

**EXAMINERS' COMMENTS
SPRING 2013 EXAMINATIONS**

**FUNDAMENTALS OF FINANCIAL ACCOUNTING
Semester-1**

Question No. 2

(a) Preparation of Statement of Profit or Loss (SPL):

Examinees were required to prepare "Statement of Profit or Loss" of a limited company as per IAS-1 (revised), but majority of them did not follow instructions. Some examinees prepared the financial statements in tabular form. In addition to this, only few examinees prepared schedules of cost of sales, distribution cost and administrative expenses separately, while the other examinees showed these costs and expenses directly in the statement of profit or loss. Almost all examinees tried to attempt this question, however, they made following errors:

- Many examinees did not mention proper heading showing name of the company, name of the statement being prepared and accounting period thereof.
- Many examinees could not differentiate between figures given in '000' and figures given in full. They mixed up both type of the figures and because of this confusion they miscalculated the answer.
- Some examinees passed the adjusting entries though these were not required.
- Mostly examinees treated "carriage inward" as administrative expense or distribution cost rather than showing it as an element of "cost of sales".
- Mostly examinees did not allocate the depreciation expense of Rs. 3 million at 60%, 25% and 15% to cost of sales, distribution cost and administrative expenses, respectively. Some examinees included the entire amount of depreciation either in administrative expense or distribution cost.
- A few examinees could not differentiate between items relating to Statement of Financial Position (SFP) and items relating to SPL. They reported distribution cost in non-current assets.

(b) Preparation of Statement of Financial Position (SFP):

In this part of the question, examinees were required to prepare statement of financial position of a company. Almost, all examinees tried to attempt this question, however, they made following errors:

- Many examinees did not mention proper heading showing name of the company, name of the statement being prepared and date of preparation of SFP.
- A bad practice was observed that examinees were found copying whole question in answer scripts that resulted in wasting of their time.
- There were no proper classifications and sub-totals of current assets, non-current assets, current liabilities and non-current liabilities etc.
- Certain examinees seemed to attempt this question without any preparation. They incorporated many expense and income items in SFP like interest on long-term deposits, carriage inward etc.
- Suspense account could not be cancelled out by some examinees. It should have been dealt with as:

	(Rs.)	(Rs.)
Discount allowed A/c	153,000	
Suspense A/c		128,000
Staff Advance A/c		25,000

The question regarding preparation of financial statements is a repetitive question and is asked almost every time by the examiners. Despite that the examinees dealt with the question in a haphazard way and committed mistakes. Few examinees were familiar with the preparation of financial statements of a limited company and mostly treated it as financial statements of a sole proprietorship.

Question No. 3

(a) (i) Dual Aspect Concept:

This part required examinees to explain the concept "Dual Aspect". The question was very simple and easy. A good number of examinees attempted the question well, however, some examinees could not attempt the part due to lack of interest in accounting theory. They failed to answer the basis of the dual aspect i.e., $\text{Assets} = \text{Capital} + \text{Liabilities}$.

(ii) Relevance:

In this part, examinees were asked to explain the term "Relevance". Almost all the examinees failed to answer this part of the question. The answers were presented in different ways by the examinees. Many of the examinees tried to explain dictionary meaning of the word relevance. A brief answer to it was: "to be relevant, information must influence the economic decisions of users by helping them evaluate past, present and future events or confirming or correcting their past evaluation."

(iii) Neutrality:

This part of the question required the examinees to explain the term "Neutrality". The different answers given by the examinees were very disappointing as majority of the examinees was unable to answer the part correctly. Few examinees mixed it with "relevance" as well. A brief answer to it was: "information in the financial statements must be free of bias."

(iv) Completeness:

For this part, examinees were supposed to explain the term "Completeness". Hardly any of the examinees answered this part correctly. Examinees again tried to explain its dictionary meaning rather than explaining with reference to accounting context. A brief answer to it was: "to be reliable, information in financial statements must be complete within the bounds of materiality and cost."

(b) Adjusting Journal Entries:

In this part, four individual cases were given and the examinees were required to pass relevant adjusting journal entries to adjust year-end balance of 'allowance for doubtful debts'. A large number of examinees attempted this question yet mostly examinees failed to follow the proper requirement of the question. Common mistakes committed by examinees were as follows:

- The question clearly asked to record adjusting journal entries yet many examinees answered the question by means of making 'T' accounts and with the help of workings.
- Some examinees were able to calculate the required figures correctly but failed to pass the relevant adjusting entries.
- In case 3, a number of examinees tried to pass journal entry to adjust the closing balance of "allowance for doubtful debts" with different amounts, whereas, no adjustment was required as sufficient allowance for doubtful debts was already available.
- Besides above, a few examinees while recording adjusting entries, debited "allowance for doubtful debts" and credited "profit or loss account" whereas the actual treatment was vice versa.

(c) Sales Ledger and Purchases Ledger Control Accounts:

This part required examinees to prepare (i) sales ledger and (ii) purchases ledger control accounts. A large number of examinees attempted this part, however, few of the examinees could answer the question by showing proper format of the sales and the purchases ledger control accounts. Some examinees failed to follow the requirement of the question. The question clearly stated to prepare control accounts. Despite that some of them answered the question in statement form as well. However, overall performance was satisfactory. The common mistakes noted were:

- Wrong placement of opening and closing balances of respective accounts.
- Posting of cash purchases and cash sales in respective control accounts.
- Wrong treatment of "set-off" amount between purchases and sales ledger control accounts.
- Some examinees prepared sales account and purchases account in place of sales ledger and purchases ledger control accounts.

Question No. 4

(a) Calculation of Ratios:

The question required examinees to compute various ratios as given below:

- (i) Return on capital employed,
- (ii) Days of inventory disposed of,
- (iii) Days of collection from customers and
- (iv) Days of payment to suppliers.

Mostly, examinees were unable to mention the appropriate formulas, for the above ratios. The common mistakes observed were as follows:

- For calculation of 'return on capital employed' almost all examinees used either opening balance of capital or closing balance of capital instead of average capital.
- Examinees were unable to differentiate between formulae of calculating ratios in days (i.e., average inventory, receivables and payables divided by cost of goods sold, sales, and purchases respectively. The resultant figures were to be multiplied by 360 or 365 days) and in times (i.e., cost of goods sold, sales, and purchases divided by average inventory, average accounts receivable and average accounts payable). Almost all the examinees wrongly used the formulae of turn-over in times in place of formulae in days.

(b) Bank Reconciliation:

Here, examinees were asked to find balance as per bank statement from given balance of cash book.

Almost all examinees answered the question well. However, there were some examinees who did not understand the question. They tried to solve it by finding the adjusted balances of cash book and bank account.

Question No. 5

(a) Purchases Day Book:

In this part, it was required to prepare "Purchases Day Book" in a standard format. Although, it was a very simple question but a lot of examinees could not prepare it correctly. They committed following mistakes:

- It looks examinees did not know that only credit purchases were required to be entered in "purchases day book". They entered all transactions regardless of whether they were credit purchases or cash purchases because of the wrong concept of the topic.
- Some examinees produced theory of purchases day book.
- Some examinees presented purchases day book in journal form.
- A few examinees entered "purchases return" in purchases day book.

(b) Credit and Total Sales:

In this part, requirement was to compute (i) credit sales and (ii) total sales for the month. This part was attempted by most of the examinees but very few of them could compute it correctly. Some common mistakes were as given below:

- While computing the credit sales, some examinees ignored the closing balance of debtors from the calculation and some subtracted the debtors written off from closing balance of debtors instead of adding debtors written off to the closing figure of debtors.
- While computing credit sales, some examinees also added cash sales to the credit sales.

(c) Rectification Journal Entries:

There were few examinees that provided all correct journal entries. The majority provided the partly correct journal entries. Some common errors were as follows:

- Most of the examinees could not pass correcting journal entry of credit sales to Juma Khan, which was wrongly treated as credit purchase. The entry should have been passed as:

	<u>Rs.</u>	<u>Rs.</u>
Accounts receivable – Juma Khan A/c	6,400	
Accounts payable – Juma Khan A/c	6,400	
Sales A/c		6,400
Purchases A/c		6,400

- Commission income was debited and accrued commission income was credited instead of crediting the former and debiting the latter.
- Withdrawal of merchandise by the owner was recorded as cash debited and “drawings” credited in place of debiting “drawings” accounts and crediting purchases/merchandise account.
- Computer purchased on account was recorded by debiting purchases account and crediting accounts payable instead of debiting computer account and crediting accounts payable with the difference amount of Rs. 4,500 (Rs. 8,300 – Rs. 3,800).

Question No. 6

(a) (i) Personal Accounts:

This part required examinees to define “Personal Accounts”. Responses by examinees were poor as almost all the examinees lacked in basic accounting concepts, policies and conventions. Many examinees wrongly defined personal accounts as a personal (home) account of a proprietor of the business. A brief answer to this question is that personal accounts represent persons and organizations i.e., debtors and creditors accounts that are maintained for customers and suppliers.

(ii) Real Accounts:

This part required examinees to define “Real Accounts”. Majority of the examinees lacked in having distinction between “real” and “personal” accounts. Examinees tried to mix up the different definitions which showed lack of clear conceptual understanding. A brief answer to this question is that these are the accounts in which possessions are recorded like building, and machinery etc.

(iii) Nominal Accounts:

This part required examinees to define “Nominal Accounts”. Few of the examinees were able to define nominal accounts. Rest of them either lacked in theoretical knowledge or mixed up the definition with “real” and “personal accounts”. In brief nominal accounts are those accounts in which expenses, income, gains, losses, capital and owner’s drawings are recorded.

(b) Exchange of Non-current Asset:

- (i)** This part required examinees to calculate gain or loss on exchange of a machine.

The majority answered this part correctly. Examinees showed great confidence in answering the question by presenting appropriate workings. However, few examinees were confused as regards the treatment of ‘trade-in allowance’ while calculating cost of new machine. A few examinees though attempted the part correctly yet could not differentiate between gain and loss on exchange of machine clearly.

- (ii)** This part required examinees to calculate payment to be made for exchange of machine. Examinees performed well in this part as well. Majority of the examinees were able to gain full marks in this part of the question.

**EXAMINERS' COMMENTS
SPRING 2013 EXAMINATIONS**

**BUSINESS ECONOMICS
Semester-1**

SECTION "A"

Question No. 2

(a) Types of stakeholders and influence on the objective of an organization:

Majority of examinees have attempted this question and wrote the right answers. Some of examinees did not classify stakeholders as internal, external and connected, instead they directly wrote employees, management, shareholders, customers, suppliers, financiers, community, pressure groups and the Government. Most of students did write three ways stakeholders can influence the objective i.e., opposing, supporting, and participating. But some of the students were confused in writing conflicting aims of share holders and owners with management and employees. They were also confused in between objectives of external stakeholders and internal stakeholders.

(b) Profit maximization using total revenue and total cost approach:

This question was also attempted by a large number of examinees but diagram was not drawn accurately by most of them. Some of them discussed marginal revenue and marginal cost approach. Some of them discussed the equality of total cost and total revenue for maximum profit. It may be noted the level of output where a firm is able to obtain last possible amount of profit is known as point of profit maximization.

Question No. 3

(a) Types of risks and shareholder risk-return curve:

Majority of the examinees failed to define types of risks. Most of them showed the graph of Risk-Return curve showing minimum rate of return.

There are basically two types of risks: **Systematic and Unsystematic.**

Systematic risk is associated with investing in any equity in a particular section of the market while **Unsystematic Risk** is associated with investing in a particular firm.

(b) Direction of growth and difference among horizontal integration, vertical integration and diversification:

Most of the students only wrote headings and they failed to define them. Very few students gave the exact difference between horizontal integration and vertical integration. They also failed to give advantages and disadvantages of three different sorts of business expansions. Some of them only define horizontal integration, vertical integration and diversification

There are four potential directions of growth for a firm Which are as under:

- **Market penetration,**
- **Product development,**
- **Market development, and**
- **Diversification**

Question No. 4

(a) Law of supply and demand and their determinants:

Majority of the examinees had defined law of supply and law of demand correctly but few of them supported their answers with the right examples of both. Second part of the question is to write determinants of both Law of supply and law of demand which was not attempted by the majority.

(b) Externalities and different sorts of externalities:

Few examinees gave the correct answer of this question. They defined externalities very well but out of four sorts of externalities they only defined two i.e., positive externality and negative externality. Almost all of the students failed to illustrate the consequences of negative externalities in demand-supply framework.

SECTION "B"

Question No. 5

(a) Motives for foreign exchange dealing and factors determining demand and supply for a currency:

Some examinees did not attempt this question at all. Those who attempted this question were also confused between motives and factors. Motives for foreign exchange dealing include: transactions need, finance trade, investment projects, risk management, speculation. While factors of determining demand and supply include trade effects, portfolio effects, speculative effects. Graphical presentation was also not up to the mark. Some of them drawn graph well but were unable to explain it. From the response of the examinees it is seemed that they did not touch upon this topic.

(b) Aims and functions of commercial banks:

Some of the examinees were highly confused for aims with functions of commercial banks. They wrote functions as aims and vice versa. Some of them only wrote functions.

Question No. 6

(a) Unemployment and its types, and economic and non-economic cost of unemployment:

Most of the students had written the correct formula for the calculation of rate of unemployment. However, few of them divide total labour force by total population of a country instead of No. of unemployed workers divide by labour force. Most of the students failed to give the correct idea of frictional, structural and cyclical unemployment. They also mix economic cost of unemployment with non-economic cost of unemployment.

(b) Types of inflation and nominal and real income:

Almost all the students wrote the correct types of inflation i.e. demand-pull inflation and cost-push inflation but they failed to define them correctly. A large number of students could not differentiate between nominal income (dollars received as wages, rent, interest, or profits) and real income (the purchasing power of nominal income, or income adjusted for inflation). They took it before taxation and after taxation. Most of the examinees wrote that rich people are unaffected by inflation and poor people are affected by inflation.

Question No. 7

Principal source of short-term and long-term capital and advantages of financial intermediaries:

Performance of the examinees found average in this question. They only wrote name of sources of short-term capital(credit agreement including bank loans overdraft facilities, credit card, trade credit, hire purchase, lease finance etc.) and long-term capital (including issue of share capital, retained profits, long-term loans, debentures, venture capital, mezzanine finance etc) but very few defined them. Some of them gave answer in layman language as they did not thoroughly study this topic. Examinees defined financial intermediaries correctly but very few of them defined advantages of financial intermediaries i.e. ease of savings, provide liquidity, aggregation, maturity transformation, Security risk transformation etc.

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**EXAMINERS' COMMENTS
SPRING 2013 EXAMINATIONS**

**BUSINESS COMMUNICATION AND REPORT WRITING
Semester-1**

Question No. 2

(a) Complexity of business communication:

This question required explaining the factors which make business communication complex in detail like globalization of business, increase in workforce diversity, and pervasiveness of technology etc.

A few of examinees could understand the questions while all others applied typical mode of communication such as: sender, message, medium etc. Although question was quite simple but they couldn't comprehend what was required to do.

(b) Ethnocentrism and stereotyping:

Very large number of examinees could not answer this part of the question that ethnocentrism is a tendency to judge all other groups according to the standards while stereotyping is distorted views of other culture. It seems that they did not touch this part of the syllabus.

Question No. 3

(a) Oral communication:

Candidates were asked to explain why people use more oral communication than written. The answer was quite easy but most of them started explaining what oral communication is and what is written communication.

In any organization, as in everyday life, both formally and informally, we communicate more orally than in writing. In a business organization there are ample opportunities for both formal and informal oral communication.

(b) Strategy for writing routine requests:

In this part of the question a plan for writing routine requests was required to write. Instead of this, examinees start writing a letter of request or gave incorrect answers. Majority of the examinees failed to answer this part properly.

Question No. 4

(a) How speaker treats hostile question:

The focus of this question was to write about ways to treat hostile questions as legitimate request for information, which is focusing on the questioner, responding appropriately, maintaining control, encouraging questions and conclusion of presentation. Instead of this they wrote about 'preparation of presentation'. This was due to lack of understanding the question or may be they were unaware of the answer.

(b) Writing memo:

This task was very straight forward so it was attempted by almost all the candidates and most of them wrote well. Few of them used incorrect memorandum format.

Question No. 5

(a) Preparation tasks for meeting and factors considered important during meeting:

Only few students could answer this question well. Students mixed up preparation tasks before meeting i.e. purpose, select participants for the facility, and set the agenda, with proceedings during the meeting i.e. keep the discussion on track, follow agreed-upon rules, encourage participation, participate actively and close effectively.

(b) Writing resignation letter:

The requirement of the question was for writing a resignation letter which was attempted by almost all the examinees but some of them could not write correct letter format and some used informal style in business letter which was inappropriate.

Question No. 6

(a) Characteristics required to build, maintain or repair credibility:

This is very simple and straightforward question. Building credibility includes honesty, objectivity, awareness of audience needs, credentials, knowledge, and expertise, endorsements sincerity. Student found this question very difficult and could not attempt it correctly. Most of the students wrote irrelevant answers for this question.

(b) Components of formal proposal:

Majority of the examinees could not attempt this question completely as if they had not even touched upon the topic. Student should note that formal proposal contains the cover, title fly, title page, table of contents and list of illustration as in other formal reports. Moreover, it also includes the copy of request for proposal, synopsis (executive summary), letter of transmittal.

Question No. 7

(a) Common issues employers perceive as weakness:

In this task they were required to write only those issues which are considered as weaknesses in written résumé. Majority of the examinees did not know the answer so they started writing how to write résumé, difference between résumé and CV or types of résumé which was not required. Few of them knew the answer but they could not explain well.

(b) Report writing:

Formal reports are usually written by a committee or group after fairly detailed investigation or research. Most of the examinees attempted this question and they knew the correct answer as well but some of them were unaware of the difference between memorandum report and letter report. They couldn't explain well the different parts of report separately. Some of the candidates produced incomplete answers.

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**EXAMINERS' COMMENTS
SPRING 2013 EXAMINATIONS**

**COST ACCOUNTING
Semester-2**

Question No. 2

(a) Calculation of Missing Figures:

In this part examinees were required to calculate some ratios and comment about the performance of the companies on the basis of these ratios. But only few examinees were able to solve the question completely and accurately. Examinees were confused in the number of zeroes in million and lacs. Majority of the examinees were unaware of the formulae to be used in calculating ratios. Examinees were even not able to calculate income as a percentage of revenue, even though both values for calculating ratios were obvious in the question. This shows lack of knowledge about the topic.

(b) High and Low Method:

This part was attempted by majority of the examinees but only few could answer it accurately. However, following shortcomings were observed :

- Most of the examinees have only calculated the variable cost per unit and left all other parts.
- Examinees did not know that fixed cost remain constant with the level of activity and variable cost changes proportionately with the activity level.
- Nearly all examinees were unable to calculate cost function.

Question No. 3

(a) Journal Entries:

First two journal entries were correctly made by majority of the examinees. However, following errors were identified in the later part:

- Examinees closed over/under applied factory overhead (FOH) in finished goods instead of closing it in cost of good sold.
- Examinees were unaware of the fact that applied FOH is charged to production and actual FOH is recorded in a separate account known as FOH control account.

(b) Material Costing:

This was the easiest question in the paper. Simple formulae were asked from the examinees to check material management and costing concept. However, few examinees were able to correctly answer the question while majority did not know the correct formulae. Amongst all the requirements only few examinees were able to calculate economic order quantity. Most of the examinees were unable to put exact values in the formula.

(c) (i) Blanket Overhead Rate:

Most of the examinees defined blanket overhead rate but in a very general way. Instead, of writing proper definition some examinees resembled this rate with the FOH rate used in standard costing whereas few examinees wrote that it's a collective rate for all overheads.

(ii) Residual income:

A number of examinees could not answer the question. Those who attempted gave wrong and inaccurate answers. Following shortcomings were observed.

- Few examinees defined it as a left over income after all overheads were allocated.
- Some examinees considered it as interest income received from investing excess funds.

Question No. 4

(a) Allocation of Joint Cost:

In this part examinees were required to allocate joint cost using market value and Net realizable value method. Majority of the examinees attempted the question wrongly and incompletely. Common errors made by examinees are as follows:

- Examinees multiplied the difference of sales value at split of point and sales value after completion with the production of individual product in order to allocate joint production cost.
- None of the examinee had calculated the ratio of joint cost to market value or NRV.
- Few examinees accurately calculated NRV but unable to apportionate joint cost on the basis of NRV.

(b) (i) Accounting Treatment for By-products:

Few examinees correctly answered the question. Some examinees wrote that “a by-product of a company is very important for the production of main product of other companies so the company should set an acceptable rate for the sale of by-product”.

(ii) Reasons for High Labour Turnover:

Almost all the examinees generally answered the possible reasons for high labour turnover. However none of the examinees described the cost of labour turnover.

Question No. 5

(a) Service Costing:

This was the poorly answered question. Almost all the examinees attempted this question but few answered it correctly. Majority of the examinees were confused in simple calculations like multiplication and division which shows lack of basic concepts. Common mistakes identified were as follows.

- Majority of the examinees had shown all calculations for a period of 13 years instead of one year. Thirteen years was the useful life of asset and given in the question for the purpose of calculating depreciation.
- Few examinees did not include depreciation in the calculation of total operating cost.
- It was clearly mentioned in the question that drivers will be paid for 42 weeks but majority of the examinees have calculated labour cost for 40 weeks.
- Some examinees were even unable to calculate yearly depreciation expense using Straight line method.

(b) Calculation of Contract Cost:

Majority of the examinees left this question and there was hardly any examinee who answered it accurately. It was mentioned in the question that the contract price should be calculated on the basis of costing done in part Q. 5 (a), but examinees ignored this instruction and again calculated all the cost wrongly.

Few examinees accurately calculated contract cost but they were unable to understand that the total cost is 70% of selling price and they wrongly calculated profit as 30% of the total cost.

Question No. 6

(a) Standard Costing:

Worst performance was observed in this question. Major shortcomings noticed were as follows:

- Examinees were confused between Raw material and actual output therefore wrongly calculated Actual output by using formula of Material usage variance.
- While calculating labour rate variance examinees multiplied the difference of actual and standard rate with standard hours required to produce one unit, instead of multiplying the difference with actual hours worked.

(b) Reasons for Variances:

None of the examinees specifically answered the question. Instead of writing the reasons for favourable and unfavourable material price variance examinees described the conditions of these variances. Only few examinees mentioned the reasons but in a very general way.

**EXAMINERS' COMMENTS
SPRING 2013 EXAMINATIONS**

**BUSINESS MATHEMATICS & STATISTICAL INFERENCE
Semester-2**

Question No. 2

(a) Simplification:

This part was on basic algebra. Most of the examinees lacked the concept of basic algebra, so they could not do it well. While simplifying $\sqrt[6]{64x^{18}y^{12}}$, most of the examinees correctly simplified the part $\sqrt[6]{x^{18}y^{12}}$ as x^3y^2 . However, they could not simplify $\sqrt[6]{64}$ as 2. Similarly, while simplifying $\frac{(x+3)^2}{(x+1)^2} \div \frac{(x^2-9)}{(x^2-1)}$ they unnecessarily expanded $(x+3)^2$ and $(x+1)^2$. They should have factorised (x^2-9) and (x^2-1) as $(x-3)(x+3)$ and $(x-1)(x+1)$ respectively then the solution could have been achieved easily.

(b) Quadratic Equation:

This is second degree quadratic equation and such types of questions are regularly asked in this question paper. This part could be solved either by factorisation or quadratic formula but most of the examinees failed to do it correctly.

(c) Compound Interest:

This part of question was based on compound interest in which the examinees were asked to find the number of years in which an investment of Rs. 100,000 would grow to Rs. 250,000 at an interest rate of 18 percent per annum compounded quarterly. Majority of the examinees solved it correctly. However, there were a number of examinees who though used the correct formula, $A = P(1+i)^n$ but inserted the value of 'i' as 18 percent instead of 4.5 percent. Similarly they did not insert '4n' in place of 'n' in the formula.

Question No. 3

(a) Inequality:

This part was based on solution of second degree inequality. Examinees were required to find the values of 'x' for which the inequality was true. Most of the examinees were not able to solve it properly. Some examinees wrongly converted the inequality into an equation and then solved it.

(b) Revenue Function:

In this part, demand function of a firm's product was given in terms of price of the product. Examinees were required to (i) determine the price at which the revenue would be maximised (ii) find the total revenue at this price level and (iii) the number of units at this level of revenue. Solution of the question firstly required determination of revenue function. Then taking the first derivative of the same and equating it to zero would give the desired price level. Up to this point, responses of the examinees were satisfactory. However, thereafter, in order to find out whether revenue would be maximised or minimised at this price level, second derivative was to be determined. If the second derivative is negative then revenue would be maximum. Most of the examinees were found lacking here. Some examinees found second derivative correctly and concluded that the revenue was maximum at this price level but failed to mention the condition for maximum revenue i.e., 'R' (second derivative) is less than zero.

(c) Annuity:

Examinees were supposed to determine the present value of the mortgage loan for which monthly payment is Rs. 15,000 for 20 years at 18 percent per annum. Most of the students tried to solve it with the formula of compound interest instead of annuity. Some of the examinees did use the correct formula i.e., $A = R \frac{[(1+i)^n - 1]}{i(1+i)^n}$.

But they did not insert the correct values of 'n' and 'i'. They used the values of 'n' and 'i' as 20 years and 18 percent instead of 240 months (20 x 12) and 1.5 percent (18 percent ÷ 12), respectively.

Question No. 4

(a) Mode:

In this part, a frequency distribution of 75 car batteries was given and the examinees were required to calculate 'mode' of the distribution. It was very simple and straight-forward question based on calculation. Most of the examinees were familiar with the procedure to determine the mode; however, some examinees used the formula of 'median' instead of 'mode'. Some examinees used wrong denominator ignoring '+' sign in the formula i.e., $(f_m - f_1) (f_m - f_2)$ instead of $(f_m - f_1) + (f_m - f_2)$. Some examinees wrongly determined the value of the modal class (h) as 4 instead of 5.

(b) Skewness:

Response from the examinees was satisfactory. Some examinees, however, used numerator as (mean – median) instead of 3(mean – median). A few of them used variance in the denominator instead of standard deviation.

(c) Variance and Coefficient of Variation:

In this part, variance and coefficient of variation were required for the given grouped data. It was very simple and straight-forward question based on calculations. Most of them were familiar with the procedure to determine variance and coefficient of variation but a few examinees made calculation mistakes.

Question No. 5

(a) Correlation Coefficient:

Examinees were required to compute and interpret coefficient of correlation. Some examinees who computed the figure of correlation coefficient correctly failed to interpret it. A few of them interpreted the relationship as 'strong' instead of as 'strong positive' since the value of correlation coefficient was positive and approaching 1.

(b) Moving Averages:

In this part, 3 monthly moving averages were required for the sales of a product. Most of the examinees attempted it correctly. However, a few examinees just computed 3 monthly totals and failed to find out the relevant averages.

(c) Probability:

It was quite simple question based on 'probability' and 'permutation' rules but examinees had a lot of problems in understanding it. Hardly any of the examinees was able to solve it correctly.

Question No. 6

(a) Normal Distribution:

In this part, concept of normal distribution was used to find out the lowest 'B' grade in a Statistics examination. It was a simple question but most of the examinees made mistakes in using proper formula, calculations and finding table value of 'z'.

(b) Test of Hypothesis:

This part related to hypothesis testing which required certain steps to be followed i.e., stating null hypothesis, choosing alternate hypothesis, choosing a significance level, selecting appropriate test statistic, establishing critical region, computing value of test statistic and taking a decision. A small number of the examinees followed the above steps in the desired order. Mostly examinees failed to state the null hypothesis as $H_0: \mu = 4$. They stated it as $H_0: \mu > 4$ or $\mu < 4$. Some of them used the value of sample mean (i.e., 4.3) instead of 4 in the null hypothesis. Many examinees used wrong test statistic i.e., $z = \frac{\bar{x} - \mu}{\sigma/\sqrt{n}}$, which implies they did not know the difference between 'z' and 't' statistics. Some of them treated 'n' as the 'degree of freedom' instead of (n-1).

(c) Sampling Distribution of Mean:

Examinees were asked to construct sampling distribution of mean when random sample of size 2 are drawn with replacement from the finite population 4, 6, 8 and 10. Some of the examinees did it correctly but a few of them made mistakes while drawing samples. Some examinees drew samples without replacement instead of with replacement and some of the examinees made verification of mean and variance which was not required here.

**EXAMINERS' COMMENTS
SPRING 2013 EXAMINATIONS**

**COMMERCIAL LAWS AND PROFESSIONAL ETHICS
Semester-2**

Question No. 2

(a) Definition of "Ratio Decidendi" and its Main feature:

Most of the examinees failed to define the term and its features in a legal context and had shown a general understanding while attempting this part of question. Some examinees misconstrued the term and explain "Obiter Dicta" instead of defining "Ratio Decidendi".

(b) Differences between Criminal Law and Civil Law:

Few examinees highlighted the difference in specified legal context however, rest of them committed the following mistakes:

- Most of the examinees tried to explain criminal court and civil court etc.
- Examinees tried to explain the differences between criminal law and civil law on the basis of types of courts and types of Judges rather than types of Law and its consequences.
- Some of them provided wrong examples of courts and laws to elaborate the differences.

Question No. 3

(a) (i) Legal Rules of a Valid Consideration:

Most of the examinees attempted this part of the question but could not describe specific legal rules of a valid consideration. Instead of listing down the rules of a valid consideration, many examinees listed down the essentials of a valid contract, valid offer and valid acceptance etc.

(ii) Exceptions Which Make An Agreement Enforceable And Valid Without Considerations:

Majority of the examinees highlighted the types of agreements enforceable and valid without consideration but failed to explain the legal grounds for such validity. Some examinees discussed types of contracts such as implied and express contracts rather than exception which make an agreement enforceable and valid without consideration. Some of them mixed up the requirement of part (i) with part (ii) of question # 3(a).

(b) (i) Procedure of registration:

Following shortcomings were observed in this part:

- Due to lack of knowledge, majority of the examinees could not describe the complete procedure and discussed the contents of a partnership deed only.
- Some examinees mentioned that documents should be submitted to Government Department, Securities and Exchange Commission of Pakistan instead of "Registrar" which shows lack of understanding of examinees about concerned authorities and process.
- Some examinees explained the registration of partnership firm in connection with incorporation of companies and provide irrelevant detail.
- Majority of the examinees explained wrongly that it is compulsory to register a firm under the Partnership Act 1932 and focused on the benefits of registration in view of compulsory registration which shows an irrelevant approach to answer this question.
- Some examinees failed to provide their comments on registration of a firm and answered in "Yes" or "No" only, without elaborating the benefits of registration of a firm.

(ii) Acceptance of goods delivered by seller:

Most of the examinees attempted this part but the overall performance was not up to the mark. However, following mistakes were identified which shows lack of examinees' understanding about acceptance and salient features that make acceptance complete in a legal context:

- Examinees discussed acceptance in view of the Contract Act rather than the Sales of Goods Act.

- Mostly examinees did not identify the major elements of acceptance that is “assent or consent of the buyer must be there to accept the goods”.
- Some examinees commented and concluded on the basis of irrelevant contents that “mere receipt of goods is also an acceptance of goods according to the provision of law”.

Question No. 4

(a) (i) Endorsement:

Most of the examinees defined the term endorsement in a general sense by identifying the parties to endorsement i.e., endorser and endorsee. Moreover, following Common mistakes were identified:

- Examinees defined the term negotiable instruments in place of endorsement.
- In, some cases examinees discussed the types of endorsement instead of enumerating the essentials of valid endorsement.
- Few examinees mixed the privileges granted to a holder of a negotiable instrument in due course under the heading essentials of valid endorsement.
- Most of the examinees explained the negotiable instruments in place of essentials of valid endorsement.

(ii) Privileges Granted to a Holder of a Negotiable Instrument in a Due Course:

This part was well attempted by majority of the examinees and overall performance of examinees was more than the average. They demonstrated competence in identifying the privileges granted to a holder of a negotiable instrument in a due course; however in some instances answers were in more detail and general form than as required.

(b) (i) Case-I:

Majority of the examinees attempted this case and overall performance was more than better. However, in most cases it was observed that the examinees failed to identify the major element of agreement i.e., “time of delivery” and make it bound to accept the wheat.

(ii) Case-II:

Performance of the examinees was good however, some of them failed to identify the timing difference of reading the email and letter when both the email of revocation of acceptance and letter of acceptance reached at the same time.

(iii) Case-III:

Examinees demonstrated a poor knowledge about partner's liability to each other and substantiate their answers with irrelevant reasons and wrongly concluded that partners are not liable to each other in case of committing illegal activities such as bribes, fraud and so on.

(iv) Case-IV:

Majority of the examinees correctly answered that a minor is not liable for endorsement while most of them did not discuss the liability of Mr. Arshad.

Question No. 5

(a) The Employer shall not be So Liable:

Performance of the examinees was average in this part. However, shortcomings observed are as follows:

- Majority of the examinees discussed the situations where employer was liable for compensation instead of describing the situations where employer is not liable for compensation.
- Some examinees discussed the types of disability and their compensation.
- Some of them misapprehended the question and discussed compensations attributed to the disablement which was irrelevant.

(b) (i) Definition of Term “Badli”:

Well attempted by the majority of the examinees. However, some of them unable to define “Badli” in a specified legal context. Few of the examinees defined the term “Badli” as transfer of employees from one department or office to another department or office.

(ii) Notice or Wages in Lieu thereof when Badli is Terminated by the Employer for reasons other than Misconduct:

Most of the examinees tried to attempt this part through guess work and treated badli as permanent employees. Some of them mentioned notice period and wages in different number of days and amounts respectively instead of providing correct answer that “badli shall not required to give any notice or pay any wages in lieu thereof to the employer if he leaves employment of his own accord”.

(iii) Notice Period or Wages, if Badli Leaves Employment on His Own Accord:

In this part examinees committed the same mistake as in part 5 (b) (ii). Most of the examinees treated badli as permanent employees by presenting their answers in term of the notice period for one month or one month wages in lieu of notice.

(c) Provisions Under the Employee’s Old Age Benefits Act, 1976 related to Industry or Establishment having a Certain Number Of Employees:

- In Q.5 (c) (i) most of the examinees did not mention the minimum number of employees needed for application of law.
- In the second part mostly examinees presented their answers in “Yes” or “No” only. Some of them wrongly answered that law would apply only in one month when employees were above the minimum numbers.
- In part Q. 5(c) (iii) overall performance was more than better and mostly examinees gave a very brief answer in “Yes” format without substantiating any reason.

Question No. 6

(a) Provisions related to Bid Validity Period Under the Public Procurement Authority Rules:

Part Q.6 (a) (i) & (ii) were accurately answered by most of the examinees, but in part (a) (iii) most of the examinees answered partially and did not mention the implication of forfeiting of bid security when a bidder withdraws his bid.

(b) Five categories of threats for compliance with the fundamental principles of SAFA Code of Ethics:

Mostly examinees attempted this part. However, overall performance was not up to the mark. Shortcomings identified are as follows:

- Majority of the examinees did not understand this part and discussed the fundamental principles of the SAFA Code of Ethics [i.e., (a) Integrity (b) Objectivity (c) Professional Competence (d) Due diligence (e) Confidentiality and (f) Professional Behaviour] instead of specifying the categories of threats.
- Some of the examinees adopted a very wrong approach and discussed the general threats faced by a Professional Accountant, such as threats to his life, threats to his family, the threat of losing jobs and the threat of losing his social status and so on.

(c) The situations where an accountant in practice shall not concurrently engage in any business, occupation or activity which is inconsistent and incompatible with the provision of professional services to clients:

Most of the examinees attempted this part. However, they followed a wrong approach and discussed the attributes of a Professional Accountant such as his knowledge of accountancy, expertise, experience and competencies. Examinees have inadequate knowledge of the IFAC Code of Ethics. They failed to highlight the situations that may create a conflict of interest, may harm professional reputation and may raise a question of integrity to a Professional Accountant during discharging his professional duties.

**EXAMINERS' COMMENTS
SPRING 2013 EXAMINATIONS**

**FINANCIAL ACCOUNTING
Semester-3**

Question No. 2

Financial Statements:

In this part of the question, examinees were required to prepare:

- (a) Statement of Profit or Loss and Other Comprehensive Income;
- (b) Statement of Changes in Equity; and
- (c) Statement of Financial Position.

Majority of the examinees attempted this question but overall performance was not satisfactory. Following common mistakes as given under each statement were noted:

(a) Statement of Profit or Loss and Other Comprehensive Income:

- A good number of examinees could not calculate the correct amount of revenue (Rs. 237.8 million) due to wrong calculation of revenue related to after sales service Rs. 8.8 million [Rs. 10 million – (Rs. 300,000 x 3 years x 100 / 75)]. The examinees seemed to have no concept of this aspect of revenue.
- Likewise, cost of sales was not calculated correctly mainly because of wrong calculation of depreciation of fixed assets (being part of the cost of sales). Some examinees calculated the depreciation using straight-line method while it was clearly mentioned in the question to calculate the same on written-down value method.
- Some examinees could not calculate the administrative expenses correctly. Surprisingly, a few examinees added the loan notes issue cost to the administrative expenses given in the trial balance instead of deducting the same from administrative expenses.
- Similarly, majority of the examinees could not calculate correct amount of income tax expense. Tax expense was to be calculated as given below:

	<u>Rs. '000'</u>
Current tax: Rs. 20,000 x 35%	7,000
Deferred tax: Rs. 10,000 x 35%	<u>3,500</u>
Total tax expense	<u>10,500</u>

- Most of the examinees did not mention the gain on revaluation of land correctly. The examinees did not have clear concept of other comprehensive income. Some mentioned the gain amount under 'other income'.

(b) Statement of Changes in Equity:

In this part of the question, the examinees did not perform well. Some common mistakes noted were:

- Due to wrong calculation of profit, examinees could not prepare statement correctly.
- Some examinees even did not incorporate the amount of revaluation gain on property, plant and equipment (PPE).

(c) Statement of Financial Position (SFP):

Almost all examinees attempted this question but there were some mistakes as follows:

- A few examinees could not calculate correct amount of property, plant and equipment due to wrong calculation of depreciation.
- Some examinees did not include revalued amount of land therein.
- Similarly, under equity portion, a good number of examinees could not mention correct amount of retained earnings as of June 30, 2013 since they could not compute profit for the year correctly.

- Under non-current liabilities, a few examinees were able to calculate the correct amount of 6% loan notes Rs. 24 million (Rs. 25 million – Rs. 1 million) since either they ignored the issue cost altogether or added the same to the 6% loan notes.
- Likewise, under current liabilities, only a few examinees were able to mention current portion of deferred revenue related to after sales service Rs. 0.4 million (Rs. 1.2 million x 1/3) and current tax liabilities Rs. 7 million (Rs. 20 million x 35%) correctly.
- While preparing the workings to support their answer, the examinees were lacking clarity of presentation.

Question No. 3

Statement of Cash Flows:

The examinees were required to prepare “Statement of Cash Flows” along with reconciliation of cash and cash equivalents using indirect method as per IAS 7. The question was well attempted by majority of the examinees. However, following mistakes were noted in the scripts:

(i) Cash Flows from Operating Activities:

- While calculating the cash flows from operating activities a few examinees started calculation with operating profit (Rs. 1,598,000) but at the same time made adjustment for interest income (Rs. 343,000) and financial charges (Rs. 455,000).
- Some of the examinees did not make adjustment in the profit before tax amount for the interest on long-term loans correctly. They mostly added back Rs. 455,000 to the profit before tax instead of Rs. 452,000 since the former included Rs. 3,000 as bank charges, which was to be eliminated from Rs. 455,000.
- A good number of examinees could not calculate the correct amount of depreciation (Rs. 1,772,000) mainly due to wrong or no adjustment of depreciation for disposal of plant and machinery.
- While calculating changes in working capital, some examinees could not calculate the correct amounts of changes in ‘advances, deposits and prepayments’ and ‘payables, accrued and other liabilities’ since they did not make adjustments for ‘interest receivable’ and ‘interest payables’ balances as of June 30, 2012 and 2013.

(ii) Cash Flows from Investing Activities:

- A large number of examinees were not able to calculate the cash outflow for purchase of plant and machinery (Rs. 2,513,000) mainly due to wrong adjustment for the disposal of assets.
- A good number of examinees did not calculate correct cash inflow against interest received (Rs. 318,000) since they did not include interest income (Rs. 343,000) in the relevant working.

(iii) Cash Flows from Financing Activities:

- Some examinees incorporated the amount of cash outflow against repayment of short-term loan (Rs.19,000) in the working capital changes instead of including the same in the cash flows from financing activities.
- Most of the examinees could not calculate correct amount of cash inflow against issuance of rights shares and premium thereon. It seems they had no idea about its treatment.
- Some of the examinees could not calculate the correct amount of cash outflow against dividend paid to the shareholders during the year (Rs. 543,000), ostensibly due to their failure to show proper working of the same.
- A few examinees did calculate the relevant figures correctly but were unable to correctly identify whether they belonged to operating, investing, or financing activities e.g., interest received was shown in operating activities instead of investing activities and dividend paid was shown in the operating activities rather than showing the same in the financing activities.

Question No. 4

(a) Elements of Financial Statements (IAS-1):

This part of the question required the examinees to (i) define and identify elements relating to statement of profit or loss and statement of financial position and (ii) describe the criteria for recognition of elements in the financial statements. Majority of the examinees attempted this question and answered satisfactorily. However, a few examinees did not understand the question and wrongly resorted to list down the names of different financial statements. Examinees were unable to differentiate between elements (e.g., assets, equity and expenses etc.) and components (e.g., statement of profit or loss, statement of financial position and statement of cash flows etc.) of financial statements, which was surprising at this level.

(b) Construction Contract (IAS -11):

In this part, the question required examinees to (i) compute stage of completion for each year of the contract (ii) calculate revenue, cost, and profit recognised for each year of the contract. The question was well attempted and answered satisfactorily by the examinees. However, following common errors were noticed:

- Some of the examinees could not calculate correct amount of cost of the contract to be recognised in year 2011-12 (Rs. 1,950 million) mainly because they also included the cost of material stored at site (Rs. 10 million) for use in next year.
- Similarly, a few of the examinees showed the cumulative amounts of revenues, costs, and profits in the years 2011-12 and 2012-13 hence failing to show the current years' amounts against these heads.
- Some examinees ignored the expected revenue from further variation agreed with customer amounting to Rs. 200 million in order to compute the total revenue for the year 2011-12 and 2012-13.
- A few examinees did not apply correct formula to compute the stage of completion of contract for three years i.e., cost incurred to date/total estimated cost.

Question No. 5

(a) Components of Complete set of Financial Statements (IAS-1):

This part of the question required the examinees to identify components of complete set of financial statements as provided in IAS-1. Majority of the examinees attempted it correctly. However, a few examinees missed to identify 'notes to financial statements'.

(b) Deferred Taxation (IAS-12):

This question was aimed at testing the knowledge of examinees on deferred taxation. The question was well attempted but still a large number of examinees showed their lack of study of deferred taxation. Following mistakes were noticed:

- The tax and accounting bases of the assets were not computed by the examinees, which was required by the question. They tried to compute the relevant temporary differences by taking the differences between accounting and tax depreciation.
- Examinees were not clear about deductible and taxable temporary differences i.e., if accounting base is less than tax base it will result in deductible temporary difference or otherwise taxable temporary difference. They confused taxable temporary difference with deductible temporary difference.
- A few examinees did not net off deductible and taxable temporary difference.
- Almost all examinees were unable to identify deferred tax expense/ liability to be recognised as Rs. 26,250 (i.e., Rs. 75,000 x 35%) by assuming a tax rate of 35%.

(c) Intangible Non-Current Assets:

- (i) In this part of the question, the requirement was to identify the amount to be treated as expense in profit or loss and the amount at which intangible asset was to be recognised. Majority of the examinees were unable to calculate the correct figures of the amounts to be charged to profit or loss and recognised as intangible asset. The majority opined to charge all amount to profit or loss, which was wrong treatment. On the contrary, the expenditure before meeting recognition criteria was to be charged to profit or loss (i.e., Rs. 1.5 million), while the expenditure incurred after meeting recognition criteria was to be treated as intangible asset (i.e., Rs. 0.5 million).
- (ii) In this part, it was asked to identify any impairment loss that can be recognised. Almost all examinees attempted this question but examinees lacked clear understanding of the condition for recognising impairment loss i.e., if carrying value is greater than recoverable amount, then impairment loss will be created otherwise not.

Question No. 6

(a) Prior Period Error (IAS-8):

This part of the question required the examinees to identify specific disclosures regarding material prior period errors. Performance in this part was not satisfactory and examinees could not explain it adequately.

(b) Rate of Capitalisation:

In this part of the question, the examiner required examinees to calculate rate of capitalisation and borrowing cost. Overall performance was not satisfactory. Following mistakes were observed:

- Examinees used simple interest rate instead of average rate of capitalisation.
- Full year's interest on Rs. 15 million was to be capitalised since this amount of borrowing was used for the whole year.
- Three months' interest on Rs. 10 million was to be calculated as borrowing cost as this amount of borrowing was utilised only for 3 months.

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**EXAMINERS' COMMENTS
SPRING 2013 EXAMINATIONS**

**ENTERPRISE MANAGEMENT
Semester-3**

Question No. 2

(a) Value of management:

In this question examinees were supposed to answer three parts of value of management i.e., the universality of management, the reality of work, and the rewards and challenges. Majority of the examinees wrote the definition of management, its functions and types of managers found in an organization. Examinees could not define universality of management and reality of work, however, rewards and challenges of being a manager is defined correctly by almost all of them.

Examinees have problem with the understanding of the question, although it was a very general question in which they could have secured good marks. It appeared that they do not know the simple meaning of words, which is reflected in majority papers, grammatical error and spelling mistakes were also noted in the answer scripts. **Universality of management** is needed in all types and sizes of organization, at all organizational levels and in all organizational work areas and in all organizations. **Reality of work** is that managers have to know their role that what work they have to do, by whom it will be done. However, **rewards and challenges of being a manager** is defined correctly by almost all of the examinees.

(b) Formal channels of communication:

This question was generally well understood by the examinees, but a sizeable number of students did not include the diagonal communication in their answers, instead they wrote on upward, downward and horizontal communication. Few examinees wrote about communication process, which was not asked. Formal channels of communication in an organization may run in three main directions i.e. Vertical (downward and upward communication), Horizontal (Formally and informally), and diagonal.

General problems which can occur in the communication process was defined correctly by almost all of them i.e. distortion, noise, misunderstanding, non-verbal signs, feedback, poor communication skills etc.

Question No. 3

(a) Approaches of negotiation and key elements of negotiation:

In this question two basic approaches to negotiation distributive bargaining and integrative bargaining were asked and the key elements that need to be considered by the participant at the time of conducting the negotiation, the examinees only tried to explain what they thought negotiation meant and tried to give approaches from their insight. Some of them were able to identify the key elements, but majority only described the process of negotiation which was not asked.

(b) Factors affecting balance of trade and key drivers for corporate social responsibility (CSR):

In this question, examinees were asked to write the factors that influence a country's balance of trade, majority of them could not understand the question, they wrote about the external environment that is technological, cultural, social and so on. Almost all the students failed to answer the second part of the question which is CSR i.e. culture, politics, socio-economic priorities, governance gaps, and market access etc. Instead of this examinees wrote on the issues such as pollution, reusable energy, industrial waste, and other such issues. In today's world lot of discussion is going on related to CSR but from the response of the examinees it is seemed that examinees had not studied this topic at all.

Question No. 4

(a) Problems with quality measurement and key elements of total quality management (TQM):

Most of the examinees wrote about the importance of quality, some wrote about product quality, and few simply explained the meaning of TQM, according to their understanding. Some mentioned problems of employees, whereas problems when attempting to measure quality was asked. Only few describe the problems when measuring quality i.e. conflicting measure (such as research funding and cost reduction), selecting measures, expertise, interpretation, and too many measures.

Few only mentioned the name of key elements of TQM like Prevention, Right first time, Eliminate waste, and Continuous improvement.

(b) Quality circles and its benefits and drawbacks:

Majority of the examinees did not know about quality circles and only superficially explained the terminology according to their understanding, few explained quality of products, JIT, six sigma which was not asked. Benefits and drawbacks of product quality were mentioned rather than of quality circles. Overall performance of the examinees in this question remained well below the average.

A quality circle is a team of workers from within the organization which meets at different intervals of time to discuss issues relating to the quality of the product or the service produced. An organization can encourage the use of quality circles by:

- Rewarding the circle for suggestion
- Providing a budget and support to run the quality circle in terms of room provision, refreshment, staff to take minutes etc.

Question No. 5

Flexible working arrangements and its advantages and disadvantages to the employees and employers:

Majority of the students have misled this question. Flexible working arrangements in the organization are so common nowadays, although examinees know about flexible working arrangements but they could not understand the question due to vocabulary problem. Some wrote about leadership, motivation, few explain job characteristic model that includes job design, they could not even relate it to the advantages and disadvantage that is caused due to flexible working arrangements. Typical flexible arrangements that are found in an organization are flexitime, compressed week, job sharing, part-time, and telecommuting or home working.

Question No. 6

(a) Contents of a marketing plan:

Response of the most of the examinees was irrelevant. Those responses consisted of the marketing mix, segmentation, target market and positioning and marketing research concepts, got some marks. Some wrote about 4 Ps and 5 Ps of marketing that showed lack of understanding of the question. Contents of a successful marketing plan includes: executive summary, current marketing situation, threats and opportunity analysis, objectives and issues, marketing strategy, action programs, budgets and controls.

(b) Brands and choices of development of brands:

Examinees wrote about the brands that are available in the market and only few wrote some relevant matter, some students wrote about product development, few students only answered as they were supposed to answer. Brands are more than just names and symbols. Brands represent consumer's perceptions and feelings about a product and its performance. A company has four choices when it comes to developing brands, i.e. line extensions, brand extensions, multi brand, and new brands.

EXAMINERS' COMMENTS
SPRING 2013 EXAMINATIONS
INFORMATION SYSTEMS AND I.T. AUDIT
Semester-3
SECTION "A"

Question No. 2

(a) E-commerce vs E-business:

Information Technology plays a crucial role in today's business. This part required examinees to explain about E-commerce and E-business technology and to differentiate their key features. Most of the examinees performance found average in this part of question. Majority of the students knew the difference between Ecommerce and E-business; however, some examinees add features of E-commerce in E-business. E-business is a broader terminology. Some examinees discussed e-commerce categories (i.e. B2B, B2C, C2B, C2C etc) in E-business. Relevancy to the topic found below average in this part.

Suggested approach:

Examinees are expected to elaborate these two terminologies. E-business is the practice of performing and coordinating critical business processes such as designing products, obtaining supplies, manufacturing, fulfilling sales orders and providing services through the extensive use of computers and communication technologies and computerized data.

E-commerce or electronic commerce, a subset of E-business, is the purchasing, selling, and exchanging of goods and services over computer networks (such as the Internet) through which transactions or terms of sale are performed electronically. Any business process or activity in a company that is not related specifically to buying or selling products and services over the Internet is not part of e-commerce efforts.

(b) SLA in ITSM:

It was observed that while evaluating answer scripts majority of examinees have concept of SLA but unable to elaborate it properly. Proper definition of SLA was missing in most answer scripts. Majority of the examinees discussed features and need for implementation of ITSM rather than focus on SLA. Irrelevant details were found in most answer scripts.

Suggested approach:

IT service management comprises processes and procedures for efficient and effective delivery of IT services to business. Examinees are expected to explain the terminology Service level agreement .Which is an agreement between an IT Service Provider and a Customer. The SLA describes the IT Service, documents Service Level Targets and specifies the responsibilities of the IT Service Provider and the Customer.

The aim of SLA is to maintain and improve customer satisfaction, minimized downtime, and to improve the service delivered to the customer .It helps in improvement of IT services and customer can monitor the performance of the IT services using different available IT based software's/ Tools.

Question No. 3

(a) Challenges associated with effective management of IS projects:

In this part, the examinees were asked to elaborate first effective management requirements and then discuss different challenges associated with effective management of IS projects.

Examinees discussed the topic in average manner. Majority of examinees had ignored to explain effective management requirements; however, majority of examinees discussed different challenges associated with project management in generalized form but not focused on IS projects point of view. Precision and accuracy level was lacking in most answer scripts. Examinees mostly wrote whatever they knew about project management rather than focused on IS project.

Suggested approach:

Brief overview of effective management requirements which consists of goals (which is a result if the project is carried out successfully), deliverables (tangible work products) and schedules (terse project description identifying the timings of major steps and who will do the work) is required. After that it is expected from examinees to discuss in details different challenges associated with effective management of IS projects like assigning the right people to the right jobs, getting people to do high quality work, getting people to report their progress realistically, and resolving issues and disputes. Especially important in project oriented works are estimating project scope and duration, minimizing rework on completed steps and recovering from delays.

(b) Basic decision making concepts:

This part required examinees to explain the decision making concept and elaborate different steps involved in decision making.

Progress of entire group of examinees remained below average in this part. This part of question was easy but few examinees were able to answer this question correctly. Mostly examinees had ignored to explain basic decision making concepts. Steps involved in decision making were also not properly elaborated. Majority of answer scripts were not focused on problem solving portion /phases.

Suggested approach:

Examinees are expected to explain decision making concept which is represented as a problem solving process preceded by a separate problem-finding process. After that identification and explanation of different steps involved in decision making was required, which are as follows:

- **Intelligence:** Includes the collection and analysis of data related to the problem identified in the problem finding stage.
- **Design:** Includes systematic study of the problem, creation of alternatives, and evaluation of outcomes.
- **Choice:** It is the selection of the preferred alternatives.
- **Implementation:** It is the process of putting the decision into effect. This includes explaining the decision to the appropriate people, building consensus that the decision makes sense and creating the commitment to follow through.

Question No. 4**(a) Areas of network management and Simple Network Management Protocol (SNMP):**

This part required to explain five different areas of network management as defined by ISO. After that brief description of SNMP. Moreover is expected from examinees to elaborate how SNMP helps in managing network devices.

Majority of the examinees failed to answer this part of the question correctly. Mostly answers were irrelevant and without showing any knowledge and concept of network management and its different areas. Very few examinees knew about SNMP protocol and its role/needs in network management. In brief network management was found to be the one of the weakest area of the examinees.

Suggested approach:

Examinees are expected to explain following areas of network management.

- **Fault management:** Detects the devices that present some kind of technical fault
- **Configuration management:** Allows Users to know, define and change the configuration of any device.
- **Accounting management:** Holds the records of the resources usage in the WAN.
- **Performance management:** Monitors usage levels and sets alarms based on thresholds.
- **Security management:** Detects suspicious traffic or users, and generates alarms accordingly.

(b) Four approaches to computing in an organization:

It was expected to enlist and explain features, advantages/disadvantages of four alternative approaches to computing in organizations.

In this part progress of entire group remained below average. Majority of the examinees have no idea regarding different approaches of computing in organizations. Mostly examinees explain irrelevant details. Some examinees discussed different processes like water fall, spiral, and prototype model .Majority of examinees have no concept of computing and this was also one of the weakest area of most of the examinees.

Suggested approach:

It was required to elaborate following computing techniques and to explain advantages/disadvantages of each computing approach.

- **Centralized Computing:** In centralized computing terminals are attached to a central computer that performs all the computations and controls all the peripherals .It provides greater security as compare to other computing techniques, but at the cost of reliance on central/single computer.
- **Personal Computing:** Individuals microcomputers are used for individual work but are not linked in a network. This provides greater flexibility for individuals but does not facilitate sharing the work with others.
- **Distributed Computing:** Multiples workstations are linked to share data and computing resources. It provides greater ability to share work, information and resources. It also provide continuity in doing work even part of the network is down, but security management is sometimes more difficult/complex in this computing technique due to spread out of computing and data.
- **Network Computing:** Multiple network computers are linked to a central server that controls their operation and that provides links to other server. It also provide greater ability to share work, information and resources and easier to administer than distributed computing, but reliance on single server having limited processing ability at user's computer.

SECTION "B"

Question No. 5

(a) Effect of laws & regulations on IS audit planning:

It was required to explain effect of law and regulations on IS audit planning and elaborate different steps to be taken by IS auditor to determine an organizations level of compliance with these external laws & regulations requirements.

Progress of entire group remained average in this part. Some examinees explained well the impact of laws and regulations on organization's IS auditing planning, however, mostly examinees were unable to properly elaborate major steps an IS auditor would perform to determine an organization's level of compliance with external requirements.

Suggested approach:

Examinees should first explain briefly that the each organization will need to comply with a number of governmental and external requirements related to computer system practices and controls and to the manner in which computers, programs and data are stored and used. Additionally, business regulations can impact the way data are processed, transmitted and stored.

The content of these legal regulations pertains to:

- Establishment of legal requirements
- Responsibilities assigned to corresponding entities
- Financial, operational and IT audit functions.

Following steps would perform by auditor to determine an organizations level of compliance with external requirements.

- Identify government or other external requirements.
- Document applicable laws and regulations.
- Assess whether the management of the organization and the IS function have considered the relevant external requirement in making plans and in setting policies, standard and procedures, as well as business application features.
- Review internal IS department /function/activity documents that address adherence to established procedures that address adherence to laws applicable to industry.
- Determine adherence to established procedures that address these requirements.
- Determine if there are procedures in place to ensure contracts or agreements with external IT services providers reflect any legal requirements related to responsibilities.

(b) Policies and procedures:

It was required to provide brief description of policies and procedures. After that it is expected from the examinees to discuss auditors' role to pay close attention/monitoring on policies and procedures during IS audit. Progress of entire group was good in this part and majority of the examinees had secured good marks. Some examinees were unable to properly elaborate the terms policies and procedures. Majority of examinees explained well the role of IS auditor towards implementation of these policies and procedures in organization.

Suggested approach:

This part required examinees to discuss about policies and procedures. Policies and procedures reflect management guidance and directions in developing controls over information system, related resources and IS department processes.

The role of IS auditor is very important towards implementation of these policies and procedures in organization. IS auditors should understand that policies are a part of the audit process and test the policies for compliance. IS controls should flow from the enterprise's policies, and IS auditors should use policies as a benchmark for evaluating compliance. However, if policies exist that hinder the achievement of business objectives, these policies must be identified and reported for improvement.

Question No. 6

(a) Key features of Information Security Management System (ISMS):

It was required to explain information management security system and its key features to ensure and protect organizational IS. Progress of entire group remained below average in this part. Most of the examinees knew about ISMS and its need and how it protects and ensure organizational IS. While explaining key features of ISMS, majority of the examinees discuss physical and logical securities and remained unable to properly elaborate ISMS key features. Mostly examinees had skipped senior management commitment, monitoring and compliance and incident handling and response feature rather than mostly focused on physical /logical securities. Precision level remained below average in this subpart.

Suggested approach:-

An **information security management system (ISMS)** is a frame work of policies, procedures, guidelines and associated resources to establish, implement, operate, monitor, review, maintain and improve information system security for all types of organizations. Some key features/ elements of Information security management are given below.

- Senior Management commitment and support.
- Policies and procedures
- Security awareness and education
- Monitoring and compliance
- Incident handling and response

(b) Change management process:

It was required to explain the meaning of change management and role of change request in change management process. The question was very simple and majority of the examinees attempted it. Mostly students explained well the needs /importance of change management. While describing the role of change request and how change request processed was not properly explained by some examinees. Answer scripts showed that majority of examinees knew about the role of change request but unable to present it properly.

Suggested approach:-

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 request is a procedure to implement change management. A change request is a document containing a call for an adjustment of a system. A change request is declarative and should be in a format that ensures all changes are considered for actions and allows the system management staff to easily track the status of the request. Users and systems management should review such changes and determine whether the changes are appropriate for the organization or will negatively affect the existing system.

Question No. 7

(a) Disaster Planning:

It was required to describe the term disaster planning and the specific issues related to IS that makes IS disaster planning more important.

This question was attempted by almost all the examinees and progress of entire group was good in this part. Most of the examinees explained well the term disaster planning and its importance in Business Continuity Planning (BCP), however, superficial knowledge and lacking in technical concepts were observed in most answer scripts.

Suggested approach:-

A disaster plan is a plan of action to recover from occurrences that shut down or harm major information systems. The need for such a plan is apparent from the potential impact of accidents, sabotage, and natural events. Disaster recovery procedures in DP focuses on the IT or technology systems that support business functions, as opposed to business continuity, which involves planning for keeping all aspects of a business functioning in the midst of disruptive events.

For businesses, any unplanned downtime can cut into customer service and revenues. These businesses may go to great expense maintaining redundant real-time databases in different locations, with several databases updated simultaneously whenever a transaction occurs. Even businesses that use information system primarily for accounting and management reporting still needed definitive plans for recovering from unexpected downtime.

(b) Backup schemes:

It was required to enlist and explain features, Advantages /disadvantages of full, incremental and differential backup schemes.

Poor performance was observed in this part of the question. Mostly examinees had no idea about different backup schemes. Very few students attempted this part correctly. Majority of the examinees wrote irrelevant details. Some examinees discussed backup sites i.e. hot site, cold site and warm site (DRP recovery alternatives) in this part, which were not asked in this part of the question.

Suggested approach:-It is expected to explain three main schemes for back up. Each scheme has its advantages and disadvantages.

Backup types	Definition	Advantages	Drawbacks
Full	A complete backup of everything you want to backup.	Restoration is fast, since you only need one set of backup data.	The backing up process is slow. High storage requirements.
Incremental	The backup software creates copies of all the files, or parts of files that have changed since previous backups of any type (full, differential or incremental).	This method is the fastest when creating a backup. The least storage space is needed.	Restoring from incremental backups is the slowest because it may require several sets of data to fully restore all the data. For example if you had a full backup and six incremental backups. To restore the data would require you to process the full backup and all six incremental backups.
Differential	The backup software looks at which files have changed since you last did a full backup. Then creates copies of all the files that are different from the ones in the full backup.	Faster to create than a full backup. Restoration is faster than using incremental backup. Not as much storage needed as in a full backup	Restoration is slower than using a full backup. Creating a differential backup is slower than creating an incremental backup.

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**EXAMINERS' COMMENTS
SPRING 2013 EXAMINATIONS**

**MANAGEMENT ACCOUNTING
Semester-4**

Question No. 2

(a) Coefficient of correlation (r) and coefficient of determination (r^2):

The examinees were required to separately determine r and r^2 between the cost of utility, but they failed to understand the requirement of the question and made following errors:

- Few of examinees treated one activity as an independent variable and the other as a dependent variable.
- Examinees could not determine \bar{x} correctly hence the other requirements were wrongly calculated.
- Some of the examinees squared the total of $(x - \bar{x})$ instead of squaring the individual amounts of each month and then determining the total value
- Many examinees failed to calculate the total amount correctly.

(b) Activity measures:

As this part was dependent on the values derived in part a, most of the examinees could not attempt this part correctly. Few of the examinees could not understand the basis of identification of the best activity measure. Poor performance in this part shows that the examinees pay less attention to theory related questions in the paper.

(c) Estimation of utility cost:

The examinees were unable to compute the fixed utility cost and the variable utility rate, although the formulas for determining the values in this part were given.

Question No. 3

Variances:

The overall performance in this question remained poor. Most of the students directly used the amounts given in the question instead of calculating the budgeted and actual amounts for new and used cars by dividing the total amount with the quantity of each. Common mistakes committed by examinees are noted below:

- Most of the examinees calculated price variance by multiplying quantities with budgeted total contributions of Rs. 120 million instead of per unit difference in selling price.
- Volume variances have been calculated by multiplying quantities with individual contribution margin per car of new/ used car instead of average contribution margin per car.
- Examinees calculated mix variance by multiplying difference in quantity mix with budgeted total contributions instead of per unit contribution or used car selling prices to calculate mix variances.
- Examinees calculated cost of goods sold variances by multiplying actual volume with total cost of goods sold instead of per unit cost of goods sold.

Question No. 4

(a) (i) Annual incremental after tax cash flows:

Majority of the examinees were unable to reach the answer, their lack of knowledge on the topic was evident in the manner they attempted the question. Following mistakes were committed by the examinees:

- It was observed that the examinees treated earning before tax as cash inflows and depreciation as cash outflows. While calculating taxable income, capital allowance was treated as income.
- As the examinees were unable to assess the correct value of taxable income, hence all the figures calculated were wrong.

(ii) & (iii) Net present value and IRR:

Most of the examinees knew the method of calculating NPV, but since the values derived for after tax cash flows were wrong, they failed to calculate NPV and IRR correctly.

(b) Feasibility of the project:

It looks that examinees did not read the question carefully therefore, they did not imply that the savings of Rs. 50,000 and the running cost of Rs. 100,000 would remain unchanged for the first year and inflated cash flows from Year-1 instead of inflating it from Year-2.

Most of the examinees inflated fixed income although it was clearly mentioned in the question that fixed income will remain unchanged. Few examinees used real rate of discounting instead of nominal rate.

Question No. 5

(a) (i) & (ii) Calculation of the missing numbers:

Some of the examinees did not read the requirement carefully and hence made the following mistakes:

- Few of the examinees calculated the contribution margin (CM) percentage for the missing figures where CM per unit was required and vice versa.
- Examinees tried to adopt various techniques to determine the missing values instead of following the hint given in the question.
- Few examinees calculated the total amount of CM or the average CM % instead of the CM per unit.
- It was observed that Examinees had difficulty in determining some of the missing figures where the answer was to be simply determined by taking out the difference or the sum of the given amounts.

(b) (i) Total cost of each product using absorption costing:

Majority of the examinees approached this requirement correctly. However, some errors made by the examinees are as under:

- Few of the examinees were not clear of which value was to be used for calculating the cost of each product under absorption costing.
- Some examinees calculated per unit cost instead of the total cost.

(ii) Manufacturing overhead per unit:

- Most of the examinees did not understand this requirement and could not calculate the manufacturing overhead considering the cost drivers.
- Few examinees used production run of 20 instead of applying correct figure of 21 runs.

(iii) Activity based costing:

- Most of the examinees performed very well in this part of the question but few of them got confused and applied wrong cost drivers.
- Few examinees calculated per unit values whereas the total cost of each product was required.

Question No. 6**(a) Calculation of return on equity (ROE) under each level of current assets:**

The question clearly stated the different current asset levels, but the examinees could not correctly relate the bases with required level of current assets and committed following mistakes:

- Most of the examinees were unable to determine the amount of current assets based on given percentages and hence could not calculate the total assets.
- Most of the examinees calculated debt as 60% of sales instead of total assets.
- Few of the examinees used EBIT as percentage of equity and similarly used interest as percentage of sale instead of debt.
- Most of the examinees could not prepare the basic balance sheet and the income statement which was a simple technique to determine the value of debt, the value of equity, the net income and lastly the return on equity percentages.
- Few examinees calculated tax as a percentage of sales.

(b) & (c) Current asset policy and riskiness of firm under each policy:

The examinees poorly attempted this part of the question; very few examinees were able to answer properly. The question demanded the examinees to state that in reality it is not possible to treat sales independently, as a firm's current asset policy especially with regards to accounts receivable has a significant effect on sales. The mistakes generally noted were as under:

- Most of the students responded partially correct to the assumption but they were unable to clearly justify their point of view.
- It was observed that most of the examinees were unable to discuss the level of riskiness under each of the given policies, which shows lack of knowledge on the topic.

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**EXAMINERS' COMMENTS
SPRING 2013 EXAMINATIONS**

**BUSINESS TAXATION
Semester-4**

Question No. 2

(a) (i) Depreciable Asset:

It was simple and easy question and most of the examinees attempted well. However, following common mistakes were observed:

- Examinees explained general accounting concepts, instead of writing down proper definition as per Income Tax Ordinance, 2001.
- Majority of the examinees were unable to accurately answer the useful life of depreciable asset.

(ii) Partly for Business and Partly for other use:

Many examinees had no idea about the extent to which the deduction may be admissible on account of depreciation if the depreciable asset is used in a tax year partly for deriving income from business chargeable to tax and partly for another use. Some of them applied different rates for e.g., 5%, 10% while some had a fair idea that depreciation is admissible only to the extent of business use.

(b) Tax Credit for Newly Established Industrial Undertakings:

Majority of the examinees did not understand the question and committed following mistakes:

- Most of them just defined the term "industrial undertaking".
- Many examinees wrote that the industrial undertaking must register under the Income Tax Ordinance, 2001 instead of the Companies Ordinance, 1984 for availing tax credit.
- Some examinees mentioned that industrial undertaking can be established by obtaining loan instead of 100% equity raised through issuance of new shares for cash consideration.

(c) (i) Consumer Loan:

Mostly examinees attempted this part of question but did not reply correctly. Following shortcomings were noticed:

- Examinees were unable to identify the authority that will provide consumers loan e.g., non-banking finance companies (NBFCs) or the House Building Finance Corporation (HBFC).
- Most of the examinees did not know the purpose of obtaining loan and its consumption. They guessed that consumer loan is obtained for business purpose, for car purchasing etc.
- Some of them replied incorrectly that consumer loan should be utilized in capital nature expenditures.

(ii) Provision regarding Consumers Loan:

Poorly attempted part by the majority of the examinees. Examinees even did not know about bad debts provision's nature and purpose to provide the same in the financial statements against non recoverable consumer loans. Examinees had no idea about the limit or extent of the provision against consumer loan allowed as deduction to the corporation under the tax laws. Only few examinees knew that it is 3% of the income for the tax year, arising out of consumer loans for creation of a reserve while rest of them wrote various percentages on different basis i.e., 10% of bad debt etc.

(iii) Setting off Bad Debt in respect of Consumer Loan:

Many examinees did not know about the treatment of bad debt which cannot be wholly set off against reserves created for this purpose. Most of the examinees wrote that the bad debt can be set off against income instead of carrying forward for adjustment against the reserve for the following years.

Question No. 3

(a) Filing Dates of Income Tax Return:

It was simple and easiest question related to the filing date of income tax returns. Examinees wrote different dates 31st March, 2013, 31st August, 2013 and June 2013 instead of mentioning the date cited in the relevant provisions of the Income Tax Ordinance, 2001. Majority of the examinees were confused between the year ended September 2012 and December 2012.

(b) Books of Account, Documents and Records to be Maintained:

Majority of the examinee attempted this part with general understanding and mentioned so many books of accounts which were not required for tax purposes. Examinees also wrongly mentioned that period required to maintain the records is six (6) years instead of five (5) years.

(c) Limits on Contribution by the Employer:

Most of the examinees mixed up the superannuation fund with the other funds like Provident Funds, pension fund, gratuity etc. Many of them did not know the percentage, procedures and limitation of superannuation funds. Very few examinees replied correctly that maximum 20% of the salary shall be contributed from the employer in a fund approved by the Commissioner while majority wrongly answered that 25% or 30% of income or fund etc. shall be contributed in the fund. Most of the examinees did not mentioned discretionary powers of Commissioner of Income Tax for the contribution of special amount, if he thinks appropriate in a special case.

Question No. 4

Net Taxable Income:

Almost all examinees had attempted the question but only few examinees have calculated correct amount of Tax Liability. Following shortcomings were observed in this question:

- Some examinees started writing the answer with sales and gross profit and messed up the complete answer.
- Interest income on deposits was not treated in FTR @ 10% by many examinees.
- Examinees failed to mention the working notes properly.
- Majority ignored the amortization of preliminary expenses.
- Many examinees provided wrong treatment of liquidity damages.
- Few examinees failed to apply correct tax rate applicable on companies.

Question No. 5

(a) (i) Cottage Industry:

Overall performance was good in this part however; some of the examinees attempted partially and wrote one of the two requirements i.e., annual turnover up to Rs. 5 million or utility bills up to Rs.700, 000. Some examinees mentioned different limits in figures like 50million, 500,000 and so on.

(ii) Output Tax:

It was easy question and attempted by majority of the examinees. Almost all examinees had a general concept of output tax but many of them did not know the specific definition mentioned in the Sales Tax Act, 1990.

(iii) Time of Supply:

Majority of the examinees attempted this part but unaware of the different types of supply modes i.e., (i) supply of goods in the normal course of business, other than hire purchase agreement (ii) delivery under hire purchase (iii) services rendered.

(b) Computation of Sales Tax Payable / Refundable and Input Tax to be Carried Forward:

Majority of the examinees attempted this part incompletely. It was a tricky question comprising two products one was taxable and other was non taxable. Examinees were confused about the tax treatment of exempt and taxable supplies. Few examinees treated tax paid on electricity as output tax. None of the examinees computed input tax to be carried forward correctly.

Question No. 6

(a) (i) Difference Between Exempt Supplies and Zero-rated Supplies:

In this part almost all examinees performed well. However, few examinees were confused and mixed up the requirements of zero-rated and exempt supplies with reference to taxability, registration, credit of input, maintenance of records, filling of return under the Sales Tax Act, 1990. Some examinees provided unnecessary and irrelevant details.

(ii) Destruction of Goods:

Majority of the examinees were not aware whether the goods should be destroyed or not, although it was clearly mentioned in the question. Examinees did not know about the permission to be obtained by whom. Mostly examinees answered that permission should be obtained from Commissioner Income Tax whereas; it should be taken by the Collector of sales tax. Some of the examinees were unable to identify that the input tax credit in respect of goods destroyed shall not be admissible.

(b) Sales Tax Mode:

Worst performance of examinees was observed in this part of the question. Few examinees explained sales tax mode correctly but couldn't mention circumstances when FED is charged in sales tax mode.

(c) Value of the Transaction where Buyer and Seller are Related:

Most of the examinees were unable to describe correct conditions required to be satisfied to accept the value of the transaction where buyer and seller are related, i.e., transactional, deductive and computed value. Majority of the examinees' answers were based on the general accounting method of calculating cost i.e. Cost plus method, fair price and arm-length transaction.

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**EXAMINERS' COMMENTS
SPRING 2013 EXAMINATIONS**

**CORPORATE LAWS AND SECRETARIAL PRACTICES
Semester-4**

Question No. 2

(a) Directors Having Special Interest:

Examinees committed following mistakes while attempting this part of question:

- Some examinees were not aware of the special interest and discussed it as 'conflict of interest' situation for directors.
- Majority of the examinees who understood the question were unable to list down the 'special persons' completely.
- Rest of them attempted this part through guess work.

(b) Fresh Elections of Directors on Request of Substantial Acquirer:

Few examinees answered correctly. However, following shortcomings were observed:

- Most of the examinees discussed the procedure of normal elections rather than describing the related provisions whereby a person carrying substantial voting shares may apply for fresh election.
- Substantial voting power was incorrectly mentioned as 10% or 51% or majority holding instead of 12.5% or more.
- Some examinees also misconstrued that the applicant shall apply to the company or the existing directors rather than Commission for holding fresh elections.
- Few examinees wrongly discussed the filling of application to the court after normal election held while rest of them discussed the situations of contesting irregularity in normal elections.

(c) Directorship of a Person without being a Member:

Majority of the examinees attempted this part but few of them were able to completely list down the cases where a person can become director without being a member. Following common mistakes were observed:

- Many examinees discussed the qualifications and disqualifications for becoming director in the usual course.
- Some examinees discussed difference between membership and shareholding instead of answering properly.

Question No. 3

(a) (i) Authority to Rectify Mistakes:

Shortcomings found in this part are as follows:

- Majority of the examinees were unable to identify concerned authorities and wrongly stated that "the mistake in registration of charge could be rectified with the approval of the board of directors, shareholders, accountants and auditor etc of the company".
- Some examinees wrongly assumed that correction needed in accounts and financial statements.

(ii) When Rectification Allowed:

Majority of the examinees attempted this part partially because most of them were unaware of all the circumstances where rectification of mistake is allowed. However, few examinees repeated the points.

(iii) Post Rectification Requirements:

Few examinees were aware of filling certified copy of the order of the Commission to the registrar in the given situation while rest of them unduly linked the matter with accounts and financial statement or approvals from board of directors or annual general meeting etc.

(b) (i) Period for Payment of dividend and consequences for Non- Compliance in this Regard:

- Examinees were expected to give the time periods for both listed and non-listed companies but many of them either ignored the difference or mixed up the two different periods.
- Some examinees were able to identify the chief executive as responsible in case of default but most of the examinees were unaware of the kind of punishment extendable to such chief executive.
- Some examinees listed other people as responsible in case of non-compliance of payment of dividend within a specified period.
- Some examinees discussed the causes for dividend remaining unpaid after its declaration instead of explaining consequences in case of non-compliance of payment of dividend.

(ii) Declaration of final and interim dividend:

- Examinees were generally aware that final dividend is declared on the date of general meeting but many of them had wrong impression that same dates applies to the interim dividend as well.
- Many examinees had misconception about the authority that approves the interim dividend.
- Some examinees assumed interim dividend is paid on quarterly or half yearly basis instead of explaining specified provisions in this regard.

Question No. 4

(a) (i) Conditions for Issuing Non-Voting Ordinary Shares:

- Many examinees discussed irrelevant topics e.g., issue of bonus/right shares, process of issuing ordinary shares or significance of preference shares whereas they were asked about the requirement which the company need to comply with for issuing non-voting ordinary shares.
- Most of the examinees answered incompletely and ignored the requirement of necessary provision in the memorandum and articles of association.
- Some of the examinees unnecessarily discussed the process of passing special resolution instead of mentioning the requirement for passing special resolution.

(ii) Variation in Rights and Privileges Associated with Different Classes of Shares:

Few examinees properly discussed the topic. However, many of them discussed irrelevant matters e.g., types and details of preference shares, bonus and right shares etc. instead of specifying the variation in rights and privileges associated with different classes of shares.

(b) Circumstances of Winding Up under the Supervision of the High Court:

Most of the examinees attempted this part of the question well and listed the circumstances usually more than five. Some examinees repeated the points to elongate the answer.

Question No. 5

(a) Director's Training Program:

Most of the examinees discussed the usefulness of director's training in general context while rest of them committed following mistakes:

- Some examinees misconstrued that the training requirement is applicable to all companies whereas clause of Code of Corporate Governance in this regard applies to the listed companies only.
- Examinees also generally ignored the fact that the director's training program is to meet the criteria specified by Securities and Exchange Commission of Pakistan.
- Some examinees mixed up the training matters with the secretarial function of a company secretary.

(b) Significant Policies:

- Majority of the examinees misapprehended the question and discussed the policies out of context e.g., accounting standards, dividend and other policies etc.
- Most of the examinees were not aware of the requirement for maintaining the requisite records and they mentioned the general records of the company and their retention period e.g., five years, six years etc.

(c) Offer for Sale of Shares by a Person Holding more than 10% of Shares:

- Examinees did not have the knowledge about the offer for sale of shares to the public by a person holding more than 10% shares of the company. However, most of them discussed irrelevant things like company issuing further capital, issue of right shares, transfer of shares in the ordinary course etc.
- Some examinees ignored the premium aspect of the issue and some discussed it partly.
- Few examinees ignored the requirement for minimum size of the offering.

Question No. 6

(a) Conditions Applicable to a Modarba Company:

- Many examinees could not understand the question properly and discussed general structure of a modarba company rather than the conditions applying in specific areas. They also discussed irrelevant topics e.g., definition and composition of modarba, purpose of modarba, religious board etc.
- Some examinees discussed the 'subscription' and 'remuneration' provisions of Modaraba Company in the context other than that of a modarba. Some even wrongly assumed that remuneration of modarba is same as salary of employees or directors.

(b) Activities or Functions of Investment Finance Company in relation to Corporate Finance Services:

Majority of the examinees attempted this part in a general way. Investment finance company act as advisor, custodian, nominee or assist companies under the corporate finance services but most of the examinees answered that investment finance company perform various financial functions of the company. Some examinees wrongly attributed the functions of banking companies and other irrelevant areas like direct funding, leasing, housing finance etc. to the investment finance company.

Question No. 7

(a) Qualification and Experience of Company Secretary:

Most of the examinees were better aware of this topic and attempted this part properly. However, few mistakes noticed are as follows:

- Many examinees mentioned the names of specific institutions to describe the required qualification rather than the generic description given in the relevant regulations.
- Many examinees were not aware whether the experience requirement is applicable to all or some particular qualifications.
- Some examinees unduly described the functions or qualities of company secretary.

(b) (i) Secretarial Functions:

Examinees generally had better idea of the topic and mentioned the functions of company secretary correctly. Some examinees attributed wrong functions e.g., preparation and maintenance of books of accounts etc.

(ii) Secretarial Compliance Certificate:

Most of the examinees attempted this part on the basis of presumptions. Examinees were unaware of the issuing authority of secretarial compliance certificate. Majority of them wrongly discussed that SECP or registrar issue said certificate to company secretary or company in respect of compliances of secretarial practices. Almost all examinees were unaware of the filing requirements for the certificate.

(c) (i) Conditions Related to the Submission of the Proxy:

Majority of the examinees had a general idea about submission of proxy. However, Some examinees discussed irrelevant details e.g., purpose of proxy, its contents etc. Few of them misconstrued that proxy is admissible only when a shareholder goes abroad.

(ii) For CDC Account Holders/ Corporate Entities:

Most of the examinees were unaware about the additional requirements particularly for the corporate entities. Instead of mentioning the requirement of CNIC, passport and Board of Directors approval examinees wrongly mentioned that submission of proxy is subject to the approval of SECP or registrar. Few of the examinees repeated the requirement of Q. 7(c) (i).

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**EXAMINERS' COMMENTS
SPRING 2013 EXAMINATIONS**

**ADVANCED FINANCIAL ACCOUNTING AND CORPORATE REPORTING
Semester-5**

Question No. 2

Consolidated Statement of Financial Position (CSFP):

In this question, examinees were required to prepare 'consolidated statement of financial position'. Majority of the examinees attempted this question but overall performance was not satisfactory as the examinees were lacking in grasping the relevant topics. Following common mistakes were found in the scripts:

- The Cell Group acquired interest in two companies Gel Limited (60% holding) and Well Limited (40% holding). Only the financial positions of Cell Limited (parent company) and Gel Limited (subsidiary company) were to be consolidated. A good number of examinees could not distinguish this relationship and prepared CSFP of all the three companies.
- The majority did not calculate the correct amount of property, plant and equipment (PPE) since they just added the relevant figures of PPE of the parent and the subsidiary and did not consider the net revalued amount of the PPE of the subsidiary at year-end.
- While computing the consolidated figure of inventory mostly examinees did not subtract the amount of unrealised profit (Rs. 15 million) from the total inventory of the parent and the subsidiary. Some of them even could not compute the correct figure of unrealised profit.
- A good number of examinees were not able to calculate correct amount of goodwill mainly due to wrong calculation of cost of investment. Shares transferred were calculated at face value (Rs. 10 per share) instead of market value (Rs. 13.5 per share). Deferred consideration was discounted at one year instead of two years period, Rs. 1,653 million $\{2,000 \times (1/1.0)^2\}$.
- A few examinees did not calculate correct amount of consolidated inventory as they failed to adjust it for unrealised profit on unsold stock of Gel Limited (Rs. 15 million).
- While preparing the workings to support their answers, the examinees were lacking clarity of presentation.

Question No. 3

(a) Consolidated Statement of Profit or Loss (CSPL):

A good number of examinees attempted this question but the majority could not answer the question correctly. Following shortcomings were found in the scripts:

- After Pink Company sold half of its share-holding of Red Company (40% of 80%), Red Company ceased to be a subsidiary company and turned into an associate company on April 1, 2012. Therefore, after that date financial statements were not required to be consolidated. Financial statements for the period ended March 31, 2012 should have been consolidated (i.e., for 9 months), but most of the examinees consolidated the financial statements for whole year (i.e., upto June 30, 2012).
- A few examinees could not calculate the correct amount of sales mainly due to wrong/no adjustment of intra-company sales made by Pink to Red Company. For that matter, cost of sales was not adjusted correctly.
- Mostly examinees included entire amount of 'other income' of the parent in the CSPL. This amount also included the dividend received from the subsidiary, which should have been excluded.
- The majority did not add income from associate, Rs. 15.5 million $(155 \times 3/12 \times 40\%)$ for the period from April 1 to June 30, 2012 since Red Company became an associate company after Pink Company sold 40% of its share-holding in Red Company.

- The majority was not able to compute the correct figures of profits attributable to the non-controlling interest (NCI) and the equity holders of parent. A few of them were able to compute the profit attributable to the NCI, but they could not find the same for the equity holders of the parent simply because they could not find the correct figure of profit for the year, which was a prerequisite to find the desired figure.

(b) Group Retained Earnings:

In this part of question, the examinees were required to calculate group retained earnings of Pink Company. Majority of the examinees attempted this part but their performance was unsatisfactory, as they could not calculate the group share of Red Company's post acquisition retained earnings Rs. 52 million $[(205 - 140) \times 80\%]$ at July 1, 2011 and group income for the current year (Rs. 358.50 million).

Question No. 4

(a) Functional Currency and its Determinants:

This part of the question required the examinees to define 'Functional Currency' and explain the key factors which determine an entity's functional currency. A good number of examinees attempted this question but it appeared that they did not study the topic properly hence could not answer satisfactorily.

(b) Translation of Foreign Currency Transactions Gain or Loss (IAS- 21):

In this part, a situation was given in which a foreign subsidiary held a debt instrument classified as held for trading and carried at fair value through profit or loss. Examinees were required to describe the accounting treatment of the same at year-end under IAS 21. During the year, fair value of the debt instrument increased from UAE Dirham 5 million to UAE Dirham 6 million and the rate of one UAE Dirham increased from Rs. 24 to Rs. 26. Under IAS 21, a part of the increase in fair value should have been taken to profit or loss i.e., increase in fair value multiplied by average exchange rate and the remaining part to other comprehensive income. Majority of the examinees could not compute the above figures and committed following mistakes.

- Most of the examinees did not apply average exchange rate while calculating fair value of the debt instrument and gain or loss.
- Surprisingly, some examinees even could not understand the nature of the debt instrument and treated the debt instrument as liability instead of an asset.

(c) Share-based Payment (IFRS – 2):

Majority of the examinees attempted this part of the question and answered satisfactorily. A few examinees could not calculate correct amount of expense to be recognised each year i.e., Rs. 18,750 $(10 \times 225 \times 25 \times 1/3)$.

Question No. 5

Financial Ratios and Report to the Directors:

This question required the examinees to (a) calculate profitability ratios including inventory turnover ratio and (b) write a report to the directors based on them. A good number of the examinees attempted this question and answered satisfactorily. However, following shortcomings were noted:

- A good number of examinees failed to calculate comparative inventory turn-over ratios correctly.
- Majority of the examinees prepared report to the director but they were lacking in presentation as they did not consider different parts of the body of a report like date and reference of the report, address of the recipient, salutation and signature etc.
- More importantly, they were lacking in explaining the financial ratios with logical arguments.

Question No. 6**(a) Corporate Social Responsibility:**

This part of the question required the examinees to define 'corporate social responsibility' and to discuss different ways in which a business can interact with the society. Majority of the examinees attempted this question and answered satisfactorily.

(b) Employee Benefits:

This question required the examinees to prepare workings and journal entries to record the transactions relating to an employee benefit scheme. A good number of the examinees attempted this question. Most of them prepared the working correctly but the majority failed to prepare correct journal entries apparently due to loose grip over the topic. Some examinees made separate journal entries for each expense/income item instead of a combined journal entry thus wasting their precious time.

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**EXAMINERS' COMMENTS
SPRING 2013 EXAMINATIONS
RISK MANAGEMENT AND AUDIT
Semester-5**

Question No. 2

(a) (i) Financial Risks:

Majority of the examinees defined financial risk and listed down various types of financial risks generally. Significant number of examinees just used question wordings to define it. Examinees defined financial risk incompletely and listed down various types of general risks i.e. Price risk, Time risk etc instead of Financial risks.

(ii) Risks of Centralization and Approaches to Manage Risk at Treasury Function:

Majority of the examinees could not explain requirements of the question due to the lack of study. They ignored risks of centralization such as greater potential for speculative trading in large context, good opportunity for fraud and lesser response / delay to fulfill local needs. Most of the examinees generally emphasized on decentralization, insurance and hedging to manage the risks at treasury functions instead of implementing or developing policy, proper forecast and audit of treasury function.

(b) Risk Associated with Over Trading:

Potential risks associated with overtrading were not listed down by many examinees. Most of the examinees did not consider the term over trading at all while stating the risks. They generalize the answer. Many of them were confused and mentioned unnecessary points pertaining to bankruptcy, liquidation, and winding up of company.

Question No. 3

(a) Conditions and Events That May Indicate Risks of Material Misstatement:

Examinees failed to understand the question requirement. The part was related to general indicators and events that could highlight the potential risk of misstatement. Examinees discussed the question with reference to the account balances and also unnecessarily discussed the problems that could exist in those accounts.

(b) Remuneration of the Auditor and Signing of the Audit Report:

Examinees did not have proper idea of external auditor's remuneration and the authority to sign the audit report. Some examinees were confused and wrongly described that the remuneration of the auditor shall be fixed by the directors. It was noted that the examinees mixed up the signing requirement of financial statements with the audit report. Majority of the examinees have wrongly answered that the Audit Report shall be signed by the Chief Executive Officer and 2 directors which is actually the requirement of financial statements as per the Companies Ordinance, 1984.

(c) The Definition of terms: (i) Performance Materiality (ii) Auditor's Expert (iii) Engagement Quality Control Reviewer:

It was a simple question and performance of examinees was better in this part. However, few examinees mixed up the definition of Auditor's Expert with audit expertise while some examinees were confused between Engagement Quality Control Reviewer and the Business's Quality Assurance Officer.

Question No. 4

(a) Facts Which Become Known to the Auditor after the Date of the Auditor's Report but before the Date the Financial Statements Are Issued:

The question was related to the concept of Auditor's responsibility after knowing a subsequent event. Only few examinees could respond the question appropriately while majority of the examinees answered the question without any substance and in a very general way. Most of the examinees discussed the work of auditor carried out in the normal audit before issuing the auditor's report instead of describing the auditor responsibilities and course of action after becoming aware of arbitration award of USD 4 Million against the company (i.e., responsibilities of auditor after the date of the auditor's report but before the date the financial statements are issued).

(b) Review Procedures:

Examinees were required to highlight review procedures of loan payables and investments which broadly include analytical procedures, confirmations, discussion & inquiries with management, tracing ledgers accounts, very minimal level of verifications etc. but majority of the examinees failed to describe correct review procedures. Most of the examinees mentioned procedures used to perform audit of loan payables and investments instead of describing five review procedures. Some of the examinees repeated the points in different words to lengthen the answer while some discussed irrelevant points.

Question No. 5

(a) Professional Judgement:

Most of the examinees attempted this question satisfactorily but in a general way. Most of the examinees were unable to identify the areas regarding which an auditor should exercise professional judgment during an audit and only few examinees discussed the points partially.

(b) The Auditors Responsibilities in Relation to the Financial Statement Audit:

This part was related to pre-audit context however, examinees discussed the auditor's responsibilities for reporting particular issues during the course of audit or after the conclusion of audit.

Question No. 6

(a) Law suit for Breach of Copyright:

Majority of the examinees attempted this part of the question satisfactorily. Many examinees mentioned properly that no modification of the audit opinion is required while due to future uncertainty, an emphasis of the matter paragraph should be included in the audit report. Mostly examinees failed to specify the requirements of International Standards on Auditing while including an emphasis of matter paragraph in the auditor's report and tried to enumerate it in a general way.

(b) Merits of Cost Audit:

Most of the examinees performed well. However, some of the examinees repeated the points to elongate the answer. Few of them mentioned the purposes of cost audit and enumerated irrelevant points instead of discussing the major considerations the cost auditor should keep in view while planning the cost audit program.

**EXAMINERS' COMMENTS
SPRING 2013 EXAMINATIONS**

**STRATEGIC FINANCIAL MANAGEMENT
Semester-5**

Question No. 2

Determining excess/ short fall in the funds:

Almost all the examinees attempted this part and overall average performance was observed in this question. However, following few mistakes were noted:

- (i) Most of the examinees could not correctly calculate the debt capital of the company over the period of five years. Although, it was clearly stated in the question that the ratio of long term borrowing to long term funds (debt plus equity) is limited to 30% i.e., the current gearing level of the company. For example, the examinees were required to divide the equity increased by retained earning Rs. 18,560 in year 1 by 0.70 and multiplying it by 0.30 to get the maximum debt of Rs. 7,954 and it should be matched with total assets less current liabilities (125% of Sales) to determine excess or short of fund in a particular year. However, examinees either did not calculate the maximum debt figure or incorrectly calculated it by simply deducting the "equity" from the "total assets less current liabilities" figure.
- (ii) Most of the examinees were not able to express that company should increase the profit by reducing the cost or increasing the selling price or market share or increasing the assets turn over ratio, though many examinees suggested that company should increase the gearing level or retaining the greater percentage of profit.

Question No. 3

(a) Market price per share following the stock repurchase and cash dividend distribution:

Most of the examinees performed very well in this part of the question and secured good marks. However, following errors were made by few examinees:

- (i) Many examinees incorrectly added the 400,000 repurchased shares into existing shares of 2,000,000 instead of deducting from it while calculating the new EPS. Consequently, they could not correctly calculate the market price per share after 20% repurchase of stock.
- (ii) Examinees did not correctly calculate the market price per share if the company had opted to utilize the funds by paying the cash dividend instead of repurchase. Although, they could simply calculate the market price per share Rs. 25.60 by deducting the cash dividend of Rs. 6.40 per share (Rs. 128,000,000/2,000,000 shares) from the existing market price of Rs. 32.

(b) Shareholder's equity account and market price per share after issuance of 20% stock dividend:

Examinees were required to re-evaluate the shareholder's equity account and per share market price after the issuance of 20% stock dividend. Most of the examinees did not perform well in this part of the question though almost all the examinees attempted it. A few mistakes committed by the examinees are as under:

- (i) A large number of examinees did not correctly calculate the share capital of Rs. 800,000 (80,000 shares @ Rs. 10 each and share premium of Rs. 4,000,000 (80,000 shares @ Rs. 50) on issuance of 20% stock dividend. Resultantly, they also could not correctly adjust the retained earning account.
- (ii) Most of the examinees also could not correctly calculate the market price of Rs. 50 per share after issuance of 20% stock dividend and dividing the share holders' equity by number of outstanding shares after issuance of stock dividend (Rs. 24,000,000/480,000).

(c) Stock price following the stock split and last year's pre-split dividend:

Majority of the examinees performed very well in this part of the question. They correctly calculate the stock price following the stock split. However, some of the examinees did not correctly calculate the equivalent pre-

split dividend of Rs. 7.50 by just multiplying the dividend per share (DPS) after split i.e., Rs. 1.50 by 5. In the same manner, the examinees were required to divide Rs. 7.50 by 1.09 but many examinees incorrectly divide Rs. 7.50 by 0.91 (1-0.09). A substantial number of examinees calculated the last year's dividend without taking into consideration the pre-stock split scenario.

Question No. 4

(a) & (b) Increase in value of equity shares if expansion is wholly financed by debt or through mix of debt and equity:

The poor performance was witnessed as the examinees could not fully grasp the requirement of the question. It also reflects that the examinees did not study the topic and prepare for the examination fully. There was hardly any examinee that secured good marks in this part of the question. Examinees made following mistakes:

- (i) Most of the examinees could not correctly calculate the increase in the value of equity shares in case the expansion is wholly financed by debt capital. They incorrectly used existing 19% required rate of return instead of 20% which was increased due to financing the project through borrowings. Moreover, many examinees calculated only the present value to perpetuity of "annual income from expansion attributable to equity shareholders" without taking into account the current annual earning on equity.
- (ii) In case of financing the expansion by mix of debt and equity, the examinees were required to use weighted average cost of capital (WACC) to calculate the PV of expansion. However, a large number of examinees did not calculate cost of capital correctly to find the correct figure of PV and NPV of expansion.
- (iii) Many of the examinees faced difficulty to calculate the correct figure of new equity capital to be issued in case of financing the expansion by mix of debt and equity. In fact, firstly, the examinees were required to add NPV of expansion Rs. 3,000,000 and additional capital requirement of Rs. 5,000,000 to total Rs. 8,000,000 supposing the market values of equity and debt are to be maintained in the total market value of the company. Secondly, 60% increase in market value of equity was required to calculate as Rs. 4,800,000 (60% x Rs. 8,000,000) and then Rs. 1,800,000 new capital was required to be issued (Rs. 4,800,000 – NPV of the project Rs. 3,000,000).

(c) The preferred means of financing to maximize the shareholders wealth:

Most of the examinees either recommended the debt option or mix of debt and equity option without correctly calculating the increase in the value of equity under debt option or mix of debt and equity option.

Question No. 5

(a) Ranking and recommendation of projects based on net present value (NPV) and profitability index (PI):

It was observed that mostly the examinees performed very well in this part of the question and secured good marks. However, a few mistakes committed by the examinees are as under:

- (i) Most of the examinees did not correctly calculate the profitability index. They incorrectly used the net present value (NPV) in the numerator instead of present value (PV). Resultantly, they were also not able to correctly rank the projects based on profitability index.
- (ii) Many examinees did not take into consideration that due to negative NPV of project 'W', it would come last in the rankings based on NPV.
- (iii) There were hardly very few examinees that correctly calculated the maximum NPV of Rs. 412, 000 by accepting the projects 'X', 'U', 'Y' and partially project 'Z'. Moreover, the examinees also did not attempt this part of the question by preparing table showing columns for project, initial outlay, and total NPV, % taken, cumulative outlay and actual NPV. Most of the examinees just showed name of the project and actual NPV columns.

(b) Evaluation of expansion from a financial perspective:

The question was based on the project expansion decision and examinees were required to calculate NPV of the project. Examinees scored average marks in this part of the question. Moreover, few examinees committed following mistakes:

- (i) Many examinees did not take into account the scrap value of Rs. 110, 000 in year 5 as cash inflow and 50% tax payment amounting to Rs. 62, 460 of year 5 as cash outflow in year 6.
- (ii) Though, it was clearly stated in the question paper that initial investment does not qualify for capital allowance, even then many examinees incorrectly take into account depreciation over the life of the project.
- (iii) There were few examinees that had least idea how to calculate the expected value of sale using probability of each stream of cash flow. They tried to solve the question three times by taking the sales revenues under the assumption of high, medium and low level of demand separately.

Question No. 6

(a) & (b) Value of proposed bid and share price following the take over:

The examinees performed exceptionally well in this part and secured good marks. However, few common errors committed by the examinees are as under:

- (i) There were many examinees who did not correctly calculate the total value of proposed bid for Star Ltd., shares. They were required to calculate Rs. 576 million bid price either multiplying 24 million shares of Star Ltd., by bid value of Rs. 24 per share or 32 million shares of Moon Ltd., @ Rs. 18 per share. Most of the examinees incorrectly multiplied 24 million shares of Star Ltd., by Rs. 18 instead of Rs. 24 ($\text{Rs. } 18 \div 3 \text{ shares} \times 4$).
- (ii) A substantial number of examinees also could not correctly calculate the current EPS and P/E ratio of Star Ltd., to ascertain the current market price of Star Ltd.
- (iii) A large number of examinees did not correctly calculate the share price of Moon Ltd., following the take over due to not taking into account savings from acquisition or incorrect calculation of outstanding shares of Moon Ltd., after acquisition.

(c) The effect of proposed bid on the company shareholders:

All the examinees attempted this part and overall performance was better. However, following few observations were noticed:

- (i) Many examinees could not correctly calculate the increase in the value of investment of a share holder having 5,000 shares each in Moon Ltd., and Star Ltd., respectively due to incorrect calculation of share price of Moon Ltd., after the taking over of Star Ltd., assuming existing P/E ratio of 18 times.
- (ii) Many examinees, while calculating the increase in value of holder of 5000 shares in Star Ltd., did not increase the number of shares from 5,000 to 6,667 ($5,000/3 \times 4$) before multiplying them to Rs. 27.32 to find the value of his shares after the take over.

(d) Assumptions underlying the acquisition:

Majority of the examinees did not critically analyze and challenge the two assumptions or reasons for increase in the value of Moon Ltd., after acquisition of Star Ltd. The P/E ratio of Star Ltd., will increase from 14 to 18 and saving of Rs. 30 million in overhead would be achieved after acquisition of Star Ltd. Hardly any examinee pointed out the possibility of serious risk if the value of investment would fall as a result of potential take over. Besides, the shareholders of Moon Ltd., would enjoy almost 52% increase in their value, whereas the increase in the value of investment of Star Ltd., would be about 4%.

**EXAMINERS' COMMENTS
SPRING 2013 EXAMINATIONS**

**STRATEGIC MANAGEMENT ACCOUNTING
Semester-6**

Question No. 2

(a) Value analysis and functional analysis:

Most of the examinees did not perform well in this part of the question. They produced irrelevant material and wasted their valuable time instead of differentiating the analysis.

(b) Target costing:

Examinees were required to calculate the maximum amount to be paid to the overseas manufacturer and alternative course of action if the ice cream machine is not sold at a lower price by overseas manufacturer. Most of the examinees performed well and secured good marks. However, few examinees were not able to properly attempt this part of the question due to lack of preparation. A few mistakes committed by the examinees are as under:

- Many examinees instead of calculating the target cost for 40,000 ice cream machines and then calculating the target cost per machine tried to calculate only the target cost of an ice cream machine which caused incorrect figure of desired profit. Few examinees incorrectly added the desired profit into the projected sales revenue instead of deducting from it to arrive at target cost.
- While advising the viable alternative course of action in case the overseas manufacturer would not sell the ice cream machine at target cost many examinees incorrectly suggested that company should increase the selling price, decrease the cost of production and decrease the (%) of target profit. Although, it was understood that company had already taken these aspects in their consideration. There were few examinees who suggested that company may plan to manufacture the ice cream machine in house if market share of this product could be captured for a good number of years and the project is financially viable or the management may search a reliable local manufacturer.

(c) Profitable client for English Shoes Ltd.:

The overall average performance was observed in this part of the question. The most common errors observed were as follows:

- Many examinees did not deduct the cost of shoes from the sales revenue. Moreover, a large number of examinees incorrectly deducted the distribution cost of Rs. 20,000 (10 orders x Rs. 2,000) from the net sale revenue of Karachi Shoes Company although it was clearly stated in the question that the company itself collects the shoe thereby saving the selling and distribution cost.
- A substantial number of examinees incorrectly calculated the sales revenue of Lahore Shoes Company amounting to Rs. 100,000 instead of Rs. 500,000 (5 orders 100 pairs x Rs. 1,000).

Question No. 3

(a) Bid price of lawn mower to be quoted by the production manager:

Though most of the examinees attempted this part of the question but could not perform well. It was an easy question on the relevant costing but examinees demonstrated that they had not prepared the topic thoroughly. Following general mistakes were observed:

- A large number of examinees incorrectly showed the material X amounting to Rs. 3,500 as cash outflow although it was negative opportunity cost or saving in cost therefore, it was required to be deducted from the cost. In the same way, direct labour of Rs. 12,000 was incorrectly shown instead of Rs. 14,000 additional cash flow of undertaking this contract.

- Many examinees also incorrectly included the supervision and overhead cost into bid price although they would continue if the contract was not accepted. Besides, due to incorrect calculation of relevant cost, examinees were also not able to calculate the correct figure of contribution for manufacturing the lawn mower machine. Many examinees did not state the logical reasons/ explanations for including or exclusion of a particular item in calculating the bid price.

(b) & (c) A report on bid price and non-monetary factors:

The examinees did not perform well due to poor performance in part **(a)** of the question. Some of the mistakes committed by the examinees are as under:

- Majority of the examinees did not mention that costs given in the question had not represented incremental cash flows arising from undertaking the contract. They were also not able to recommend the tender price slightly below Rs. 60,000 due to incorrect contribution figure calculated in requirement **(a)** of the question.
- Most of the examinees mentioned irrelevant and illogical non-monetary factors.

Question No. 4

(a) (i) Market value method for joint cost allocation:

The worst performance was observed in this part of the question. It was quite visible that examinees had not prepared the topic and they had no fair idea about the subject. There were few examinees that secured good marks in this part of the question. A few mistakes committed by the examinees are as under:

- The examinees did not calculate the ultimate market value of each product by multiplying units produced with market price rather they multiplied the units sold with per unit market price of each product. Consequently, they could not correctly find the hypothetical market value, joint cost allocation and total cost of each product.
- The examinees were also remained unsuccessful to find the correct unit cost of each product due to incorrect calculation of total cost. Resultantly, they also could not calculate the correct figure of assigned inventory costs.

(ii) Evaluation of customer's offer at split-off point:

Most of the examinees badly attempted this part of the question. Even students did not have knowledge of market value application. They failed to calculate unit cost of product B in part (a) (i) of the question. Very few examinees correctly attempted this question by applying the incremental cost approach i.e., calculating the decline in revenue and decline in cost (separable processing cost) to find net decline in contribution before rejecting the offer of the prospective customer. There was hardly any examinee who mentioned any advantage which would make the sale of product 'B' at split-off point desirable.

(b) Approaches to benchmarking:

This part was poorly attempted by the examinees though almost all the examinees attempted this part of the question. Most of the examinees produced irrelevant, lengthy answers and even they could not name the correct types of benchmarking.

Question No. 5

(a) Balanced score card performance indicators and its interpretation:

Insufficient knowledge and practice was observed in this part of the question as most of the examinees attempted this part of the question haphazardly and could not secure good marks. Most of the examinees were not clear which ratios were required to be calculated under the four perspectives on the balance scorecard i.e., customer, internal, financial & innovation & learning. Many examinees also could not interpret the information correctly due to incorrect calculation of ratios under the four perspectives on the balance scorecard.

(b) (i) & (ii) Calculation of margin earned, turnover of assets, and return on investment (ROI):

The examinees performed well in this requirement and secured good marks. However, few mistakes committed by the examinees are as follows:

- Many examinees did not correctly calculate assets turnover ratio of each division. A few examinees showed the assets turn over ratio in percentage instead of times.
- Few examinees calculated the net profit of each division instead of margin earned.

(iii) Gamma division's performance based on ROI and residual income:

A clear understanding and knowledge was observed on the topic. However, few examinees did not calculate the Gamma Division's ROI and residual income of government contract' though they calculated the Gamma Division's ROI and RI without contract and with contract.

Question No. 6

(a) Divisional transfer pricing of products 'B' and 'G':

The overall performance of the examinees was below average and following observations were noticed:

- Most of the examinees incorrectly calculated per unit additional charge, dividing the 10% of stock and work in process and fixed assets of product 'B' 'by 10,000 units instead of 9,000 units because profit and loss forecast for the White Division for 2014 was required to prepare on the basis of 90% of standard volume under each of alternative rules. They also committed the same mistakes while calculating the 10% charges of product 'G'. Consequently, the examinees could not correctly calculate the transfer price of product 'B' and 'G' to White Division.
- Many examinees also could not correctly take into account the under-absorption of White Division's fixed cost in alternative (i) and correct figure of fixed cost in alternative (ii).

(b) Transfer pricing rule preferred by the managing director:

The examinees also poorly performed in this part of the question. They could not properly answer the requirement due to incorrect preparation of profit and loss forecast for the White Division under alternative rules for inter-division transfer pricing of Products B and product C.

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**EXAMINERS' COMMENTS
SPRING 2013 EXAMINATIONS**

**INVESTMENT ANALYSIS AND PORTFOLIO MANAGEMENT
Semester-6**

Question No. 2

(a) (i) Difference between investor and speculator:

Examinees were required to differentiate between investor and speculator; all the examinees attempted this requirement but produced irrelevant and illogical answers. They failed to describe the difference correctly between investor and speculator. They defined the terms in general way.

(ii) Current and capital yield:

Majority of the examinees attempted this part very well. However, few of them failed to differentiate between current yield ($\text{Annual income} \div \text{Beginning price}$) and capital yield $[(\text{Ending price} - \text{Beginning Price}) \div \text{Beginning Price}]$.

(b) Return on investment:

Almost all the examinees attempted this part of the question but were not able to reach the correct answer. They could not calculate the return on investment and applied incorrect formulae. Even they failed to calculate investor's contribution to total investment by applying given percentage i.e., 60%.

(c) Expected return and risk of stock:

Examinees were required to calculate expected return and risk of the stock. Majority of the examinees attempted this requirement very well and scored good marks. While few of them could not attempt it correctly and applied wrong formulae for return and standard deviation.

(d) Value of investment options:

Examinees were required to calculate values of two investments to ascertain the better option. All the examinees attempted this part badly and only few students were able to comprehend the question. It was obvious that the option having higher implied rate of return than market rate would be selected and it was simple to reach the answer, but examinees carried out irrelevant and lengthy calculations.

Question No. 3

(a) Beta of the stock on market portfolio:

Almost all the examinees badly attempted this part of the question which shows lack of knowledge and practice on the topic. Examinees should calculate mean and co-variance to arrive at the required answer. Most of the examinees made simple mathematical mistakes as they did not mention negative figures with minus signs or put minus signs with values where it was not required.

(b) Covariance, expected return and risk on portfolio:

A poor response was witnessed as almost every student made blunders, though most of the calculations were quite simple. Examinees failed to calculate covariance as they misinterpreted the formula and put wrong figures.

- Few examinees tried to calculate covariance by multiplying given return with the standard deviation of Stock-A and dividing it by return and deviation of Stock-B. While it could easily be calculated by multiplying standard deviation of Stock-A and B with the given coefficient of correlation i.e., $(8 \times 13) 0.54$.
- Few examinees failed to reach the correct figure of expected return as they multiplied Stock-A return with its standard deviation and Stock-B return with its standard deviation and added both to get the return on portfolio. It was simple to calculate by multiplying weightage of both the stocks with their given returns i.e., $(0.5 \times 8) + (0.5 \times 15) = 11.5\%$.

Question No. 4

(i) & (ii) Current price of stock and present value of growth opportunities (PVGO):

Most of the examinees poorly performed in this part of the question. It reflects that the examinees did not study the topic and prepare for the examination fully. There was hardly any examinee who secured goods marks in this part of the question. A few mistakes committed by the examinees are as under:

- Majority of the examinees could not correctly calculate current price of the stock. It was clearly mentioned in the question that the given dividend is for the next year, but examinees took the current year's dividend to be enhanced with growth percentage i.e., 17.25 (1.05). Consequently, they calculated wrong figure for stock price.
- Examinees were required to calculate present value of growth opportunities (PVGO) but all of them failed to attempt this part.

(b) (i) Sustainable growth rate (SGR):

Almost all the examinees badly attempted this part; even many of them did not know the correct formula of SGR. A clear hint was given in the question that examinees had to consider only average retention ratio and return on equity, but they failed to understand the requirement. The common errors made by the examinees are as follows:

- Some examinees did not take average return on equity and just multiplied current year's return with the current year's retention ratio.
- Few of them could not calculate shareholders' fund and added loan fund instead of taking equity capital, reserves and surplus only. Those examinees who wrote correct formula but due to incorrect calculation of wrong shareholders' fund. They were unable to calculate SGR.
- Some examinees tried to calculate dividend growth rate $[(D_2 - D_1)/D_1]$ which was the wrong approach and it shows lack of knowledge about SGR.

(ii) Earning per share (EPS):

Examinees were required to calculate Earning per share for Year-6 with the help of revised figures by applying given percentages to Year-5. Almost all examinees failed to attempt this part as they could not understand the given assumptions and some of them revised the figures of all years instead of only Year-5 values. Resultantly earning per share was wrongly calculated.

(c) Technical analysis and fundamental analysis:

All the examinees failed to differentiate between technical analysis and fundamental Analysis. They tried to differentiate between them by illogical and lengthy explanations which were irrelevant and showed lack of knowledge of the examinees.

Question No. 5

(a) Yield to maturity (YTM):

It was required to calculate yield to maturity of bond but the examinees attempted it with different formulae instead of calculating terminal value of interest. Following shortcomings were observed:

- Many examinees tried to attempt this part by applying own created formula or irrelevant formula.
- Few examinees calculated wrong interest amount so they reached wrong YTM.
- Some of them tried to calculate price of bond and applied different percentages to reach internal rate of return (IRR) which was not needed.

(b) Value of convertible debenture:

All examinees failed to answer the question, as they really did not understand the requirement of the question or the correct procedure. It was obvious to prepare amortization schedule to reach the correct value of convertible debenture.

(c) (i) Call option and put option:

All the examinees attempted this part but only few of them could correctly differentiate between the two. Call option gives option holder the right to buy asset and put option gives right to sell underlying asset at a fixed price during a certain period. However, examinees, except very few, could not explain the difference.

(ii) American and European option:

A very few examinees could explain the difference between two options, and hardly few could score marks.

(d) Value of put option using put-call parity theorem:

Many examinees did not attempt this part which showed that they totally ignored the topic. Very few of them could perform well in this part. They used correct formula but failed to reach the answer as they put wrong values in formula.

Question No. 6

(a) Strategies for overcoming biases:

Majority of the examinees attempted this part but failed to elaborate the strategies for overcoming the psychological biases and produced irrelevant and lengthy answers, which shows that they were not prepared well.

(b) (i) & (ii) Goals of real world investor and labelling of asset allocation:

A very few examinees correctly attempted this part of the question. They could not mention the goals i.e., safety, income, growth. Many examinees attempted the behavioural portfolio pyramid asset allocation, but few of them could label it in the correct order.

(c) & (d) Investor constraints and Warren Buffet's investment philosophy:

Examinees were required to elaborate investor's constraints that can influence the investor's investment policy, but they produced illogical and lengthy answers. Similarly, all the examinees improperly defined the salient features of Buffet's Investment philosophy instead of explaining the relevant features.

(e) Treynor and Jansen measures:

Few examinees attempted the question for both measures but could not reach the correct answer as they put wrong figures in formulae.

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**EXAMINERS' COMMENTS
SPRING 2013 EXAMINATIONS**

**STRATEGIC MANAGEMENT
Semester-6**

Question No. 2

(a) Cost leadership strategy and differentiation strategy:

Most of the students defined cost leadership strategy and differentiation strategy successfully i.e. cost leadership strategy seeks to achieve the position of lowest cost producer in the industry while differentiation is aimed at the broad mass market and involves the creation of a unique product or service for which a company can charge a premium.

Few examinees were unable to attempt this question properly and answered unsatisfactorily. Many students mentioned that a company can follow a cost leadership strategy and a differentiation strategy simultaneously. However, few students gave befitting examples and proper explanation too. It was noted that a large number of students did not bother to present the examples. The students must have clear idea about the concepts and they must try to find out the examples which will definitely add to their knowledge and practical life.

(b) Resource planning, operation planning and control system:

A good number of students answered this question satisfactorily and explain resource planning, operation planning and control system suitably. Some examinees were unable to explain the terms in a correct manner. At this stage the students must have a clear idea that some decisions of strategic importance may not be anticipated in the strategic plan. They have to keep their eyes open and must have latest information in the prevailing circumstances which could be implemented with certain adjustments.

Question No. 3

(a) Functions of objectives and critical success factors (CSFs):

Majority of the examinees briefly explained functions of objectives consisting of planning, responsibility, integration, motivation and evaluation. However, many students were failed to describe a six stage process for using critical success factors. They must know that CSF are elements of the organizational activity which are the bases of success. CSF may change with time so one must be aware of the current situation. Moreover, one has to check the competitors and assess the impact on CSF.

(b) Key external forces and their relationship with an organization:

Most of the students have mentioned the key external forces (i.e. economic forces, technological forces, political governmental and legal forces, socio-cultural forces and competitive forces) but many of them were unable to answer their relationship with an organization. They must know that knowledge of this relationship will help them to find out strengths and threats which also help in decision making.

Question No. 4

(a) Characteristics of effective evaluation of strategy:

This was a simple question which required to mention characteristics of an effective evaluation of strategy. A small number of examinees had a clear idea and they were able to answer it correctly. Examinees must know that there is not fixed or ideal way to evaluate. Strategy evaluation must be based on unique characteristics of an organization including its size, management style, purpose, and strengths and other factors. Most of the students answered the question in a broad way and they were not specific.

(b) Product-market planning and potential risk involved:

This question carries two parts to answer. Firstly, explanation of principles and guidelines for product market planning characteristics and secondly, description of potential risks. Some students missed to answer the first part i.e., the explanation of principles and guidelines for product market planning as suggested by Johnson, Scholes and Wittington, including total potential for improvement and growth, cash generation, the timing decision for killing off existing products, the long-term rationale of a product or market development, diversification by acquisition

Most of the students did not answer the second part satisfactorily. They covered points like market risks, product risks, managerial risk, and financial risk.

Question No. 5

(a) Portfolio analysis, strategic business units analysis and Boston Consulting Group (BCG):

A number of students successfully explained similarities in portfolio analysis and strategic business units (SBUs) analysis. They also drew the table showing relative market share and market growth covering stars, question marks, cash cows and dogs. Some students were not specific to their answers and they were found confused. They were unable to differentiate relative market share and market growth. This shows lack of preparation for examination and non-seriousness in understanding different concepts of strategic management.

(b) Lewin's 3-stage model:

Most of the students were able to describe Lewin's 3-stage model in detail. They successfully explained the stages consisting of unfreeze, change and refreeze. Few examinees did mention the three stages but were unable to differentiate among the 3 stages. This was a simple question and all examinees should have answered it correctly.

Question No. 6

(a) Characteristics of IT/IS strategy:

Few students explained the characteristics for IT/IS strategy in context to the need for a strategy approach as suggested by Earl. Answer of the most of the students was based on guess work and gave their own headings and explanation. The question was specific as it required characteristics for IT/IS as suggested by Earl involves high cost, is critical to the success of many organizations, is now used as part of the commercial strategy in the battle for competitive advantage, potentially affects all levels of management and staff in an organization, involves many stakeholders inside and outside the organization, therefore stakeholder analysis is required etc.

(b) Shareholder value and Value Based Management (VBM):

Most of the students briefly defined shareholder value and Value Based Management (VBM) correctly which includes strategic planning, capital allocation, performance measurement, management remuneration, internal communication and external communication

They know the values of shareholders and their investments. However, it was noted that many examinees were unable to briefly describe elements of Value Based Management.

Question No. 7**(a) Stages in strategic analysis:**

It was noted that a good number of students were able to identify the different stages of strategic analysis correctly. They were able to specify 7 steps of strategic analysis which helps in understanding of strategic position of an organization. At this stage every examinee should have clear idea and details of each stage i.e. mission and/or vision, goals, objectives, environmental analysis, position audit or situation analysis, corporate appraisal and gap analysis.

(b) The cultural web:

This question required to discuss cultural web comprising six physical manifestations of culture. Mostly the examinees had a clear idea of the web comprises six physical manifestation of culture. They were able to mention stories, rituals and routines, symbols, organizational structure, control systems, and power structure as elements of cultural web. However, some students could not describe it suitably.

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