project deadline of 18 weeks. Despite the fact that it was a straight forward question, performance by examinees was not upto the mark. Following errors were committed:

- Some examinees did not calculate and list the values of ‘te’ by using correct formula i.e.,  $\frac{(t_p + 4t_m + t_o)}{6}$ .
- Some of them listed the values of standard deviation instead of values of variance of each activity.
- Many examinees solved this question without making diagram and showing critical path and other activities.
- Some examinees made basic calculation errors.

### Question No. 7

#### Solution of Linear Programming by Corner Point Method:

It examined the area of linear programming. In spite of this topic being a regular feature of question paper, performance of examinees remained poor. Following shortcomings were noted:

- Many examinees did not explicitly mention the total cost function i.e.,  $z = 1200x + 1500y$  to be minimized. They did not write the constraints / conditions in proper form using correct inequalities and percentages of each chemical present in two minerals as listed in the table. Thus the formulation of linear programming model was not properly and mathematically cited.
- Although the optimal daily amount of each mineral was asked to be determined by the ‘corner point method’, some examinees unsuccessfully attempted it by using ‘simplex method’. As the problem was not correctly formulated, they could not obtain the right answer.
- The lines corresponding to linear constraints could not be properly drawn and hence the feasible region could not be shaded justifying the minimum cost.
- Most of the examinees solved the problem without considering the (percentage by weight).
- Majority of examinees was unable to point out the exact corner points.

**EXAMINERS' COMMENTS  
SPRING 2010 EXAMINATIONS**

**INTRODUCTION TO INFORMATION TECHNOLOGY (THEORY)**

**Stage – 2**

**SECTION 'A' "HARDWARE"**

**Question No. 2**

**(a) Multimedia Technology and its uses in (i) Marketing, (ii) Learning application, and (iii) Computer games:**

A fairly large number of examinees could not properly define 'Multimedia Technologies'. The standard of the answers given in part (i) Marketing, (ii) Learning applications, and (iii) Computer games were not up to the mark in most the cases. They mistakenly interpreted the term 'Multimedia Technology' to mean projectors instead of the vast field that encompasses use of various media such as sound, video, text and graphics. Consequently they answered the subparts incorrectly. In broad the term multimedia recognizes that the technology represents a convergence of several information forms: text, still images, audio sequences, motion video sequences and animation sequences. Online books (e-books) are also multimedia products that range from cook books, medical anthologies to investment guides.

**(b) Registers:**

Most of the examinees correctly defined 'registers' but the second requirement of the question in which the functions of registers during processing was asked and was not adequately answered by many examinees. Registers are special-purpose, high-speed, temporary storage areas within the CPU. Registers very quickly accept, store, and transfer data and instructions that are being used immediately.

**(c) Functions and features of USB port:**

This part of the question was correctly attempted by majority of the examinees. There were some who mistakenly thought it only referred to USB Flash Drives and therefore they lost marks. Universal serial bus is provided through a port on computer system unit. Devices with USB connectors can be daisy chained to each other and plugged in to USB port, eliminating the need for multiple expansion cards.

**Question No. 3**

**(a) Storage media technologies:**

Majority of the examinees did not have any concept about history of data storage devices such as punch cards, punched tape, magnetic tape, magnetic drum, magnetic disk, floppy disks, hard disk drives, optical storage etc. As far as working of magnetic and optical disks is concerned, a large number of examinees could not explain in detail the correct working of the devices. Some of the examinees even did not know the basic differences between magnetic and optical technologies. The overall performance of the examinees remained below average.

**(b) Description of the following terms related to computer's memory:**

**(i) CMOS RAM:**

In this part 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. One important type of semiconductor design of RAM is Complementary Metal Oxide Semiconductor (CMOS). CMOS RAM can be used to store information a computer needs when it boots up such as time, data and hardware configuration data.

**(ii) Pipeline cache:**

Majority of the examinees could not explain it properly. 'Pipeline cache' is a processing technique. Majority of the examinees discussed working of cache memory rather than pipeline cache technology. Pipeline cache is a processing technique that feeds a new instruction into the CPU at every step of the processing cycle so that four or more instructions can be work on simultaneously.

**(iii) Virtual memory:**

'Virtual memory' was explained well by majority of the examinees. Virtual memory is the use of secondary storage devices as an extension of the primary storage of computer. Few examinees could identify that virtual memory is provided by windows operating system.

**(iv) DIMM:**

The performance of majority of the examinees remained below average in this part. Most of the answers lacked the concept of functionality and features of DIMM. The DIMM boards have two sets of contacts, allowing for a wider data path and faster data transfer.

**SECTION 'B' "SOFTWARE"**

**Question No. 4**

**(a) Definition of the following terms:**

**(i) Batch processing:**

Large number of examinees could not correctly describe working of batch processing. It seems that examinees knew the batch processing but were unable to properly describe its working. Batch processing, a widely used technique, involves the regular processing of large amounts of data. In batch processing, data is collected for a predetermined period of time, after which it is processed.

**(ii) Multiprogramming:**

Performance of the examinees was average while defining 'multiprogramming', which is the allocation of a computer system and its resources to more than one concurrent application, job or user.

**(iii) Multiprocessing:**

Most of the examinees lacked in concept of 'multiprocessing'. Examinees mixed the concept of multiprocessing with multiprogramming. Multiprocessing is the use of two or more CPUs within a single computer system. Some examinees did not differentiate between multiprogramming and multiprocessing and described some functions of both terms.

**(iv) Timesharing:**

Majority of the examinees knew this term but remained unable to describe it properly, which is sharing of computer resources among many users by means of multiprogramming and multitasking. The progress of the majority examinees was average in this part, however, it was very simple and easy part.

**(b) Backup and recovery procedures:**

This question was answered correctly with clear concept of 'Backup and Recovery Procedures' with their utility for a computer system, by most of the examinees. However, very few examinees could not illustrate their answers with the examples of software currently used for the purpose of backup and recovery procedures. Few examinees were unable to understand what was meant by recovery procedure. Backup procedure describes how and when to make extra copies of information or software to protect against losses. A recovery procedure is an action taken when information of software must be restored.

**Question No. 5**

**(a) Pre-written and customized software:**

The first requirement of the question, in which the examinees were asked to define 'pre-written and customized software', was properly answered by most of the examinees. However, in second requirement of the question, in which they were asked to mention the steps for ordering customized software, a fairly large number of examinees gave either wrong or incomplete answers. Most wrote detailed steps for ordering customized software but did not give detail the purpose of buying pre-written software. Pre-written software can be defined as a software package that meets customer's requirement and is available in the market. If none of the available pre-written software packages meet the specific requirements of a user (an organization or an individual), it becomes necessary for the user to create a customized software package which fulfils the requirement of the user.

**(b) Documentation:**

Majority of the examinees could not properly comprehend this part of the question. Instead of explaining documentation of software, asked in the second requirement of the question, most of the examinees only described the general documentation of an organization. Documentation is the process of collecting, organizing, storing, and maintaining historical record of programs and other documents used or prepared during the different phases of the life cycle of software.

**SECTION 'C' "NETWORK & SECURITY"**

**Question No. 6**

**(a) Implementing security on networks:**

**(i) Firewalls:**

Firewalls protect unauthorized access to a network. Majority of the examinees wrote firewalls are used for virus protection. Majority of them had no concepts of working / functionality of firewalls (software / hardware firewalls) and its role in network security. A firewall is an integrated collection of security measures designed to prevent unauthorized electronic access to a networked computer system.

**(ii) Digital signatures:**

Almost all of the examinees had no concept of 'digital signatures' and how public / private key mechanism used for this purpose. Majority compared it with biometric devices, which match human signatures with pre-stored signature. A digital signature or digital signature scheme is a type of asymmetric cryptography used to simulate the security properties of a handwritten signature on paper.

**(iii) Authentication and authorization:**

Majority of the examinees described the terminology of authentication properly but were unable to elaborate authorization, which is related to assigned different rights to users according to their privileges. Majority of the examinees did not differentiate both terminologies and mixed both terms with each other. Authentication is the process of determining whether someone or something is, in fact, who or what it is declared to be. In private and public computer networks (including the Internet), authentication is commonly done through the use of logon passwords. Authorization is the process of giving someone permission to do or to have something. In multi-user computer systems, a system administrator defines for the system which users are allowed access to the system and what privileges can be used (such as access to which file directories, hours of access, amount of allocated storage space, and so forth).

**(b) Description of networks:**

**(i) WAN:**

Majority of the examinees explained well the concept of WAN, which connects different LAN / networks like internet. A wide area network or WAN is a computer network covering a broad geographical area. The largest and most well-known example of a WAN is the Internet.

**(ii) MAN:**

Majority of examinees explained this part of the question well. However, few examinees mixed WAN / MAN / LAN concepts. Metropolitan Area Network or MANs are large computer networks usually spanning a campus or a city. They typically use wireless infrastructure or optical fiber connections to link their sites.

**(iii) Hybrid network:**

'Hybrid network' is a combination of bus, star and ring topology. Most of the examinees wrote it is combination of WAN / MAN which was wrong concept. Majority of the examinees were unable to describe correct definition of hybrid network, so performance was below average in this part of the question.

**(c) Half duplex and full duplex:**

This was found to be easiest part of the question. Except very few examinees, all examinees correctly expressed the concepts of half duplex and full duplex, illustrating them with proper examples. A half duplex system provides for communication in both directions, but only one direction at a time (not simultaneously). A full duplex, or sometimes double-duplex system allows communication in both directions, and unlike half duplex, allows this to happen simultaneously.

**EXAMINERS' COMMENTS  
SPRING 2010 EXAMINATIONS**

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

**WORD PROCESSING:**

In this part of the practical, two questions were given i.e., (i) MCQs which required the examinees to opt one correct option as their answers and (ii) typing of the given text in MS Word using proper formatting. The performance of most of the examinees in first part remained average. In second part, text in a table was given to the examinees for typing same as it appears in the question. The question tested the basic typing skills including the use of other tools like making table, importing picture from picture gallery etc. It was observed that a large number of examinees did not care about selection of the required fonts as given in the question. The border and the format of the table also did not match with the given table. Some of the examinees could not print the current date or could not make the text bold, italics, and the size of the text as given in the paper.

**SPREADSHEET:**

In this part of the paper, the examinees were provided with a worksheet and after creating the same worksheet with the given data using MS Excel, they were asked to perform certain operations using the given data, like application of MS Excel's functions and different self-created formulae, making of bar charts etc. The range of performance in this part remained very poor. Those who could not get good marks in this part eventually faced difficulties in correctly applying the formulae and making bar charts using the generated data. Another reason for failure of a fairly large number of examinees being making mistakes in copying the data in the given table while attempting the first requirement i.e., to create the same worksheet as given in the question. This propagation error resulted wrong answers generated for subsequent questions of the paper. It was observed that a large number of examinees did not have sufficient knowledge and skills of using 'if condition' which was utmost important to pass the MS Excel practical paper. Many of the examinees could not get hold of size of generated table and did not take care of using page setup function to print the complete table on one page. In almost half of the scripts, the generated sheet was partly printed on one page and rest was completed on the next page, which showed poor presentation. Making bar chart, many examinees either did not know how to select the required columns or they could not get proper hold of the internal bar chart wizard options.

**PEACHTREE:**

The overall performance of the examinees in this part of the paper was below average. Although it seemed that most of them did not know how to use the software thus, they were unable to answer the questions correctly, which also showed their accounting skills need more practice. The question-wise shortcomings observed as follows:

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

Many of the examinees either did not print the current balances or provided with the wrong figures. In some cases, incomplete list of accounts was provided.

- **GENERAL JOURNAL:**

A majority of the examinees provided incorrect answers in this part due to incorrect data entry at the initial stage and in most of the cases the mistake pertained to incorrect number of zeros entered while entering the transactions.

- **GENERAL LEDGER TRAIL BALANCE:**

The propagated error due to incorrect data entry at the initial stage resulted in yielding wrong answers here. In some cases, general ledger was printed, which was not required.

- **BALANCE SHEET:**

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

- **SALES JOURNAL:**

There were very few cases in which the correct sale journal was printed.

**POWERPOINT:**

This part required the examinees to prepare the given slide format in PowerPoint package and to print the same for evaluation. The overall performance of the examinees in this part of the paper remained average.

However, the common mistakes committed by the majority were as follows:

- Not using the required font;
- Inappropriate text alignment;
- Incomplete use of bold / italics / underline;
- Missing picture.
- Not using the required size;
- Incomplete text / matter;
- Missing or incorrect bulleting;

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**EXAMINERS' COMMENTS  
SPRING 2010 EXAMINATIONS**

**FINANCIAL ACCOUNTING  
Stage – 3**

**Question No. 2**

**Consignment Account:**

Requirements of this question were calculation of Consignment Account, Abnormal loss Account and Shakir Account. Majority of the examinees attempted this question correctly, however, following mistakes were found in some cases:

- The amount on credit side was wrongly shown as Rs.5,000 instead of Rs.5,500. Moreover, the amount of insurance Rs.3,000 was not shown which resulted a net loss of Rs.2,500.
- Closing Stock was valued to Rs.47,300 rather than Rs.47,790 ( $214,500 \times 2,150 / 9,650$ ).
- These mistakes led to incorrect figure of Profit and Loss Account which was Rs.28,415.

**Question No. 3**

**Branch Account:**

In this question the examinees were required to prepare Sukker Branch Stock Account, Branch Debtors Account, Branch Adjustment Account and Branch Profit and Loss Account. Most of the examinees solved it correctly. However, few mistakes committed by examinees were:

- Stock shortage in Branch Profit and Loss Account was incorrectly calculated which was Rs.1,215 ( $Rs.1,458 / 1.2$ ).
- The figure for loading in Branch Adjustment Account was incorrectly calculated which was Rs.243 ( $1,458 \times 20 / 120$ ).
- Gross Profit in Branch stock Adjustment Account was incorporated incorrectly due to the fact that examinees were unable to post Stock Reserve Account of Rs.2,917 and Goods Sent to Branch Account of Rs.58,333 on credit side.
- Examinees were unable to coup with the preparation of Branch Profit and Loss Account due to lack of their knowledge in posting accounts on correct sides.

**Question No. 4**

**Income and Expenditure Account:**

This question tested examinees' skills in preparing Income and Expenditure Account. Most of the examinees attempted half of the question correctly and committed the following mistakes:

- It was clearly mentioned in the question that donation was an item of accumulated fund, most of the examinees disregarded instructions.
- Office Supplies expense of Rs.360,000 was calculated incorrectly as it had to be extracted by subtracting Rs.240,000 from Rs.600,000.
- Since, depreciation rates were given and it was implied that straight-line method should be used but majority used diminishing method.
- Subscription Income was calculated wrongly as it had to be determined by adding opening Advance Subscription of Rs.120,000 and ending figure of Subscription Receivable of Rs.120,000 and subtracting Rs.720,000 for ending Advance Subscription and opening balance of Subscription Receivable of Rs.600,000 in the figure of Subscription Received of Rs.22,800,000.
- Interest income was accrued Rs.0.24 million ( $2,400,000 \times 0.1$ ). Most of the examinees did not show it. Similar case was found in interest on long-term loan as well.
- The above mistakes led to an incorrect amount of excess of Income over expenditure which was Rs.3,000,000.

**Question No. 5****IAS 16 and Incomplete Records:**

This question was consisted of two parts. Part (a) required definition as per IAS-16. It is regretted to say that a majority of examinees could not even define “depreciation” as per IAS. All were lacking power of expression. Part (b) was consisted of question taken from incomplete records. Extremely poor performance was shown by examinees. Even they were not able to prepare cash and bank accounts from given data. Some examinees posted data to wrong side of these accounts. Following common lapses were observed:

- Most of the examinees could not calculate correct figure of credit sale. Collection of Rs.2,873,000 had to be calculated from cash account as balancing figure. This collection was to be posted to credit side of debtors’ account to ascertain “credit sale” as balancing figure. Drawing was the main problem. Average of drawing was to be multiplied by 52 weeks to arrive at drawing figure and same was to be credited to cash account. Unfortunately examinees were unable to trace this point to arrive at credit sale.
- Accounts payable Account was made incorrectly, which was used to calculate figure for purchases i.e. Rs.2,270,000.
- Some examinees balanced debtors’ account without taking cash collection from debtors.
- These mistakes led to the incorrect figures for closing inventory and Gross Profit which were Rs.80,200 and 576,200 (2,881,000 x 0.2) respectively.

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

In this question the examinees were required to prepare Income statement, statement of Financial position and statement of changes in equity in accordance with the requirements of IFRS-1. Most of the examinees committed mistakes or were unable to solve the question completely due to improper “Time Management”. A majority of examinees could not prepare Income Statements, Equity Schedule, Fixed Assets schedule adequately. Following omissions were observed:

- Many examinees subtracted Sale Tax Payable from Sale Revenue even it is not a contra sale item.
- Calculation of Cost of Goods Sold was incorrectly done due to inclusion of depreciation of Rs.276, 000 which was required by IFRS-1.
- Rs.0.3 million overstated inventory of last year was not adjusted (deducted from Retained Earning) to Retained Earning. Most of the examinees took opening inventory at Rs.3.6 million instead of Rs.3.3 million.
- Calculation of Income Tax expense: as usually examinees had deducted the amount of prior Income tax that is, Rs.175,000 from the current Income tax expense Rs.500,000 rather than to add it.
- The above mistakes led to incorrect figure for Net Profit after Tax that is Rs.4,369,000 which resulted in wrong figures for Equity in the Statement of Financial Position.
- The examinees were required to prepare schedule of administrative and distributive expenses but nearly all examinees disregarded “clear instruction” and shown mixed items. Many examinees were not clear about the classification of expenses. Some examinees took finance charges as distributive expenses rather than deducted from “operating profit”.
- Pattern of income statement was not adequate as most of the examinees prepare it vaguely.
- Calculation of Share Capital had to be done by adding Rs.1,500,000 in the opening balance of Rs.1,500,000.
- The figure for Share Premium must be extracted after adding Rs.750,000 in the opening balance of share premium account of Rs.750,000. New issue of shares with premium was credited to surplus account. May be almost no one transferred share capital and share premium to respective accounts. They kept remained both items in surplus accounts and reported as it is to balance sheet.
- Retained Earning of Rs.4,609,000 was calculated by deducting Prior Year Adjustment of Rs.300,000 and the figure for Dividend Paid Rs.300,000 and adding Rs.840,000 (retained earning opening balance) and Rs.4,369,000 for current year profit. Majority of examinees deducted “dividend paid” from profit after tax instead of retained earning.

**EXAMINERS' COMMENTS**  
**SPRING 2010 EXAMINATIONS**  
**BUSINESS TAXATION**  
**Stage – 3**

**Question No.2**

**(a) Definitions:**

This part required examinees to define (i) fee for technical services (ii) employment and (iii) small company as per Income Tax Ordinance, 2001. Examinees responded poorly to this part. They showed their lack of proper knowledge with respect to these terms. Mostly, they relied on their general knowledge rather than specific knowledge as per the Ordinance.

**(b) Minimum Tax on the Income of Certain Persons:**

This part tested examinees on Section-113 of the Income Tax Ordinance, 2001. They responded poorly to this part and even failed to understand it. They depended on guesses/ presumptions without any knowledge. The most common mistake was that they confused Section 113 with Section 113A of the Ordinance and deliberated the provision of the latter.

**(c) Foreign source salary of resident Individual:**

Examinees were asked to explain how the foreign source salary received by a resident individual would be treated under the Income Tax Ordinance, 2001. A small number of examinees had the proper knowledge to deal with the question. The reply of this question being simple was attempted in general way which somehow met some accuracy of the answer.

**(d) Methods Applicable for Determining an Arm's Length Result:**

Sub-rule(6) of Rule 23(3) of the Income Tax Rules, 2002 mentions four methods that shall be applied for the purposes of determining an arm's length result. Once again, poor responses were elicited from the examinees who based their answers on their guesses/ presumptions rather than on knowledge of the relevant rule. It seems, examinees do not even bother to look at the taxation rules.

**Question No.3**

**(a) Entertainment Expenditure:**

Rule 10 of the Income Tax Rules, 2002 was the basis of this question that required the (i) definition, (ii) condition of admissibility and (iii) limitations on the deduction of entertainment expenditure. Below average performance was observed in response to this part. It exposed their lack of interest in the subject. The replies of all three parts were inter-related as such most of the examinees tried to answer and made repetition of answers of one sub-part to that of another sub-part.

**(b) (i) Persons required to furnish 'Return of Income':**

This sub-part tested examinees on sub-section (1) of Section 114 of the Income Tax Ordinance, 2001. Responses from the examinees were not encouraging. In most cases, they failed to understand the requirement of the question. They seemed to be confused in explaining the names of the persons required to furnish a 'return of income'.

**(ii) Agricultural Income:**

In this sub-part, examinees were asked to mention as to what was included in agricultural income as per the Income Tax Ordinance, 2001. Once again, poor responses were received from examinees who tried to answer in general term instead of reproducing the specific provisions of the Ordinance. Their answers left a lot to be desired.

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

##### **(a) Clearance of Goods for Home Consumption:**

This part related to the Customs Act, 1969 and examinees were required to describe the procedure of clearance of goods for home consumption. Most of the examinees gambled and their answers were based on guesses/ presumptions without any knowledge of relevant law and were not expressed in a proper manner. They tried to explain the procedure for clearance through a general type of procedure, which could fit into whenever required. Only a few of them had the exact idea.

##### **(b) Invoice and its Contents:**

Examinees were asked to define the term 'invoice' and enumerate its contents as given in the Federal Excise Act, 2005. It was a simple question but the responses were not as good as they should have been. Examinees did try to define the term and mentioned its contents but their replies were not what are given in the Act.

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

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

This question made available the Income Statement of a limited company as well as some relevant notes and additional information. In the light of above data, examinees were required to compute taxable income and tax liability of the company for the tax year 2009. This proved to be a popular question among examinees and they displayed good performance in this question. In spite of good showing in general, following shortcomings were brought to light:

- Some examinees failed to produce explanatory notes and consequently lost easy marks.
- Treatment of statutory depreciation, donation to approved specified institution(s) and tax credit relating to approved but unspecified institution(s) seemed very difficult to them.
- Examinees were not very much aware of relevant sections/ rules pertaining to this question.

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

##### **(a) Definition of 'Distribution' and 'Documents':**

In this part examinees were asked to define (i) Distributor and (ii) Documents under the Sales Tax Act, 1990. Answer to this part was quite simple and only basic information of the Act was required. However, the majority was not prepared for the task and once again replied on guesses and presumptions without exhibiting proper knowledge.

##### **(b) Definition and Types of 'Returns':**

Above-mentioned definition and types of returns were required under the Sales Tax Act, 1990. Once again, examinees failed to take advantage of the simple question. Due to lack of proper knowledge of the topic, they were compelled to depend on their general knowledge. Mostly, examinees were able to enumerate types of returns correctly but they were not conversant with the definition of 'return' as per the relevant Act.

##### **(c) Provisions of Sales Tax Return:**

This part tested the knowledge of the examinees pertaining to the Section 26 of the Sales Tax Act, 1990. Response to this part was very poor. In most cases, they even failed to understand the requirement of the question and opted to write stories.

**EXAMINERS' COMMENTS  
SPRING 2010 EXAMINATIONS**

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

**Question No.2**

**(i) Situations where activity based costing (ABC) system is appropriate and beneficial:**

With few exceptions examinees totally failed to mention the appropriate situation of using ABC system i.e., high percentage of indirect costs. The majority tried to define ABC system and described its advantages instead of the situation where it is appropriate.

**(ii) Cost driver rates:**

(a) This was very simple question and attempted well by the majority. However, few of them calculated the cost driver rates on the basis of actual number of inspections and kilowatt hours consumed instead of on the basis of capacity available. As a result they failed to allocate the cost to products A, B and C correctly. Similarly, they could not calculate the cost of unused capacity due to applying incorrect rates of cost drivers. Had the examinees calculated the correct cost driver rates, they could allocate the cost to each product correctly and deducting these allocated costs of each activity from the total costs given in the question, they could easily arrive at the cost of unused capacity.

**(b) Factors to be considered in choosing capacity level:**

Overall performance of the examinees in this part was very poor. The answers produced by them apart from lack of comprehension, reflected that they were not serious and unaware with the course contents. They did not describe the impacts of capacity level on cost ascertainment, price fixation, break-even etc but some irrelevant topics were discussed by them.

**Question No.3**

**(a) Apportionment of joint cost and total cost calculation to prepare product-wise profitability:**

Majority of the examinees who attempted the question had demonstrated poor concept of joint product costing. Their conceptual and comprehension weaknesses led to various mistakes as given below:

- Joint cost was apportioned at the split-off point on the basis of 60%, 30% instead of on the basis of sales value of product A & B.
- The calculations of per kg joint cost, processing cost and total cost were incorrect due to 1/6<sup>th</sup> of the lost units of product 'A' and addition of material at department 3 were not taken into account.
- In calculating the product-wise profit, sale value at split-off point was taken to calculate sales amount instead of sales price. Moreover, closing inventories were totally ignored or not taken at full cost.

**(b) Comments to increase profitability:**

Examinees showed themselves to be conceptually weak. They had no idea of incremental revenue which could be earned as difference of incremental sales (after split-off point) and incremental cost (further processing cost).

**Question No.4**

**(a) What does "fixed overhead volume variance" indicate:**

With few exceptions all the examinees failed to mention that fixed overhead volume variance is reported when absorption costing system is used. Instead of this they started to define and explain fixed overhead volume variance.

**(b) Actual sales, material, labour and overhead:**

Examinees were required to calculate the above mentioned figures with the help of budgeted data and variances. However, they failed to calculate the required figures. They were unable to pick up appropriate figures for calculations from the given data. For example production units, sales value and material purchase quantity were provided in the question but examinees found unable to use these figures in their calculations.

**Question No.5**

**(a) (i) Flexible budgeted income statement:**

This part of the question was very simple. Examinees were required to only divide sales values and variable cost by budgeted sales units and to multiply with actual sales units for both products A & B. The total was the company's contribution margin. However, majority of the examinees failed to carry out this working. They used budgeted sales units as against the clear instruction i.e., flexible budgeted income statement based on actual sales units. Similarly, they wrongly considered the actual variable cost for preparing flexible budget.

**(ii) Income statement under marginal costing showing variances:**

Majority of the examinees failed to calculate the variances. They did not know how the variances are calculated. They did not bother to consider/ use the column given in the question for preparing income statement. Had they used the column as suggested, they could furnish the answer properly though partially.

**(b) (i) Sales price variances:**

This part of the question was properly attempted by the examinees however, some of them calculated the variances on per unit basis which could not be said variance in the true sense.

**(ii) Sales volume and sales mix variances:**

Majority of the examinees failed to provide the correct answer of this part, instead some of them reproduced the answer of part (i) over here.

**Question No.6**

**(a) Correct divisional margin before allocating common fixed cost:**

This part of the question was very simple, the answer of which was just reproducing the question by eliminating the allocated common fixed cost of two divisions. However, some examinees copied the table as given in the question without ascertaining the requirement of this part.

**(b) Financial impact of dropping consultancy division:**

Examinees generally failed to explain that the consultancy division should not be dropped as the division was covering its own costs due to inclusion of traceable fixed cost in the cost of divisions.

**(c) Impact of campaign on operating income:**

Majority of the examinees failed to calculate the increase in overall income due to non-application of contribution margin approach. If the contribution margin was calculated on the increased revenue, examinees could easily calculate the impact of campaign.

**(d) Residual incomes before and after the campaign:**

Examinees generally failed to calculate the residual income after campaign due to incorrect impact on income as calculated in (c) above.

**EXAMINERS' COMMENTS  
SPRING 2010 EXAMINATIONS**

**PRESENTATION & COMMUNICATION SKILLS  
Stage – 3**

**Question No. 2**

**(a) 7Cs in communication:**

This part of the question was generally answered correctly. However, explanations thereto were not given correctly by several examinees. A general mistake found in majority of the answers was that the definition of attributes were described unnecessarily. The good message should have the following seven attributes, such as (i) completeness, (ii) conciseness, (iii) consideration, (iv) concreteness, (v) clarity, (vi) courtesy and (vii) correctness.

**(b) Market globalization and cultural diversity contributed to increase intercultural communication:**

The answers were not found focused and to the point in this part of the question. Here the examinees were required to discuss the role of 'market globalization' and 'cultural diversity' in increasing the importance of intercultural communication. The answers, in general did not show the examinees' understanding of cultural diversity and intercultural communication. Most of them described the importance of communication rather than role of market globalization and cultural diversity in the increase of intercultural communication. It seems that they have no knowledge of cultural diversity and how can it effect communication. Market globalization and cultural diversity have contributed to the increased importance of intercultural communication. Some of the general diversities are (i) understanding culture, (ii) recognising cultural differences, (iii) social values, (iv) roles and status, (v) concepts of time (vi) concepts of personal space, (vii) body language, (viii) social behaviour and manners, (ix) legal and ethical behaviour, and (x) dealing with language barriers.

**Question No. 3**

**Complaint report:**

The students were required to write a report on poor quality of food and sub-standard services being provided by the hotel. It seems that most of the examinees had not practised their report writing properly. Majority of the examinees were unable to follow the format of report writing. They failed to use their imaginations and provided immature reasons and recommendations. Examinees' knowledge about the problems faced by customers in a hotel or facilities provided by a hotel was found very poor. Faulty presentation, poor layout and irrelevant material revealed that their concepts were not clear. Success rate for this question was very poor.

**Question No. 4**

**(a) Positive wording – more efficient than negative wording:**

Hardly any answer was to the point. Here the examinees were required to first discuss in brief the importance of using positive or negative words in a message. Next they were expected to highlight the positioning of good news or bad news while writing a message. They left the topic incomplete by either discussing 'positive wording' or 'positioning of good or bad news'. Examinees should remember that if it is a good-news letter place the good news right in the beginning and convey a word or so as a goodwill gesture and if it is a bad-news letter they must use the first paragraph as a buffer statement and then break the bad news.

**(b) Purchase letter:**

This part of the question required examinees to write a letter placing an order for supply of required quantity of powdered milk. The letter was not written correctly by many both in format and in contents. Majority could not write their orders properly as per directives given. Apart from the fact that poor English was used in the letter, the draft letter unnecessarily included many points which would have been avoided, as these served no purpose.

**Question No. 5**

**(a) Notice and agenda of an extra-ordinary meeting :**

In this part of the question examinees were required to write a notice and agenda for an extra-ordinary meeting and draft minutes of the meeting. Several examinees did not draft either the notice of extra-ordinary meeting nor did they draft the minutes of the meeting. Some wrote 'letter' instead of 'notice'. It seems that students are not familiar with the topic and have not had enough practice of writing minutes for the meeting. Most of them were unable to write the simple 'notice' for the meeting. Irrelevant 'agenda' and wrong format of 'minutes' writing made the writings not worthy of good award of marks.

**(b) Collection communications (follow up) to recover the payments:**

This question required the examinees to write a letter for collection of dues. But majority failed to write in correct format and structure. Writing proved that the examinees have no skills for writing such type of letters. Majority of them had written the steps or methods of writing letters for collection of dues, which revealed that they did not even understand the question properly. Many examinees described the philosophy and purpose of the notice, reminder and the ultimatum which was not required at all.

**Question No. 6**

**(a) "You" and "I" attitude:**

In this part examinees were asked to write the difference between "you" and "I" attitude. Answers to this part of the question were generally correct. The examinees seemed to understand the differences between 'You-Attitude' and 'I-Attitude' though their expressions were sketchy. Since it was a text-based question therefore, the performance of the majority of the examinees was good. In "you" attitude, you try to make the other party believe that they are more important and that in all dealings, negotiations, and decisions their interests have been looked-after and safeguarded very carefully. In "I" attitude, it does not work at all in dealing with people with whom you wish to carry out your business. It gives the other party a feeling that in all matters and decisions, their interests have not been considered justly and therefore they have a feeling of being let down.

**(b) Difference between "memo" and "letter":**

In this part, however, the similarities and differences between 'Memo' and 'Letter' were not clearly identified. On the whole, very few of them had the concept about these two writing materials. Success rate against this part of the question was not satisfactory. Both a memo and a letter contain messages. A 'memo' is used for established direct request within the same organization while a 'letter' is used for establishing contact with other organizations and people outside one's own organization.

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

**Question No.2**

**(a) Goodwill at Acquisition:**

In this question, the examinees were required to calculate goodwill amount at acquisition. Overall performance of the examinees was not satisfactory. A few were able to calculate the goodwill amount correctly. Following common blunders were observed in the scripts:

- Examinees were not able to calculate the consideration amount correctly as they did not calculate the present value of the 'deferred consideration' of Rs.79.7 million ( $100 \times 0.797$ ).
- While calculating the net assets attributable to the parent company at the date of acquisition, examinees did not apply the percentage of shares acquired by the parent company (i.e., 90%) correctly.
- Most of the examinees were not clear on the treatment of 'unrelieved tax losses' while calculating the goodwill, hence, they could not calculate the amount of 'deferred tax asset' correctly. Instead of calculating 35% tax on tax losses, they added the full amount of tax loss i.e., Rs.25 million to the net asset value.

**(b) Consolidated Income Statement:**

In this part of the question, the examinees were asked to prepare consolidated income statement for parent company and its subsidiary that was acquired during the middle of the current period. Most of the examinees did not solve the question properly. Overall performance of the examinees suggests that they need thorough study in order to have good grasp over the topic. Following common lapses were observed:

- Since shares of the subsidiary were acquired on October 1, 2008, hence, its revenue and expenses were to be consolidated for six months from October 1, 2008 to March 31, 2009. Instead, the examinees consolidated the same with the full year's revenue and expenses.
- A good number of examinees was not clear about the elimination process of inter-company transactions. For example, intra-group sales by the subsidiary (Rs.360,000) was to be deducted from the group sales and cost of sales. Similarly group unrealized profit (Rs.10,000) and fair value adjustment (Rs.5,000) were to be added to cost of sales.
- Majority of the examinees could not calculate the non-controlling interest correctly.

**Question No.3**

**Statement of Cash Flows:**

Examinees were asked to prepare 'statement of cash flows' using 'indirect method' as per the requirements of IAS-7. Overall, performance of the examinees was satisfactory. However, following shortcomings were noted:

- The examinees were required to calculate the 'net profit before tax' from the data given in the question. However, some examinees failed to calculate the same due to lack of clear concept of tax provision and actual tax payment during the period.
- Some examinees could not calculate correct depreciation amount i.e., Rs.400,000 (Equipment: Rs.300,000 and Building: Rs.100,000) mainly due to wrong treatment of depreciation on sale of equipment.
- Some of the examinees could not correctly calculate 'cash flows' from sale of equipment and land due to wrong calculation of profit or loss on sale of these assets.
- A few examinees did not calculate correct cash inflow from issuance of shares as they, wrongly, treated the amount of shares issued against redemption of TFCs as cash inflow, which was a non-cash item.
- A good number of examinees did not prepare sufficient 'workings' for relevant figures included in the 'statement of cash flows'.
- Payment of tax was not correctly worked out. Moreover, its placement was not correct in some cases. They showed it under 'working capital changes'.

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

##### **(a) Accounting for Construction Contracts:**

- (i) In this part of the question, the examinees were required to compute revenue and costs to be included in the income statement for the year ended December 31, 2009, using the 'proportion that costs to date bear to the latest estimated total contract costs' to determine the 'stage of completion' of the contract. Majority of the examinees could not attempt the question properly, perhaps due to their selective study of the topic. Following most common shortcoming was observed:
- They did not subtract the amount of materials (Rs.7 million), lying at the site for next year's use, from the cost incurred as of December 31, 2009 (Rs.65 million) in order to arrive at net costs incurred to date (Rs.58 million). Hence they could not determine correct 'stage of completion' (40%) and failed to compute correct amounts of revenue (Rs.74 million) and gross profit (Rs.16 million) to be included in the income statement for the period.
- (ii) This part required examinees to calculate the 'amount due from / to customer' and 'trade receivable'. A good number of examinees was not clear as to how to compute these amounts. The former could be calculated by adding 'cost to date' and 'revenue recognized' for the period and subtracting 'progress billings' from the resultant amount. The latter was just the difference of 'progress billings' and 'cash received from the customer'.

##### **(b) Basic EPS and Diluted EPS:**

This part provided the examinees with the data of ordinary share capital, earnings for the year and applicable tax rate in respect of a company. In addition, detail of two convertible loans was also given. Examinees were required to compute Basic EPS and Diluted EPS. They responded well to the computation of the former. However, in respect of the latter, they left a lot to be desired. Following common errors were witnessed:

- While calculating Basic EPS, they could not understand that 'earnings' meant profit available to the ordinary shareholders. They wrongly multiplied the amount of earnings (Rs.2.5 million) with the tax rate to arrive at the profit available for the ordinary shareholders.
- While computing the Diluted EPS, they were ignorant about the fact that only 12% loan, which was dilutive, was to be included in the calculation of Diluted EPS.

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

##### **(a) Revenue Recognition:**

In the light of IAS-18, examinees were asked to describe the (i) bases of recognizing revenue from royalties and dividends and (ii) disclosures required to be made by an entity in the financial statements.

As far as sub-part(i) was concerned, they had some knowledge of the topic. However, sub-part(ii) exposed their lack of knowledge of the relevant IAS. They mostly relied on their general knowledge of the topic and guesses rather than thorough study of the Standard.

##### **(b) The Effects of Changes in Foreign Exchange Rates:**

As per IAS-21, examinees were asked to elaborate (i) how a foreign currency transaction should initially be recorded and (ii) how the change in an entity's functional currency be applied? Answers to first sub-part by examinees were satisfactory to some extent but they attempted the second sub-part very poorly and answered it in an incoherent manner, which indicated that they did not understand the question properly. Some of them, unnecessarily, gave details about how a foreign currency was to be converted into local currency and else.

**(c) Revenue Account of Insurance Company:**

In this part of the question, the examinees were required to prepare revenue account for the year ended December 31, 2009. A good number of examinees attempted this question, but only a few were able to prepare the account correctly. Following shortcomings were noted:

- Adjustment for re-insurance transactions was omitted i.e., premium paid (Rs.81,500) to be adjusted against premium received from customers (Rs.434,950). Likewise, claims recovered from re-insurer (Rs.73,900) was to be set off against total claims admitted during the year (Rs.212,200).
- They posted outstanding balance of statutory fund to the revenue account; resultantly they calculated wrong surplus / deficit amount.
- Instead of proper format of the revenue account, they produced T-account of the same.

**Question No.6**

**(a) Financial Reporting in Hyperinflationary Economies:**

As per IAS-29, examinees were asked to describe (i) the bases of preparation of financial statements when an economy ceased to be hyperinflationary and (ii) the disclosures to be made by an entity.

Again, poor responses were elicited from the examinees. It seemed that some examinees did not read the question carefully and listed the circumstances in which financial statements are prepared under hyperinflationary economy. Some of them provided definition of financial reporting as per IAS-1 that was not asked.

**(b) Operating Lease:**

In relation to a five-year operating lease, examinees were provided with such data as advance payment of Rs.250,000, four rentals of Rs.100,000 each payable at the end of each year, cost of the plant and its useful life. Examinees were supposed to (i) compute the amount of annual rental income to be recognized over the lease period and (ii) produce extracts of income statement and statement of financial position. Performance of the examinees remained unsatisfactory. Following shortcomings were noted:

- Majority attempted this question and showed the depreciation and carrying value of the leased asset correctly but failed to show the correct amount of 'deferred income' in the statement of financial position. If any examinee succeeded in showing it, he/ she could not apportion it between current and non-current components.
- A good number of examinees attempted this question but majority failed to calculate the correct annual rental income ( $\text{Rs.}650,000 / 5 = \text{Rs.}130,000$ ).

**(c) Compound Financial Instrument:**

This part tested the knowledge of examinees regarding compound financial instrument and provided data in respect of a convertible loan that was to be redeemed at par after four years. Examinees were expected to account for this transaction if all the persons opted for conversion of loan into shares at the end of four years. Most of the examinees were unable to perform satisfactorily in this part. Following common mistakes were observed:

- A good number of examinees attempted this question but failed to calculate the correct amounts of PV of liability component [ $\text{Rs.}5,048,700$  (PV of interest =  $\text{Rs.}950,700$ ) + (PV of principal =  $\text{Rs.}6000,000 / 3.169 = \text{Rs.}4,098,000$ ) and equity component ( $\text{Rs.}951,300$ ).
- They were ignorant about the fact that an amount of  $\text{Rs.}2,000,000$  ( $10/30 \times 6,000,000$ ) was to be transferred to share capital account and remaining amount of  $\text{Rs.}4,951,300$  ( $6,951,300 - 2,000,000$ ) was to be transferred to share premium account at the date of conversion.

**EXAMINERS' COMMENTS**  
**SPRING 2010 EXAMINATIONS**  
**INTEGRATED MANAGEMENT**  
**Stage – 4**  
**SECTION – “A”**

**Question No. 2**

**(a) Approaches to pursue a concentration strategy:**

Most of the examinees were able to describe three approaches to pursue a 'concentration strategy' through market development, product development and horizontal integration. However, some of them could not explain the conditions when each approach may be used. The examinees must be clear about these approaches and their conditions to solve the real problems in the market. A 'concentration strategy' is one that focuses on a single product or service or on a small number of closely related products or services.

**(b) Short-range, intermediate-range and long-range objectives:**

Majority of the examinees had a good idea to differentiate short-range, intermediate-range and long-range objectives and were able to explain the matter satisfactorily. An objective is a statement of what is to be achieved. Objectives are normally stated in terms of a desired level of attainment within a specific timeframe. Objectives can be classified as either short-range or long-range. Many managers use only short-range and long-range objectives while some utilize intermediate-range objectives.

**(c) Origins of organizational culture:**

The examinees were able to explain and define organizational culture. Most of them identify the origins correctly but in some cases the explanation of four origins – history, environment, staffing and socialization was not satisfactory. They must have a clear idea about organizational culture, which plays pivotal role in business environment.

**Question No. 3**

**(a) Weaknesses that may affect in setting-up of a new small business:**

The question was simple and it was noted that majority examinees were able to explain weaknesses affecting setting up of a new small business. The understanding of each weakness will help the examinees to analyse small business financially and economically. Some of the weaknesses that may affect the setting-up of new business are lack of profit, poor cash flow, deficient in personal relations skills, marketing expertise, personnel management, business cycle etc.

**(b) Compliance based approach:**

Examinees were not able to provide relevant answers to this part on compliance based approach. However, few were able to illustrate examples to cover managing ethics and its pros and cons satisfactorily. A compliance-based approach is primarily designed to ensure that the company acts within the letter of the law, and that violations are prevented, detected and punished.

**SECTION – “B”**

**Question No. 4**

**(a) Skills required to become a successful manager:**

Each examinee must know the skills required to become a successful manager and how a project manager use these skills to solve problems in prevailing situation of a project. It was noted that first requirement of the question was tackled nicely, however, some of the examinees could not do justice to explain how does project manager display the skills as required in second requirement of the question. A successful manager must be of a participative style, be positive (but realistic), delegate tasks appropriately, build team spirit, a high tolerance for ambiguity, ensure all project documentation, use project management tools, listen to project team members, negotiate on funding, timescales, staffing and other resources, quality and disputes, technical expertise and experience, be flexible, show persistence etc. These skills are mandatory to become a successful manager.

**(b) Planning process:**

Most of the examinees wrote about planning and its importance. However, some of them were able to explain in detail the core processes satisfactorily. This part of the question also required graphical presentation of the processes of core planning and was answered / drawn only by few examinees. Planning is of major importance to a project because the project involves doing something which has not been done before. Core planning processes include scope planning, scope definition, activity definition, activity sequencing, activity duration estimating, schedule development, resource planning, cost estimating, cost budgeting and project plan development.

**Question No. 5**

**(a) Major processes of project communication management:**

Most of the examinees described the definition of communication, upward and downward communication and quality of good communication. The question never required this information. It desired to explain major processes of project communication management. It looks like the examinees are not aware of communication planning, information distribution, performance reporting and administrative closure, which are major processes of project communication management.

**(b) Major reasons for failure of projects:**

Majority of the examinees had a clear idea and knowledge regarding major reasons for the failure of projects. This knowledge will definitely help them during actual planning and implementation of a project. Some of the major reasons for failure of projects are unproven technology, changing client specifications, politics, poor project management etc.

**SECTION – “C”**

**Question No. 6**

**(a) Key elements of organizational design:**

Very few of the examinees were able to explain the answer of this question. 'Organizational design' is a process that involves decisions. There are six key elements of organizational design covering work specialization, departmentalisation, chain of command, span of control, centralisation and decentralisation.

**(b) Capability of a project team:**

This question was easy and simple thus nearly all the examinees described factors which would enhance the performance of a project team. Few examinees could not reply properly and cover some points / factors which rendered their answers inadequate. The performance of project team can be enhanced by emphasizing effective communication, collaboration and creativity, trusting, supportive environment, commitment, capacity for conflict resolution, high energy levels and enthusiasm and sincerity and faithfulness.

**Question No. 7**

**(a) 'Path goal theory':**

Most of the examinees explained 'Path Goal Theory' satisfactorily. They were also able to describe four leadership behaviours. However, in some cases specific leadership roles were missing or the explanation was not up to the mark. Path goal theory states that it's the leader's job to assist his or her followers in attaining their goals and to provide the direction or support needed to ensure that their goals are compatible with the overall objectives of the group or organization.

**(b) Stakeholders relationship management:**

Majority of the examinees did explain in details the definition of stakeholders, types of stakeholders, the importance of relationship between stakeholders and managers. Management researchers who have looked at this issue are finding that managers of high-performing companies tend to consider the interests of all major stakeholder groups as they make decisions.

**EXAMINERS' COMMENTS**  
**SPRING 2010 EXAMINATIONS**  
**CORPORATE LAWS AND SECRETARIAL PRACTICES**  
**Stage – 4**

**Question No.2**

(a) This part required definition of (i) Body Corporate and (ii) Special Resolution as given in the Companies Ordinance, 1984. Overall, performance of the examinees remained poor. According to the majority, body corporate is the company that is incorporated under the Companies Ordinance, 1984. They were not aware that this term also included a corporation sole and a co-operative society etc. As far as second sub-part was concerned, responses were more encouraging and they had a better understanding of the phrase. Nevertheless, some examinees wrongly explained the procedure and items for which the special resolution was desired. The majority failed to explain that if all the members entitled to attend and vote at any such meeting so agreed, a resolution might be proposed and passed as a special resolution at a meeting of which less than twenty-one days' notice is given.

**(b) Reduction of Share Capital:**

Examinees were asked to state the circumstances and mode for reduction of share capital of a company limited by shares under section 96 of the Companies Ordinance, 1984. Very few examinees explained separately the circumstances and mode for the reduction of share capital. Hardly anybody discussed the authority of Articles of Association. A few of them wrongly elaborated the procedure for special resolution and approval procedure from the Court.

**(c) Election of Directors:**

This part required the procedure for election of directors of a company having share capital as described under section 178 of the Companies Ordinance, 1984. A good number of examinees was found conversant with the relevant section. However, there were some examinees who were caught off guard and committed following mistakes:

- They wrote about the forms to be submitted and qualities of the directors and their spouses etc.
- Provision regarding publication of notice in newspapers, in case of a listed company, was not stated.
- Some of the examinee stated that the 'company' fixes the number of elected directors rather than the directors of the company.
- Some of the examinees incorrectly stated: 'the members have casting votes equal to the number of shares held by them, whereas subsection 5 of section 178 clearly states that a member shall have number of votes equal to the product of the number of voting shares and the number of directors to be elected'.

**(d) Issuance of Duplicate Share Certificate:**

Legal provision regarding the above matter was the subject matter of this part of the question. Excepting a small number of examinees, the majority replied in a general way. They wrote about publishing of advertisement and filing of FIR, which was not the requirement of the question. Moreover, they kept using the word 'lost' but they did not mention that duplicate share certificate could also be issued if the original certificate was destroyed, defaced, mutilated or surrendered.

**Question No.3**

(a) This part, comprising three sub-parts, asked examinees to elaborate (i) whether a company was justified in using money received from some suppliers, as security deposit, in the absence of any contract, (ii) what restrictions were imposed by the Companies Ordinance, 1984 on declaration of dividends and (iii) whether a member was entitled to obtain the copies of the balance sheet, directors' report and auditors' report?

While responding to sub-part (i), hardly anyone knew the precise law but their responses were partially correct. Very few could write that a separate bank account was required for such deposit. They only discussed the justification of utilization of such fund.

In relation to sub-part (ii), only a few examinees could write proper requirements of the Ordinance. Once again, their replies were partially correct. Some of them also discussed the dispatch of dividends and penalties for delayed payment thereof etc., which was not desired. None of the examinees discussed clause 66 of the First Schedule. In short, they unnecessarily went on defining the time period within which dividend was to be paid, disclosure requirement, in how many years a company was required to pay dividend, dividend to be paid out of profits etc.

Sub-part (iii) proved to be a popular question among the examinees and generally they performed well. However, some of them unnecessarily wrote about the publication and time period within which the accounts were to be disseminated to the shareholders. Very few examinees wrote that payment was to be made by the member to acquire the copy of the accounts if demanded by the company.

**(b) Keeping of Books of Accounts:**

Focus of this part was the Section 230 of the Companies Ordinance 1984, which dealt with the above mentioned matter. Examinees responded satisfactorily and seemed to have read relevant section. All the same, following shortcomings were observed:

- Examinees unnecessarily described the names of all the registers that a company maintained, by whom they should be audited and penalties against non-maintenance instead of restricting themselves to the requirement of the question.
- The majority of the examinees depended upon their general knowledge and mentioned books like general ledger, trial balance, balance sheet and profit & loss etc.
- Some of them discussed the review/examination of books by the directors/members, which was uncalled for.

**(c) Application of Share Premium:**

It was a well-attempted part. It seemed many of them knew it by heart. There were a few examinees who did not know what to write, all the same. Some of them, without understanding the requirement of the question, explained the nature of share premium account and how it was created.

**Question No. 4**

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

Section 21 of the Securities and Exchange Commission of Pakistan Act, 1997 deals with the above matter. It proved to be a difficult question for the examinees. It seems they did not bother to study the said Act. As a consequence, they mostly relied on their general knowledge and presumptions. Following are common mistakes, they committed:

- They wrote the functions of the Securities and Exchange Commission of Pakistan instead of that of the Board.
- Points such as looking after company matters, directors' matters, non-reporting of statements from companies etc., were unnecessarily mentioned.

**(b) Incorporation of and Commencement of Business by Non-Banking Finance Corporation (NBFC):**

In this part, examinees were supposed to apprise the directors of a company, in a letter form, about the conditions imposed by the Companies Ordinance, 1984 for incorporation and commencement of business of a NBFC. As the examinees are not inclined to read any other rules or any other ordinance besides the Companies Ordinance, 1984, therefore, hardly any one knew what to write. Many wrote what directors had to do, what forms were to be submitted etc., whereas, this was uncalled for. Barely anyone mentioned section 282A, which was the requirement of this question. They committed following errors:

- They lacked writing skills and knowledge of the relevant section.
- Many examinees ignored the 'condition' of applying to the Securities and Exchange Commission of Pakistan (SECP) for grant of license for companies already engaged in any form of business as specified in section 282A i.e., investment finance services, leasing etc.
- The majority failed to comment in letter form. Some tried to write a letter to the Commission.

**Question No. 5**

**(a) Appointment and Non-Secretarial Functions of a Company Secretary:**

Examinees needed to (i) explain the section 204A of the Companies Ordinance, 1984 relating to the appointment of company secretary and (ii) list any four non-secretarial functions of a company secretary. Performance of examinees remained unsatisfactory. While replying to sub-part (i), they committed following errors:

- They wrote qualifications required by a company secretary.
- Many wrote that there existed no requirement of a company secretary.
- Some mentioned the time period within which a company secretary needed to be appointed.
- Many examinees failed to discuss specific requirement of a company secretary in respect of a single-member company.

For sub-part (ii), the majority described secretarial functions rather than non-secretarial functions.

**(b) Drafting a Notice:**

In this part, examinees were given the task of drafting a notice of an extra ordinary general meeting containing a 'resolution' for the issuance of bonus shares, in the ratio of ten shares for every 100 shares held, as declared and recommended by the Board of Directors. Hardly any one drafted the correct notice with a 'resolution'. They committed following common blunders:

- They kept on writing the agenda that was not asked.
- Many did not even know how to start writing a notice.
- Majority failed to mention the text of 'special resolution'.
- Point regarding fractional shares was not mentioned.
- No body discussed appropriation of reserves for bonus shares, terms of issue, empowerment of company secretary for all practical purposes for bonus issue etc.

**Question No. 6**

**(a) Agenda of General Meeting:**

Examinees were required to enumerate the contents of the agenda of a general meeting in respect of ordinary business. Majority responded satisfactorily to this part. In spite of this good showing by the examinees, some of them mentioned special matters to be taken care of in general meeting.

**(b) Functions of Central Depository Company:**

Examinees showed poor knowledge of the subject matter of the question and their replies were based on general knowledge and hunches with following shortcomings:

- They practically wrote that physical shares were kept by CDC and it performed cash transactions like banks.
- Some wrote that CDC helped in trading and also transferred shares on its own.
- While other wrote that an investor could do trading with CDC.

**EXAMINERS' COMMENTS  
SPRING 2010 EXAMINATIONS**

**FINANCIAL REPORTING  
Stage – 5**

**Question No.2**

**Consolidated Statement of Cash Flows:**

In this question, examinees were supplied with consolidated income statement as well as the consolidated statements of changes in equity and financial position. Moreover, relevant data of a subsidiary, which was disposed of during the current period, was also made available. Examinees were required to prepare 'consolidated statement of cash flows' using indirect method as per the requirements of IAS-7 (Statement of Cash Flows). Overall performance of the examinees was not satisfactory. Following common lapses were revealed in the scripts:

- While calculating the 'cash flows from operating activities' some examinees did not make adjustment for 'interest expense' and 'gain from sale of investment' in the subsidiary company, to the 'net profit before tax'.
- Some examinees could not calculate the 'changes in working capital' correctly mainly due to ignoring the changes occurred on account of sale of investment in the subsidiary company.
- While calculating 'cash flows from investing activities', some examinees did not calculate the cash flows from sale of investment in the subsidiary company correctly as they did not correctly account for the bank overdraft of the subsidiary company while calculating the sale proceeds. The cash inflow from the disposal should have been Rs.5,700 (5,000 + 200).
- While calculating 'cash flows from financing activities', a number of examinees did not calculate amount of dividends paid to 'non-controlling interest' (NCI) correctly.
- A good number of examinees failed to calculate opening and closing balances of 'cash and cash equivalents' correctly.
- Majority of the examinees did not show 'workings' to support their relevant figures.

**Question No.3**

**Income Statement and Statement of Financial Position:**

The examinees were required to prepare 'income statement' and 'statement of financial position' as per the requirements of applicable IASs/ IFRSs. Most of the examinees could not solve the question properly, which was evident of their loose grip over the relevant Standards. Following shortcomings were noted:

**Income Statement:**

- Most of the examinees could not calculate total sales correctly as Rs.365.2 million (378.2 – 13), since they did not make adjustment for the sales made on 'sales or return' basis (Rs.13 million).
- Likewise, the majority of the examinees could not calculate correct 'cost of sales' (Rs.175,450 – Rs.9,750 + Rs.42,430 = Rs.208,130) as they did not deduct 'cost of sales' relating to sales on 'sales or return' basis (Rs.9,750) and add depreciation expense (Rs.42,430) which was attributable to the manufacturing cost.
- A few examinees were not able to calculate 'other income' (the Govt. grant), which was to be recognized in the 'income statement'.
- Similarly, excepting a few examinees, a large number of examinees could not calculate total financial charges for the year correctly. This could be achieved by computing interest on two bank loans (Rs.11,325) and adding to it the interest amount of finance lease (Rs.7,500). From this aggregate, amount of interest capitalized in respect of qualifying asset (Rs.3,448) was to be deducted.

**Statement of Financial Position:**

- A good number of examinees could not calculate the correct amount of 'property, plant & equipment' and 'capital work-in-progress'. They needed to add costs of owned plant (Rs.184,300) and leased plant (Rs.100,000). Then from this sum, accumulated depreciation of owned plant (Rs.53,230) and leased plant (Rs.20,000) should have been subtracted. Amount of 'capital work-in-progress' could be obtained by adding amount of interest capitalized (Rs.3,448) to the opening balance (Rs.72,000).
- Likewise, examinees did not make adjustment of sales made on 'sale or return' basis in the 'Inventory' and 'trade debts' accounts. They were required to add Rs.9,750 (cost of sales on 'sales or return' basis) to the given amount of inventory. Similarly, 'trade debts' amount to be shown in the 'statement of financial position' could be achieved by deducting Rs.13,000 from the given amount of 'trade debts'.
- The 'retained earnings' account was also reflecting incorrect balance mainly due to wrong calculation of profit after tax.
- Majority of the examinees could not calculate the correct figures of current / non-current portions of 'obligation under finance lease' i.e., Rs.57,500 and Rs.25,000, respectively.
- Some examinees could not calculate correct ending balance of deferred income (Rs.20,000 – Rs.2,500 = Rs.17,500).
- A large number of examinees did not furnish relevant 'working notes'.

**Question No.4****(a) Recognition of Actuarial Gains and Losses:**

As per IAS-19, examinees were required to describe the treatment of net cumulative unrecognized actuarial gains and losses at the end of the previous period. A good number of the examinees attempted this part of the question but a few could answer satisfactorily. Some examinees preferred to explain its presentation in the balance sheet rather than its treatment as per the relevant IAS.

**(b) Share-based Payments:**

Examinees were required to account for the share options given to employees in the financial statements. Most of the examinees committed calculation errors, such as using incorrect number of employees to calculate the option for each year. The examinees should have realized that the option value was to be based on expected number of employees that would finally avail the option.

**(c) Accounting for Loans Receivables:**

In this part, a company made a 12% loan of Rs.500,000 to another company payable after six years. However, after five years, it was discovered that the debtor would be able to pay only Rs.336,000 instead of Rs.560,000 (inclusive of interest of Rs.60,000) at maturity date. Examinees were required to (i) account for this situation on the date of discovery of this fact in the financial statements and (ii) compute the amount of interest to be recognized at the date of maturity. Following errors were brought to light:

- Most of the examinees simply deducted the amount expected to be recovered from the total amount (principal plus interest) to arrive at the impairment loss. They had no idea that the amount expected to be recovered from the borrower was supposed to be discounted at the original effective rate of interest and then the book value of loan was to be compared with the discounted cash flow to work out the impairment loss.
- Similarly, examinees incorrectly computed the interest income based on 12% of the loan amount, whereas it should be the difference between the amount expected to be recovered and its present value i.e., Rs.36,000 (336,000 – 300,000).

**(d) Deferred Tax (IAS-12):**

The question required examinees to explain the deferred tax implication of revaluation of fixed assets. Very few examinees correctly explained the concept, whereas, the majority only calculated the deferred tax on the difference between the revalued amount and its tax base without any explanation.

**PROJECT / CASE STUDY**

This case study provided a statement of financial position, projected income statements from 2010 to 2014 and historical performance (i.e., sales and profit after tax for the years ended June 30, 2007 to 2009) of 'B' Limited etc. On the basis of above data, examinees were expected to (i) work out the share value of 'B' Limited using 'net assets valuation' and 'discounted cash flow' methods. They were also required to describe (ii) the factors usually to be considered while valuing shares of an unquoted company. Majority of the examinees performed well. Nevertheless, following observations were made:

- Net assets valuation method is quite simple but some examinees were unable to calculate the fair value of net assets, which could be worked out by dividing value of net assets with the total number of shares.
- Discounted cash flow method required lot of calculations relating to taxation, capital expenditure, working capital etc., which were mostly done correctly. Some examinees failed to calculate tax and working capital. Cash flow beyond year 2014 was wrongly calculated.
- Most examinees produced a lot of writes up from reading material, which was not required.
- In response to part(ii), a comprehensive list was provided by the majority of examinees. Few examinees just mentioned specific factors to be taken into account of two methods required in the question, rather in general.

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**EXAMINERS' COMMENTS  
SPRING 2010 EXAMINATIONS**

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

**Question No. 2**

**CVP Analysis:**

This question was on CVP Analysis and was very simple. Most of the examinees attempted this question correctly. However, some examinees distributed the additional capacity on pro-rata basis instead of highest contribution. Few examinees could not correctly compute the quantity of detergent powder. In some cases, fixed overheads were included before contribution margin which was contrary to the marginal costing.

**Question No. 3**

**Selection of Source:**

This question was on decision making related to finding of gross quantity of input material, selection of sources of supplier and price and annual profit. Very few of them could attempt this correctly. The most common mistake was in computing gross quantity. Instead of adding 15% to total output the examinees added first 5% and then on this added 10% more. This mistake made other calculations incorrect i.e., cost of material and distribution cost. Some examinees consider Taiwan in decision making which was the costliest source and had not to be considered.

**Question No. 4**

**(a) Supply Chain Management (SCM):**

This question was theoretical and on cost reduction strategies i.e., Supply Chain Management. Majority of examinees had attempted this question but due to insufficient skills could not succeed. Most of the examinees had considered it only as material/ inventory management. They could not properly write the benefits like supply chain management reduces the time cycle. It had been adopted by Japanese companies to achieve faster cycle time and higher quantity at lower cost through having closer relationships with their suppliers. Supply chain management helps in raising capital turnover ratio which ultimately helps in raising profits. By concentration on this system the company can reduce the number of its vendors and suppliers who are not improving the quality but also give price advantage.

**(b) Use of Probability:**

This part was on decision making with the use of probability. Majority of examinees had attempted this question correctly. However, a very common mistake was in computing expected production in units where examinees did not calculate the total of each product after applying probability.

**Question No. 5**

**Capital Investment Decisions:**

This question was on capital investment decisions requiring pay back periods. Some examinees added the cost of machines in evaluation. Likewise the depreciation was also added for payback computations. The decisions on pay back always depend on the recovery period of original investment rather than on higher profits. Most of examinees recommended Fully Automatic machine on the basis of higher profitability whereas it had to be Semi-Automatic machine due to payback period of 4 years as compared to 5 years for Fully Automatic machine.

**Question No. 6**

**Capital Investment Lease/ Buy with Time Value of Money:**

This question was on Capital Investment Lease/ Buy with Time Value of Money. Due to insufficient knowledge most of the examinees were failed to solve it properly. The performance of examinees was very poor. The common blunders were seen in computing tax on cash flows from operations and considering payment on account of cancellation of lease every year in full instead of net off after tax. Some examinees took into account the effect of Depreciation on Cash flows which had to be ignored. Depreciation must be deducted only from the Book value at the end of 5th year for the computation of Tax saving. Some examinees even could not calculate the net cash flow of Rs.62,500.

**EXAMINERS' COMMENTS  
SPRING 2010 EXAMINATIONS**

**RISK MANAGEMENT AND AUDIT  
Stage – 5**

**Question No. 2**

**(a) Significant Business Risk for New Surgery Facilities:**

Examinees failed to clearly state characteristics of financial, regulatory and operational risks and how opening of new surgical unit exposed the clinic to these risks. The examinees showed lack of knowledge of the principles of risk categorization and application in the given situation.

**(b) Approaches for Managing the Potential Risks:**

Examinees failed to provide clear understanding of various strategies like reduction, avoidance, transfer or retention used for risk management. Application of these principles were not correctly demonstrated in the answers.

**Question No. 3**

**(a) (i) Professional Skepticism:**

Majority of the examinees could not appropriately define the term "Professional skepticism and it appeared from their answers that most of them were not familiar with the term. An attitude of professional skepticism means the auditor makes a critical assessment, with a questioning mind, of the validity of audit evidence obtained and is alert to audit evidence that contradicts or brings into question the reliability of documents and responses to inquiries and other information obtained from management and those charged with governance.

**(ii) Ways in which Professional Skepticism is Helpful for Auditor:**

Majority of examinees failed to explain the application of the attitude of "Professional Skepticism" to handle and resolve the contradictions between audit evidence collected from two different sources. In the given example, auditor should inquire the management about the reasons for the differences, examine the documentations pertaining to the litigations where contradictions exists and should remain alert to encounter the possible existence of a fraud of intentional misrepresentations by the management. In case auditor is unable to resolve the matter he should consider to possible modifications to his opinion/ report.

**(b) Concept of Reasonable Assurance as per International Standards of Auditing:**

The term Reasonable Assurance was not adequately explained by the majority of the examinees. Examinees failed to demonstrate that the reasons for absolute assurance cannot be obtained because of inherent limitations of the audit, use of incorrect professional judgment and conclusion that the audit is not a guarantee that the financial statements are free from error. Audit Opinion does not assure future viability of the entity etc., that was also not stated in the answer scripts as well. Conclusively, not only the knowledge of basic guidance on auditing such as ISAs appears to be missing, the ability to apply and integrate the methodology provided under ISAs was also missing in most of the replies to this section of the question.

**Question No. 4**

**(a) Materiality and its Importance:**

Majority attempted to define the term "Materiality" but very few defined it in accordance with the description provided by ISAs. However, majority of the examinees were successful to explain the concept. Only few could adequately describe the importance of the materiality for an audit carried out under ISAs, which shows the lack of in-depth understanding of the concept.

**(b) Relationship between Materiality and Audit Risk and its Impact on Audit:**

Performance of the examinees revealed that they did not understand the inverse relationship between materiality and audit risk when determining the timing, nature and extent of audit procedures.

**(c) Reasons for Considering or not Considering the Cost Incurred on Launching the new Product on Advertisement and Publicity Expense as Material:**

Examinees rightly concluded the “advertisement & publicity” expense as material. However, quite a large number of the examinees could not explain the reasons properly. The obvious reasons are that the cost incurred on launching the new product is sizable and significant in monetary terms. Any misstatement in this area is expected to affect the rational decision making by the users on the basis of financial statements, therefore, these shall be considered material for the year under audit.

**(d) Key Areas of Audit Risk:**

Identification of key audit risk areas were required to be identified in this part of the question. Overall attempt of the examinees showed their lack of knowledge of the subject and failure to understand correctly what had been asked. Keeping in view, the inherent and control risk given in the question, three major areas were required to be focused i.e., export sales, advertisement publicity expense and arrangement with the supplier for supply of newly introduced products.

**Question No. 5**

**(a) Non Assurance Activities Prohibited by Code of Ethics:**

Almost all the examinees failed to list down the non-assurance activities prohibited by the Code of Ethics that include authorizing, executing or consummating a transaction, or otherwise exercising authority on behalf of the assurance client, or having the authority to do so, determining which recommendation of the firm should be implemented and reporting, in a management role, to those charged with governance.

**(b) List of Prohibited Services performed by an Auditor of a Listed Company in Stock Exchanges:**

Services prohibited by listing regulations were not known to the majority of the examinees. They had to mention services like preparing financial statements, accounting records and accounting services, financial information technology system design and implementation, significant to overall financial statements, and appraisal or valuation services for material items of financial statements etc. Because of poor knowledge of the topic the question was attempted on the basis of general perception.

**Question No. 6**

**(a) Importance of Acceptance Letter and its Contents:**

Some of the examinees mixed up the concept of “Acceptance letter” for cost audit with “Letter of engagement” for annual financial audit. Most of the examinees did not include the important points of the letter like the fact that management is responsible for the preparation of cost accounting statements, capacity utilization statements and inventory statements. Examinees did not point out the facts that because of the nature and other inherent limitations of an audit, together with the inherent limitations of any cost accounting system, there is an unavoidable risk that even some material misstatements may remain undiscovered. They could not explain point like basis of the billing such as the billing as work progresses, and to be based on the time required by the individuals assigned to the engagement plus out-of-pocket expenses etc., in their answer scripts.

**(b) Verification of Consumption of Material by Cost Auditor:**

The majority of the examinees demonstrated fair knowledge in describing how to verify material consumption. However, some examinees included general points vaguely.

**EXAMINERS' COMMENTS**  
**SPRING 2010 EXAMINATIONS**  
**STRATEGIC FINANCIAL MANAGEMENT**  
**Stage-6**

**Question No.2**

**(a) Altman's model for predicting bankruptcy:**

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

- Had no concept of Z-score index and its formula;
- Many examinees either put wrong values of coefficient or interpreted incorrect ratios for X1, X2, X3 etc;
- Some examinees did not correctly commented that Z-score index below 1.81 represents firms to become bankrupt and above 2.99, shows the sign of healthy firms and areas in between is one of misclassification.

**(b) Sustainable Growth Rate (SGR):**

Most of the examinees attempted this part of the question very well. However, a few mistakes committed by the examinees are as under:

- They did not apply the correct formula for calculating the sustainable growth rate (SGR).
- They were also not able to calculate correctly the Assets Turnover ratio, Debt Equity ratio as well as Equity multiplier.
- A few examinees incorrectly put the value of dividend payout ratio in the formula instead of value of retention ratio.
- Many examinees did not solve the formula/ equation correctly to find required rate of net profit margin.

**Question No.3**

**(a) Preparation of balance sheet incorporating the term loan and of next four years:**

This question was a classic example of a company that wants to grow faster than the growth in its retained earning but covenants restrict the growth. Unfortunately, almost all the examinees could not understand how to attempt the question and resultantly their performance remained below average. A few mistakes committed by the examinees are as under:

- Most of the examinees could not calculate the current liabilities simply by deducting the long term loans and owner's equity from the total assets. Resultantly, they could not find the correct figure of working capital and compare the figure of liabilities with 60% of the total assets.
- Most of the examinees either incorporated 24% growth in fixed assets or current assets although it was equally applicable to both categories of assets as clearly indicated in parenthesis given in the question. Eventually, they could not calculate the correct figure of capital expenditure.
- Many examinees did not reduce the current liabilities figure by payment of rupees nine million loan at the end of year 4.

**(b) Alternative for arranging the working capital under the annual percentage (%) cost method:**

The overall performance was good in this part of the question. However, a few examinees calculated the cost of factoring on monthly basis instead of on annual basis. A substantial number of examinees failed to calculate the correct figure of net borrowing cost of Rs.30,000 (Rs.120,000 – bad debt Rs.90,000) against accounts receivable.

**Question No.4**

**(i) Net Present Value of the project:**

The examinees performed well while calculating the initial NPV of the project. However, the examinees performed poorly under the option to expand the project. A few mistakes committed by the examinees are as under:

- Many examinees incorrectly showed cash outflow in year 0 (zero) and year 1 instead of year 1 and year 2. Thus, they could not calculate the correct figure of NPV.
- Under the option of expanding the project, the probability of success of the project was 0.60. However, the examinees took probabilities incorrectly as 0.50 for each of Scenario I and Scenario II instead of 0.30 and they also did not take into account the 0.40 probability for initial NPV of the project.

**(ii) Expected value of the annual net cash flow and coefficient of variation Risk adjusted NPV of each project:**

The overall good performance was observed in this part of the question. However, examinees committed following common blunders:

- They could not correctly calculate the co-efficient of variation of both Projects A & B.
- They incorrectly calculated the NPV for Project-A and Project-B using the cash flow against the probabilities instead of using expected annual cash flow.
- Some of the examinees calculated the NPV of Project-A by applying discount factor @ 12% which was for more risky projects like Project-B.
- Most of the examinees did not have any idea that Project-B is more favourable being negatively correlated with the other cash flows of the firm.

**Question No.5**

**(a) &(b) Optimum capital structure by using various level of debt:**

The overall performance was below average in this part of the question. The examinees could not understand the question fully. The mistake committed by the examinees was to calculate the weighted average cost of capital (WACC) at the debt level of Rs.2 million, Rs.4 million and Rs.6 million respectively. In fact, examinees were required to find the value of the firm at different level of financial leverage by dividing the earning after tax (EAT) by appropriate cost of equity rate and adding it into the each debt level.

**(c) &(d) Equilibrium share price and EPS at various debt levels:**

- Most of examinees were lacking the idea that the repurchase price is the equilibrium price that would prevail after the repurchase transaction. Because, the original shareholders would sell their shares only at a price that has incorporated the increased value of the firm resulting from the repurchase. They were required to divide the value of the firm after deducting the debt as under:

$$\begin{aligned}\text{Price per share} &= (12,660,870 - 2,000,000) \div 525,714 \\ &= \text{Rs. } 20.28 \text{ (at Rs. } 4 \text{ million debt)}\end{aligned}$$

- Most of the examinees were also not able to correctly calculate the EPS at various level of debt. Since the firm pays out all the earnings as dividends, therefore, DPS = EPS.

**Question No.6**

**(a) Calculation of market ratios on acquisition of Green Limited:**

The overall good performance was observed in this part of the question. However, some of the examinees could not correctly calculate the exchange ratio between Blue Limited and Green Limited based on market price and P/E ratio used in acquiring Green Limited.

**(b) Calculation of appropriate discount rate for valuing acquisition:**

The overall good performance was observed in this part of the question. However, a few lapses were made by the examinees as enumerated below:

- While calculating the appropriate discount rate for valuing the acquisition of Star Cable Company (SCC), most of the examinees incorrectly took the value of beta as 1.40 instead of 1.50 (which was supposed to increase to 1.5 due to debt ratio of 50%).
- There were many examinees that did not correctly follow the pattern of income statement for calculating the annual cash flows for the year 2011 to year 2014. A few examinees did not deduct the cost of goods sold, selling & admin expenses out of sale.
- Some examinees either incorrectly calculated the interest expenses or deducted income tax @ 40% instead of 35%.
- Many examinees could not calculate the correct terminal value due to applying incorrect discount rate i.e., 12% instead of 14% for acquisition of SCC as calculated earlier.

**EXAMINERS' COMMENTS  
SPRING 2010 EXAMINATIONS**

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

**Question No. 2**

**(a) Product performance variables and performance measures:**

The question clearly asked for identifying performance variables and typical performance measures for each variable. Performance variables were not discussed correctly. Students were supposed to mention performance measures for / against each variable. For example, if 'quality' is a performance variable, typical performance measures for it would be 'defect rate per time', defect rate per quantity of output, rate of warranty returns and perceived quality according to customer. Similarly, specifying ways IS help was supposed to be integral part of the answer and few ways were needed to mention e.g., information systems can reduce internal cost of business process or increase productivity making it easier to charge or allocate lower prices to customers. Performance measures in each case were missing.

**(b) Neural network:**

Some examinees characterized 'neural network' as supposed to see, feel, look, sense etc., like humans. This term comes from attempts to 'model the way the human brain operates'. Also, neural networks are not expert systems. They both do come under artificial intelligence (AI) but neural networks operate based on totally different approach from expert systems, which rely on an expert's ability to express knowledge, while neural networks, in contrast, are used for tasks that have no pre-defined formulas or procedures. Procedure of artificial neural network was not explained well. Examples relevant to business were also missing, although other examples had been provided.

**Question No. 3**

**(a) Control techniques:**

Examinees failed to provide the relevant details to 'access privilege' and 'data flow' through networks and other media. Control technique must include What you know? What you have? (ID card, key to physical facility) Where you are? (Call-back system) and Who you are? (Fingerprint / handprint / iris pattern) and appropriate details associated with each of the above. Examinees did not highlight importance of these techniques in most of the cases. They were mainly focused on password and using firewalls.

**(b) Electronic commerce (e-commerce) model:**

Surprisingly majority of the examinees did not know what were e-commerce models. The question here was not what e-commerce is? Rather, it was a different set of a question asking e-commerce models. Moreover, 'Banks', 'Dell Computers' may be specific instances who are employing one or another e-commerce models but they are not an e-commerce model themselves. E-commerce models include business-to-consumer (B-to-C) relationships, business-to-business (B-to-B) relationships, business-to-employee (B-to-E) relationships, business-to-government (B-to-G) relationships, consumer-to-government (C-to-G) relationships and exchange-to-exchange (X-to-X) relationships.

**Question No. 4**

**(a) (i) Evaluation of audit strengths and weaknesses:**

The performance of the majority of the examinees in this part of the question was not upto the mark. Vague answers to this part was the main reason for not getting good marks. To develop an audit opinion the IS auditor considers a series of strengths and weaknesses and then develop audit opinions and recommendations.

**(ii) Control matrix:**

Majority of the examinees gave the irrelevant answers to this part. Control matrix employed was not explained well. Concept of materiality was not clear to examinees. A control matrix top axis depicts known types of errors that can occur in the area under review and known controls for detection and correction errors are placed on side axis. The matrix is then filled with a ranking method. Without outlining this feature of control matrix, it does not make much sense to justify how a control matrix can be employed to consider a series of weaknesses and strengths and then develop audit recommendations.

**(iii) Judging the materiality of findings:**

The performance of the examinees in this part of the question was average. Materiality is not about specifying 'material' in the report. The concept of materiality is a key issue when deciding which findings to bring forward in an audit report. Determining the materiality of audit findings is the assessment of what would be significant to different levels of management.

**(b) Telecommunication network disaster recovery methods:**

The performance of the examinees to this part of the question was below average. For disaster recovery, redundancy involving a variety of solutions like providing extra capacity, multiple paths between routing, dynamic routing protocols, provision for failure over devices, configuration files for recovery were the key points that were missing from most of the answers. Today, telecommunication networks are keys to business processes in both large and small organizations; therefore, the procedures to ensure continuous telecommunication capabilities should be given a high priority. Method for network protection are redundancy, alternative routing, diverse routing, long-haul network diversity, last-time circuit protection and voice recovery.

**Question No. 5**

**(a) Recovery strategy and alternative strategies:**

In general, examinees were able to mention what are the recovery strategies but the question demands were more than just mentioning what those strategies are. It was required to discuss the comparison of these strategies in terms of cost and duration of use and the risks associated. Discussions on cost and relevant risks were missing in majority scripts. Generally, each IT platform that runs an application supporting a critical business function will need a recovery strategy. Recovery strategies based on the risk level identified for recovery would include developing hot sites, warm sites, cold sites, mobile sites, duplicate information processing facilities, reciprocal arrangements with other organizations etc.

**(b) Change management process:**

Who initiated change management, aspects of authorization and the associated workflow for change management were missing from answers. A change management process must have a defined workflow and change request format. Deployment of changes and system documentation were not explained well. The change management process begins with authorizing changes to occur. For this purpose, a methodology should exist for prioritizing and approving system change requests. Change requests are initiated from end users as well as operational staff, and system development/ maintenance staff.

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**EXAMINERS' COMMENTS  
SPRING 2010 EXAMINATIONS**

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

**Question No.2**

**(a) Definition of strategic management and stages of strategic management:**

The examinees performed well in this part of the question. However, some of the examinees did not properly define the strategic management and kept on explaining the meaning and scope of strategic management. In the same way, while explaining the stages of strategic management, a few examinees gave very lengthy as well as irrelevant answers. The examinees are required to understand that marks are awarded based on logic of arguments and clarity of exposition instead of length of answers.

**(b) Reasons for poor or no strategic planning:**

An average performance has been observed in this part of the question. Most of the examinees just listed the reasons for poor or no strategic planning and did not explain the topic with convincing arguments.

**(c) Guidelines for integrated strategies:**

Most of the examinees attempted this question very well and secured good marks. However, a few examinees were not able to understand the question and they started explaining the intensive strategies, diversification strategies and defensive strategies instead of 'forward integration', 'backward integration' and 'horizontal integration'. Those who know the types of integration strategy, incorrectly explained them, which shows that they had no fair idea of integrated strategies.

**Question No.3**

**(a) Nature and Characteristics of mission statement:**

The examinees performed poorly in this part of the question. Most of the examinees incorrectly started explaining mission statement and nine components of a mission statement, which was not required. A few examinees just listed the characteristics of mission statement. There was hardly any examinee that justified the topic.

**(b) Nature of external audit and process of performing external audit:**

Most of the examinees incorrectly mentioned the key external forces under the heading of the process of performing an external audit. Although, they were supposed to pen down the "key external forces" as part of "the nature of an external audit". In the same way, most of the examinees did not cover all the aspects of the process of performing an external audit. In this connection, there was hardly any examinee that mentioned the key external factors emphasized by Freund in support of his arguments.

**(c) Management audit check list of questions to assess weakness and strengths:**

The examinees did not perform well in this part of the question. In fact, almost all the examinees were not having any fair idea of the topic, though; they tried to attempt it by producing irrelevant details. Some of the vital questions are: Do managers at all hierarchical levels plan effectively?, Does the firm use strategic-management concepts?, Is the organization's structure appropriate?, Are job descriptions and job specifications clear?

**Question No.4**

**(a) Strategies developed based on SWOT matrix and steps involved in constructing the SWOT matrix:**

The overall performance was just an average in this part of the question. Some examinees correctly listed the strategies developed based on SWOT matrix but they did not convincingly explain these strategies. There were very few examinees who gave relevant examples in support of their arguments. In the same way, most of the examinees did not mention the steps involved in constructing the SWOT matrix in their proper sequence without any distortion. Moreover, few examinees were able to construct the matrix with all details.

**(b) The tactics used by politicians:**

The overall performance remained below average in this part of the question. Most of the examinees either just listed the tactics used by politicians or incorrectly explained them by giving irrelevant details. These tactics include: Equifinality, Satisfying, Generalization, Focus on Higher-Order Issues and Provide Political Access on Important Issues.

**(c) The causes of conflict and different approaches to manage the conflict:**

The overall good performance was observed in this part of the question. A large number of examinees did not develop the topic by giving relevant reasons of conflict, which may occur e.g. due to interdependency of objectives and competition for limited resources. However, they were able to express the different approaches to manage the conflict without fully explaining the approaches.

**Question No.5**

**(a) Basic questions for reviewing the strategy to assess the achievement of firm's objectives:**

Most of the examinees did not correctly attempt this part of the question. They were not having any fair idea and just gave irrelevant details while explaining the basic questions for reviewing the strategy to assess the achievement of firm's objectives. Among basic question are: Why are competitors making certain strategic changes? How have competitors' strategies changed? Why are some competitors' strategies more successful than others?

**(b) Reviewing basis of strategy and quantitative and qualitative measures for evaluation:**

The overall performance was just average in this part of the question. The examinees were required to give some key financial ratios like profit margin, market share, ROI, sales growth, assets growth, ROE, debt to equity and EPS. In response, many examinees mentioned almost all the ratios, which were given in the next question. Some examinees incorrectly mentioned the various categories of ratios like profitability, activity, solvency, liquidity and marketability ratios. Moreover, they were not able to express the qualitative measures for evaluation especially the qualitative questions e.g. Is the strategy appropriate in view of available resources? Is the strategy internally consistent? Is the strategy consistent with the environment?

**Question No.6**

**(a) Performance Measurement by financial ratios:**

It was expected that examinees would perform well in this part of the question, but overall performance was just an average. Many examinees did not correctly interpret what each of the financial ratios measures reveal about the financial soundness of the firm. Some of them just describe the way of calculation e.g. gross profit ratio means that gross profit is divided by sales.

**(b) Analysis of company's performance and grant of loan by the bank in the light of 3 years ratios:**

In this part of the question, many examinees did not correctly calculate the financial ratios for the three years especially the total debt to net worth ratio and long-term debt to total capitalization. Most of the examinees did not analyse the financial statement of XYZ Company in a professional manner. They offered very unconvincing arguments in favour of granting the short term and long term loan to the company by the banker. More importantly they failed to discuss liquidity and indebtedness of the company. They also missed to explain the reasons specifically for not granting the loans.