

**EXAMINERS' COMMENTS**  
**NEW FALL (E) 2011, APRIL 2012 EXAMINATIONS**  
**FUNDAMENTALS OF FINANCIAL ACCOUNTING**  
**Stage – 1**

**Question No. 2**

**(a) Historical Cost, Business Entity and Dual Aspect Concepts:**

This part of the question required the examinees to explain the terms 'historical cost concept', 'business entity concept' and 'dual aspect concept'. Examinees replied satisfactorily with the exception of following points:

- Definitions were presented in different ways. Some explained the cost aspect of assets and other explained the investment of assets for business. The majority showed the cost but could not explain the valuation aspect of assets.
- The concept that business affairs should be treated as separate from the non-business affairs of its owner(s) was the main criteria, which was explained in some cases and omitted in majority cases.
- A very few could explain the dual aspect concept correctly.
- Generally it was observed that theoretical portion was very weak. English was very poor.

**(b) Three-Column Cash Book:**

Given the transactions for a month, examinees were asked to write up a three-column cash book. This part of the question was poorly attempted by the examinees. Three-column cashbook was incorrect in majority cases. examinees made various mistakes while preparing it:

- Some made cash journal/ bank journal against the requirement of the question.
- Some made general type of cash book and wrote different heads of accounts.
- Some of them mixed up bank and cash entries.
- Many have no idea of 'discount allowed' or 'discount received'.
- In some cases, calculations were wrong, totals were incorrect etc.

**Question No. 3**

**(a) Journal Entries in respect of Accommodation Bill:**

This part of the question required the examinees to pass journal entries for transactions relating to an accommodation bill in the books of the 'drawer' and the 'drawee'. On the whole, performance of the examinees was satisfactory. Hardly any examinee could, correctly, make the journal entries in the books of the drawer and the drawee. The mistakes observed were as follows:

- While making journal entries, the majority mentioned 'cash' instead of 'bank'.
- Entries were also shown in the books of bank, which was not required.
- Except a few examinees, discount was wrongly calculated for the whole year instead of three months.
- Accounts payable/ receivable were mentioned instead of bills payable/ receivable.
- Sequence-wise entries were not made in many cases.
- Calculations for 'discount' were not shown.

**(b) Computation of Amount of Inventory:**

This part of the question required the examinees to compute the corrected amount of closing inventory given that stocktaking was not done at the end of the year. This question appeared difficult for the examinees and their performance was very poor.

- Except a few examinees, most of the examinees wrongly calculated the adjustments with respect to sales/ sales returns after June 30, 2011.
- Examinees did not know as to what should be added or subtracted from the inventory given in the question. Similarly, other items like adjustment for damage items and goods sent on 'sale or return basis' were not taken well.
- A few could workout adjustment for damage item.

#### Question No. 4

##### Bank Reconciliation Statement:

This question required the examinees to (i) update the 'cash book' and (ii) prepare 'bank reconciliation statement' from the given cash book and bank statement for a month. Although the question was very simple, the performance of examinees was very poor:

- While updating cash book some examinees could write only the entries given in the question.
- Balance c/d was not worked out in most of the cases.
- Some made 'cash journal' instead of 'cash book'.
- Adjusted balances of cash/bank were not worked out.
- Some examinees did not know which entries to be added and which to be subtracted. They did that at random.

#### Question No. 5

##### (a) Correcting Journal Entries:

This question required the examinees to pass journal entries for rectifying errors and calculate corrected net profit. Performance of the examinees, in this question, was poor:

- Examinees did not mention account titles exactly.
- The majority does not understand the use of 'suspense account'.
- Some examinees could not work out utility expenses in the third entry. {i.e., Rs.450 (6,720 – 6,270)}

##### (b) Adjustments in the Net Profit:

- Majority of the examinees made 'suspense account' instead of showing adjustments in the net profit.
- Many examinees made adjustments of 'statement of financial position' in the 'profit and loss account'.
- Purchases after the closing date were not taken into account for adjustment in net profit. Similarly, 'discount allowed' was deducted instead of adding it to the net profit.
- Some had no idea and made adjustments at random.

#### Question No. 6

##### Financial Statements:

This question required the examinees to prepare (i) 'income statement' and (ii) 'statement of financial position' from a given 'trial balance' and adjustment data.

- In most of the cases, the titles of 'financial statements' were not correctly written.
- Net sales, in many cases, was incorrect as 'carriage outwards' was deducted from 'gross sales'.
- The items pertaining to 'cost of goods sold' were not placed sequence-wise. Some put the same in the 'operating expenses'.
- 'Rs. 000' were not mentioned on the top of the amounts' columns.
- Many examinees unnecessarily made adjusting entries and wasted their time.
- Headings of non-current assets, current assets and equity and liability were not shown in most cases.
- Net accounts receivable were not correctly shown.
- In some cases, prepaid 'wages and salaries' and 'insurance' were incorrect due to wrong adjustments.
- Net cost of office equipment was incorrect in many cases due to wrong calculation of depreciation.
- Working notes were not prepared for the relevant figures.

**EXAMINERS' COMMENTS**  
**NEW FALL (E) 2011, APRIL 2012 EXAMINATIONS**  
**BUSINESS ECONOMICS**  
**Stage – 1**  
**SECTION "A"**

**QUESTION NO. 2**

- (a) No examinee gave assumption of indifference curve analysis or utility analysis of consumer equilibrium. They simply gave definition of consumers' equilibrium in case of indifference curve analysis. Very few examinees mentioned that marginal rate of substitution of A for B is equal to their price rate.

In terms of Marshallian or utility analysis, a consumer is said to be in equilibrium, in case of one commodity, when its price and marginal utility have been equated.

- (b) The majority of answer was not technical. Mostly discussed "skilled worker and unskilled worker" or daily wages worker and permanent worker or old worker or young worker etc. No one discussed territorial division of labour.

Division of labour could be of three types:

- (a) Professional division of labour
  - (b) Process division of labour
  - (c) Territorial division of labour
- (c) Some examinees just write the opposite. However reasonable number of examinees gave the right answer giving the example of diminishing marginal utility and indifference curve or differentiating between number and ranks.

According to this theory, utility is a cardinal concept, i.e. it is possible to measure and quantify satisfaction achieved from the consumption of various commodities. What counts for modern demand theory is the principle of ordinal utility. Under this approach, consumers need to determine only their preference ranking of bundles of commodities. Ordinal variables are ones that we can rank in order, but for which there is no measure of the quantitative difference between the situations.

**QUESTION NO. 3**

- (a) Reasonable number of examinees were confused between non-price factor and price-factor of changes in demand. Similarly, they could not differentiate between non-price factor and price factor of supply change. Similarly, some examinees were confused that demand rises and demand line goes up but supply falls when supply lines goes up. However very good number of examinees gave the right answer.

Given a single pair of demand and supply curves in a market, the price and quantity will always tend towards equilibrium. If any one of the many factors which we held constant in drawing the demand and supply curves should change, either or both the curves will shift. Thus, changes in income, tastes and preferences, changes in the prices of other goods, and changes in the number of consumers all cause the demand curve to shift.

- (b) Most of examinees were fully confused between "Law of variable proportion" and "Law of Return to Scale". Only very few examinees differentiated stating that in law of variable portion at least one-factor is variable and others are fixed and in returns to scale all factors are variable. However no one gave the reason behind it.

Law of variable proportions states that holding technology and all inputs except one constant, as equal increments of the variable inputs are added, beyond a certain point the resulting rate of increase in total product will decrease. Otherwise stated, after certain point, the marginal physical product of the variable input will diminish.

In the short-run, it is not possible to make changes in all inputs because of limitations of time. Therefore, we try to increase output by making changes in the quantity of variable factors only (labour, raw materials etc.) keeping quantity of other factors fixed (e.g., machines, buildings, etc.). That is, in the short-run, we change

the variable factor of inputs and study the behaviour of production function.

- (c) No examinee discussed the elasticity under monopoly. No one gave the formula:

$$MR = AR \left[ \frac{e - 1}{e} \right]$$

Monopolist is afraid of only elasticity. However they gave diagram showing position of M.R. and A.R. But some of them showed M.R. above A.R.

Since monopolist is the only producer (in a monopoly industry), the industry's demand curve and firm's demand curve are one and the same. The monopolist can hardly suffer the delusion that its actions have no effect upon the price it receives. In fact, the monopolist's output decision will have a decided impact upon price, and the monopolist is well aware of that.

## SECTION "B"

### QUESTION NO. 4

- (a) Some of examinees gave the detailed formula:

$$P = \frac{MV + M' V'}{T}$$

But some of them gave the simple formula:

$$P = \frac{MV}{T}$$

Very few examinees gave implication of this theory. Instead of implication, the word criticism should have been used.

Early monetary economists used velocity to explain movements in the overall price level. The key assumption here is that the velocity of money is stable and predictable.

On the basis of this insight about the stability of velocity, some early writers used velocity to explain changes in the price level. This approach, called the quantity theory of money and prices, rewrites the definition of velocity as follows:

$$P \equiv \frac{MV}{Q} \equiv \left( \frac{V}{Q} \right) M \approx \kappa M$$

The quantity theory of money and prices holds that prices move proportionally with the supply of money. Although the quantity theory is only a rough approximation, it does help to explain why countries with low money growth have moderate inflation while those with rapid money growth find their prices galloping along.

- (b) No examinee could understand the meaning of economic factors. Comparative cost theory or absolute cost theory was not discussed except one or two. A part from this, emergency situation like flood, earthquake, epidemic cases were also not discussed except a few.

Nations find it beneficial to participate in international trade for several reasons.

Diversity in Natural Resources:

Differences in Trades:

Differences in Costs:

### QUESTION NO. 5

- (a) Very few examinees differentiated between capital and capital formation. Most of students discussed the importance of capital. Very few examinees indicated to saving, stock exchange, foreign investment etc.

Capital formation is one of the major factors in economic development. It is the increase in the stock of both material and human capital by making available a part of society's currently available resources.

- (b) Most of examinees combined the merit of direct and indirect tax taken together. Similarly the combined demerit of direct and indirect tax. Some of examinees discussed merit and demerits of tax only.

- **Some of the merits and demerits of direct taxes:**

- Merits:

1. Direct taxes are generally imposed according to the ability of the person to pay.
  2. Since these taxes are generally progressive in nature, they can bring about social and economic justice.
  3. Direct taxes are revenue elastic. In other words, as income of the community increases, the tax yield from direct taxes also increases.
- Demerits:
1. Direct taxes are generally payable in lumps or even in advance.
  2. It is not easy to find out the ability to pay of the person being taxed.
  3. Such taxes require proper keeping of accounts, which some taxpayers may not be able to do so.
- **Merits and demerits of indirect taxes:**
- Merits:
1. Indirect taxes are less inconvenient.
  2. Since these taxes are usually hidden in the prices of goods and services being transacted, the burden does not pinch much.
  3. With a proper administration, the chances of evading these taxes can be minimised.
- Demerits:
1. These taxes generally do not look into the ability to pay and are therefore unjust to the poor.
  2. They do not create consciousness among the taxpayers because they are unaware of the fact that they are paying these taxes.
  3. These taxes feed inflationary forces through higher prices, higher costs and wages.

#### **SECTION "C"**

#### **QUESTION NO. 6**

- (a) Transport and communication have an important bearing on economic growth. This is a generation question. Everybody knows about it. So, every examinee wrote about it. They will differentiate between transport and communication. Some of them also wrote about social importance of transport and communication. However, most of students answered better way.

The means of transport and communication have an important bearing on the economic growth of a country. If a country is well connected with rail road, sea ports and has a developed means of communication including information technology, it than helps in improving the productive capacity of the various sectors of the economy.

- (b) Some of examinees did not understand the meaning of mechanization. They took it as modernization. They discussed fertilizers, insecticides, and better seeds into mechanization. Some of them even discussed industries in mechanization. No doubt, some of the students defined mechanization; the use of machines in agriculture. A good number of examinees discussed "Firm" instead of "Farm". However, very few students answered this question properly.

Mechanization of farms means the use of machines for conducting agricultural operations, replacing the traditional methods which involve human and animal labour. Farm mechanization is one of the packages of green revolution technology.

#### **QUESTION NO. 7**

- (a) Cottage industry is one of the essential industries of Pakistan. It faces a lot of problems in Pakistan. Briefly explain the problems. Some of examinees took it cotton industry and answered accordingly. Some of examinees took it simple industry not cottage industry. Only few of examinees defined cottage industry and that is too not exactly. However most of them discussed general problems faced by industry like shortage of water, shortage of power, shortage of transport, excess taxation etc.

By cottage industry is meant the industry which is generally carried on in the home of artisan. He is usually assisted in his work by the members of his family. The job may be whole time or part time.

(b) This is also a common and normal question. Everybody answered this question. But some of them included wrong items like Jute, wheat, is seldom exported but it is not a major exports. Similarly, sugar is not a major export. But no one gave volume in total export indicating its importance 65% of export consists of cotton and cotton products. No one discussed in detail. We are still exporting primary products. Some of them discussed sports products and surgical item.

- i) Textile Manufactures
- ii) Food group
- iii) Leather and leather products
- iv) Sports goods

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**EXAMINERS' COMMENTS**  
**NEW FALL (E) 2011, APRIL 2012 EXAMINATIONS**

**BUSINESS LAWS**  
**Stage – 1**

**SECTION "A"**

**Question No. 2**

**(a) Legislation, Components and Forms of Legislation:**

Majority of the examinees were unable to attempt this question properly. Many examinees discussed the process of legislation in National Assembly and Senate rather than describing what legislation is. Some of them discussed other sources of law in this connection. Mostly parliament was identified as the law making body but delegated legislation by subordinate bodies was generally ignored.

**(b) Definition of Civil Court and Classes of Civil Court:**

Examinees defined civil court in a general way. They could not properly highlight the nature of civil courts. Many examinees mentioned "civil courts deal the matters between individuals" but they generally ignored the point "civil courts also deal the matters between individuals and state". In most of the cases, classes of civil courts were mentioned incompletely or incorrectly.

**SECTION "B"**

**Question No. 3**

**(a) (i) Essentials of a Valid Offer:**

Some examinees unnecessarily discussed the process of contract making and definition of offer. Majority mentioned less than the six essentials of a valid offer while some of them mentioned essentials of valid contracts instead of valid offer.

**(ii) Case regarding Indemnity:**

The case was misapprehended by many examinees. Majority identified it as a case of indemnity but many of them were unable to give proper reasoning for the same. Some examinees attributed it as case of guarantee.

**(iii) Definition of 'Consent':**

Many examinees could not properly define the term 'consent'. However, they discussed the contract/agreement process instead of defining 'consent'. Some examinees unnecessarily elucidate 'free consent'.

**(iv) Case regarding "Contract":**

Most of the examinees attempted this part of the question and concluded properly that 'there is no contract between parties'. However, majority could not give the right reasoning which is 'lack of consensus between the two parties'.

**(b) (i) Modes of Partnership Dissolution Without Order of The Court:**

Examinees answered this part incompletely. Many examinees did not highlight the important underlying factors while mentioning various modes of dissolution without order of court. Some examinees discussed the definition of partnership without any such requirement.

**(ii) Case regarding 'Dissolution of Firm':**

Majority of examinees wrongly concluded that court cannot pass an order if someone other than a partner has moved the case. A few examinees were able to identify that a court can dissolve the firm on the petition by the next friend of the insane partner if the insanity is of a permanent nature.

#### Question No. 4

**(a) (i) Transfer of Property in Specific Goods:**

Almost all the students attempted this question in a general way. However, following shortcomings were observed:

- Examinees had a general understanding of 'specific goods' but their replies were out of context.
- Mostly they were preoccupied with physical delivery rather than transfer of title.
- Some examinees mentioned the rules but could not give appropriate examples.

**(ii) Rights of Buyer:**

Generally examinees could not properly list down rights of buyers. Many of them repeated same point in different words.

**(b) (i) Definition of Cheque and Differences between Bill of Exchange and Cheque:**

Majority attempted this part but most of them mixed up the definition of cheque with negotiable instrument. Some examinees mentioned separate features of cheque and bill of exchange rather than points of differences between the two. Some of them defined bill of exchange which was not the requirement of the question.

**(ii) Types of Bill of Exchange:**

Examinees could not properly describe the types of bill of exchange and attempted this question through guess work. Few of them discussed bill of exchange rather than its types.

#### Question No. 5

**(a) Commercial Establishment and Construction Industry:**

Many examinees defined 'commercial establishment' based on their general perception without regard to the pertinent legal context. Only a few of them pointed out that Government can also declare an establishment or class thereof as commercial establishment for the purpose. Definition of 'construction industry' was also poor and confined to perception of a 'builder' rather than the wide range of activities mentioned in relevant law.

**(b) (i) Ventilation and Temperature (ii) Lighting (iii) Drinking Water:**

Majority of the examinees attempted this part but the topics were mostly discussed from a layman's point of view rather than the particular context.

#### Question No. 6

**(a) (i) Managing Agent (ii) Accident:**

Attempted by almost all examinees but failed to define the terms in a legal context. Most of them defined 'temporary or permanent disablement' instead of defining the term "accident".

**(b) (i) Employee's Social Security Fund:**

Examinees discussed the provisions pertaining to "social security fund" in a very general way. Many examinees construed that the Fund is managed by employer like Provident Fund. Many of them unnecessarily discussed the details of benefits payable under the Fund.

**(ii) Employment Injury:**

Many examinees discussed the term "employment injury" properly but some of them ignored the injuries caused by occupational diseases as specified in the regulations. Some examinees unduly discussed the types of injuries.



**EXAMINERS' COMMENTS**  
**NEW FALL (E) 2011, APRIL 2012 EXAMINATIONS**

**BUSINESS ENGLISH**  
**Stage – 1**  
**SECTION "A"**

**QUESTION NO. 2**

**Real Problems were noticed as under:**

- Failure to use English effectively.
  - Spelling and punctuation.
  - State and a failure to read through the given task was also noticed in many scripts.
- (a) Examinees who had learnt and practiced rules of conversion for (i) and (ii) furnished proper answers. Poor/in-correct answers came from these who had no or little knowledge/practice for solving such exercise. Given task was simple.
- (b) A few reported error-carrying part properly by referring to it. Some attempted to make structural change to make a new sentence. Perhaps majority failed to follow the message of the question. As their writings show, majority instead of referring to error-carrying part as a, b, c, d and (e: no error), attempted to recast or reframe the given sentence(s) a fresh as per meaning such examinees could make out.

**QUESTION NO. 3**

- (a) Performance was almost identical to one stated against 2(b) above. A few reported their own mode of reporting chosen option. Some gave their own versions of corrected sentence. A very few referred to chosen option as A, B, C, and D only without rewriting completely corrected sentences.
- (b) Not satisfactory on the whole. Very few reported correct name of professionals who practiced or mastered relevant art/field.

**SECTION "B"**

**QUESTION NO. 4**

- (a) Composed solutions reflected crude tastes as well as immature sense of appreciation. Given expressions were simple but majority did not give correct meaning and/or failed to supply meaningful sentences.
- (b) Proper completion of given sentences by inserting appropriate form of the words was reported by a very few examinees. As noted from answers reported majority failed to comprehend question itself. (b) may also be incorporated for this question.

**QUESTION NO. 5**

Very few could do justice with the task. Clarity and precision was missing in the reported answers. Un-intelligent lifting up of passage material was made by many. This occurred as they failed to structure ideas: leading them to convert into accepted sense group.

Intelligent reading is pre-requisite to an understanding of the information given in a comprehension passage. Poor readers often misses the writer's message and meaning. It is important for the student to attune himself to the writer's sequence of thought and argument. One has to have the ability to:

- (i) See the link or connection between successive points.
- (ii) See the connection between cause and effect, and
- (iii) Detect the link and connection between specific ideas and an illustrated idea.

Examinees must realise that no credit can be earned for slavish copying from the text.

**SECTION "C"**

**QUESTION NO. 6**

- (a) The majority of composers of report contents did not care for adopting and practicing a well thought-out plan of work or accomplishing it skillfully. Relevance, clarity, correctness and appropriateness was rarely demonstrated. Furnished writings carried numerous in-accuracies of expression.

- (b) Satisfactory to some extent. Errors were, however, noticed in writings with long and rambling sentences as after thoughts appended as participial constructions. This caused vagueness and imbalance because too many things in a single sentence were aimed at.

The examinees need to know that contents of message in a memo should be condensed so that its essentials and any arising action requirements are transmitted to the recipient. The structure of the memo's message will also vary according to its context. Three principal content components form the very basis of a memorandum i.e. subject, context of the message, action either required or requested of the recipient. Reading more and comprehensively about the art of drafting memorandum is suggested to young learners. Any standard book of repute should be frequently consulted.

**QUESTION NO. 7**

Majority opted to write for (v) and (vi). Few exercised option of composition for (ii) and (iv). Not a single writings came for (i) and (iii). Examinees, in general did not show the ability to clothe their thoughts in correct, simple and idiomatic expression. Material conceived and chosen showed little or no relevance. Inaccuracies of language further spoiled these compositions. Ideas expressed neither carried logic nor any coherence missing development of train of thoughts which spoiled unity of expression. Proper paragraphing, beginning and close can also be cited as un-satisfactory.

The beauty, clarity and case of an essay largely depends very much on judicious selection of expressions and words relevant to it. Use of natural, proper and accurate words is necessary to express meaning in the clearest way. Before setting to write meaningfully and objectively one should melt on thinking carefully over the subject and understand its significance. The more one thinks, the more readily one's thoughts on the subject will pass into language and the more suitable words will spring up to do their duty.

**QUESTION NO. 8**

Many examinees attended to this very simple exercise fairly well. They seem to have welcomed the task being simple and matching with their young spirit. Except that composed answers were reported in faulty and erroneous language by a few, expression of thanks giving were conveyed in a befitting manner.

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**EXAMINERS' COMMENTS**  
**NEW FALL (E) 2011, APRIL 2012 EXAMINATIONS**  
**FUNDAMENTALS OF COST AND MANAGEMENT ACCOUNTING**  
**Stage – 2**

**Question No. 2**

**(a) Classification of costs:**

The majority successfully defined the terms of fixed cost, variable and semi variable costs. However, some of them confused the definition of step fixed cost with semi variable cost while step fixed cost (comprising only fixed cost) changes with certain level of activity and semi variable cost includes both variable and fixed portions of cost.

**(b) Determining the work-in-process inventory destroyed by fire:**

Majority of the examinees attempted this question in a way as they were preparing the cost of goods sold statement ignoring the determination of work-in-process inventory. They put the balancing figures in appropriate places of cost of goods sold. However, in doing so some of them committed various mistakes.

**Question No. 3**

**(a) Two bin system for controlling materials:**

Majority of the examinees found unaware with the system. They elaborated/ defined the bin cards used to maintain the movement of inventory. Some of them defined the system as incoming and outgoing record or material ledger.

**(b) Gross profit using perpetual inventory at average costing:**

Surprisingly, a number of examinees faced difficulty to maintain material inventory at average costing where they were required only to multiply the sale quantities with sales price and average rates to arrive at sales value and cost of sales respectively. Some examinees also failed to distinguish between perpetual and periodic inventory systems.

**Question No. 4**

**(a) Definition of cost allocation and cost apportionment:**

Majority of the examinees failed to define the cost allocation as assigning the item of indirect cost in total to a product/ department. Similarly, they failed to define the apportionment of cost as dividing a cost item to more than one products/ departments.

**(b) Bases for apportionment of cost:**

Majority attempted this question well, however, few mistakes were observed to indicate the bases for apportioning the costs.

**(c) Calculating the pay of labour under incentive plans:**

Examinees committed various mistakes in preparing the pay of labour like using incorrect rates and incorrect calculation.

**Question No. 5**

**(a) Relationship between standards and budget:**

Examinees found unaware of budget making process and failed to express that the standards are essential to make budgets as the plan activities are translated into financial statements considering the standard costs and consumption per unit.

**(b) Fixed production overhead expenditure and volume variances:**

Generally, examinees calculated the variances under interchanged headings. Majority did not bother to indicate variances as favourable or unfavourable.

**(c) Material price variances at the time of purchase and the time of issue:**

Good performance was noted in this part of the question however, the problem of not indicating favourable or unfavourable was also existed.

**Question No. 6**

**(a) Margin of safety an brake-even analysis:**

Margin of safety was correctly defined as the difference between budged and brake-even sales volume. However, they failed to define brake-even analysis as the relationship between cost, volume and profit instead of they tried to explain break-even point.

**(b) Minimum quantity sold to maintain current profit:**

Examinees committed various calculation mistakes. They failed to transform the figures on same basis i.e., monthly or annul as some figures are given in the question on monthly basis and some on annual basis. They should divide annual figures or multiply monthly figures by twelve (12).

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**EXAMINERS' COMMENTS**  
**NEW FALL (E) 2011, APRIL 2012 EXAMINATIONS**  
**MANAGEMENT AND MARKETING**  
**Stage – 2**

**SECTION "A"- MANAGEMENT**

**Question No. 2**

**(a) Stress, Causes and Symptoms of Stress, How Can Stress be Reduced:**

The majority of students defined stress but failed to list down the factors causing stress properly. Those who mentioned causes/symptoms could not explain it in real sense. Later part of the question was required to be elaborated "how managers can help employees to deal with stress" was poorly explained or explained in a general way which reflect their lack of knowledge and understanding of this topic. The examinees should undergo proper study to enable themselves to have proper knowledge and understanding of the subject.

**(b) Steps in Goal Setting:**

This was a simple question and examinees were just required to explain five steps managers should follow while setting goals. Majority of the examinees could not grasp the theme and covered the points like organizations mission, resources, and specific goals and communicate the goals to all employees. A number of examinees emphasized that goals need planning, organizing, directing and control. Some gave vague and unnecessary lengthy answer which shows their non-seriousness regarding the question.

**(c) How Employees Learn Culture:**

This part of question was regarding 'how employees learn culture'. It was straight and simple question. Many examinees were not specific about the answer. Instead of mentioning the ways like 'stories', 'rituals', 'material symbols' and 'language' to learn culture, they replied in a very general way. Some of the examinees focused on orientation and training as the best possible way to learn an organization's culture which again indicates lack of studies in this subject.

**Question No. 3**

**(a) Personality Traits:**

Majority of examinees secured good marks in this part because it could be attempted in a general way. As the question contains names of five other personality traits thus it was easy for many examinees to briefly discuss locus of control, Machiavellianism, self esteem, self monitoring and risk taking. Most of the examinees did not describe the term 'Mach' because it was not properly understood by them. Some of the examinees had no clue what these term meant & gave wrong answers.

**(b) Managing Workforce Diversity:**

The question was simple but it was noted that few students were able to answer it successfully. Instead of discussing how manager can manage workforce diversity through selection, orientation and training, examinees described human resource management function. Majority of the examinees could not explain well to support the requirement of this question.

**(c) Managing Power:**

This part of the question was attempted by the majority of the examinees who mainly concentrated defining power rather than focusing on sources of power in its true sense. A number of examinees mixed up the 'legitimate power' with 'coercive power' and 'authority'. Moreover, many examinees failed to explain the true meaning and concept of 'referent power' which shows lack of knowledge and proper study.

**Question No. 4**

**(a) Product Lines and Product Mixes Definitions and Decisions:**

Most of the examinees defined product line and product mix properly but failed to give correct answer about the decisions companies make regarding their production lines (such as product line length, stretching and filling) and product mixes (such as product mix width, length, depth and consistency). Those who explained were neither to the point nor up to the mark which showed improper study and inadequate knowledge. The overall response/performance in this part of the question appeared to be unsatisfactory and disappointing.

**(b) Product Mix Pricing Strategies:**

Few examinees attempted this part satisfactorily. Most of the examinees explained new product pricing strategies like market skimming pricing, market penetration pricing, discriminating prices, psychological pricing, promotional pricing etc. while some explained the pricing methods such as mark-up pricing, target return pricing. However, the question was very clear and required to explain 'five product mix pricing strategies' which companies use for their products' pricing.

**Question No. 5**

**(a) Channel Design Decisions for a New Product Line:**

The overall performance of the majority was not good in this part. Few examinees explained the "factors as mentioned in the question to be considered while designing marketing channel for a new product line". It was noted that many examinees explained the terms like analysing consumer needs, setting channel objective, identifying major alternatives and their evaluation but unable to relate these factors with designing marketing channels for a new product line. Majority of the examinees just gave lengthy irrelevant answers in a very general way. Some examinees mixed up it with new product development & product life cycle while some answered with reference to selecting the communication cannel rather than marketing channels.

**(b) Market Segmentation and Requirement for Effective Segmentation:**

A good number of examinees attempted this part and defined 'market segmentation' properly. However; many examinees could not understand the question and started writing about geographic segmentation, demographic, psychological, behaviour segmentation which was not the requirement. Moreover, majority failed to explain the requirement for an effective segmentation on the basis of being measurable, accessible, substantial differentiable and actionable

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**EXAMINERS' COMMENTS**  
**NEW FALL (E) 2011, APRIL 2012 EXAMINATIONS**  
**BUSINESS MATHEMATICS AND STATISTICS**  
**Stage – 2**

**Question No. 2**

**(a) Solution of Equation:**

It was an easy question and was correctly answered by the majority of the examinees.

**(b) Partial Derivative:**

This part provided demand relationships and joint weekly cost function of two products. The examinees were asked to determine the number of units of the products that should be produced weekly to maximize profit and the maximum profit at this level of production. Some shortcomings were witnessed as follows:

- Many did not have the proper concept of profit function that is established by two price functions as the difference of revenue and cost functions involving two variables.
- Notion of partial derivative was not used and conditions of optimisation were not taken into account for the required results.
- In this part relating to profit maximization problem, bivariate function of joint cost was given and 'partial derivatives' were required to be used, but examinees showed lack of knowledge of 'partial derivative'.

**(c) Arithmetic Progression:**

On the basis of given data, examinees were required to compute the initial salary of a person using the concept of 'arithmetic progression'. Following most common error was noted:

- Examinees used incorrect methods instead of using simple arithmetic series formula such as

$$S_n = \frac{n}{2}(a + a_n)$$

**Question No. 3**

**(a) First and Second Derivatives:**

In this part, demand function and total cost function regarding a product were given and the examinees were asked to determine (i) the number of units to be produced to maximize profits, (ii) price to be charged and (iii) the expected annual profit.

- They did not combine the revenue function and cost function to formulate the profit function. They consider the cost function separately and solve it, which was incorrect.
- Surprisingly, the majority of the examinees did not know the basic concepts of differentiation.

**(b) Compound Interest:**

In relation to an investment, examinees were required to determine the interest rate so that an amount of Rs.50,000 would grow to Rs.140,000 in 8 years.

- Proper formula of compound interest was either not used or used without exact 'times' of compounding.
- They lacked in the use of logarithm and its rules.
- Majority of them failed to apply the correct formula i.e.,  $A = P(1 + i/m)^{mn}$ .

**(c) Inverse of matrix:**

Following shortcomings were noted:

- Value of determinant was not correctly calculated.
- Values of cofactors were not correct.
- Matrix notation was also a matter of confusion.

**Question No. 4**

**(a) Probability Concepts:**

From a pack of cards, two cards were to be drawn and the requirement was the determination of the probability that one card was a 'King' and the other one was an 'Ace'. Examinees showed their lack of basic concepts of probability:

- Notations and requisite probability rules etc., were found to be main shortfalls.
- Majority of the examinees had no idea about probability.

**(b) Binomial Probability Distribution:**

This part of the question was based on binomial probability distribution. Performance of the examinees was satisfactory.

**Question No. 5**

**(a) Confidence Intervals:**

Examinees were required to construct a 98% confidence interval for the average performance of ten students who appeared in a placement test. Average performance was shown by the examinees who committed following errors:

- Clearly this was not a question of 'testing of hypothesis' as some of the examinees wrongly attempted so.
- A large number of examinees confused 'hypothesis' with 'estimation'.
- They wrongly used 'hypothesis' to find the confidence interval.

**(b) Coefficient of Correlation:**

In this part, requirement of the question was very simple where only the knowledge of the required formula and computation skills were needed. Satisfactory performance was shown by the examinees with the exception of the following common mistakes:

- Many examinees' tabular presentation of calculations was not good.
- Some did not, perhaps, remember the correct formula for 'coefficient of correlation'.
- Some did not perform the proper step-wise calculations to arrive at the right answer.
- Most of the examinees were not able to interpret even the correct value of 'r' that was calculated.
- Few of them could not apply the correct formula and method.

**Question No. 6**

**Network Analysis:**

Examinees were asked to (i) draw the network diagram, (ii) determine all possible paths identifying the critical path and (iii) calculate the slopes for each activity. A large number of examinees attempted this question and performed satisfactorily. In spite of good performance shown by the examinees, there were some errors committed by the examinees, which needed to be rectified by them in future:

- Proper presentation of possible paths and identification of 'critical path' in some cases were not up to mark.
- Some did not bother to mention how results were obtained.
- However, a few examinees did not draw the proper diagram incorporating the 'expected time' and 'arrows' therein.
- Drawing of network diagram was not neat and clean.
- Some of them did not show how they computed slopes  $\left( \text{i.e., Slope} = \frac{\text{Crash Cost} - \text{Normal Cost}}{\text{Normal Days} - \text{Crash Days}} \right)$

**Question No. 7**

**Simplex Method:**

This has been a regular feature of this question paper. In this question, number of units of three products was to be determined to maximise the profit. Performance remained satisfactory. Some shortcomings were as follows:

- Even after adding the 'slack variables' some examinees kept the inequalities unchanged.
- Steps of calculations were not clear.
- Formulation of simplex tableau and writing the standard equation of linear programming were not correct.



**EXAMINERS' COMMENTS**  
**NEW FALL (E) 2011, APRIL 2012 EXAMINATIONS**  
**INTRODUCTION TO INFORMATION TECHNOLOGY**  
**Stage – 2**

**General Comments:**

Majority of the students concept was below average and they discussed irrelevant details in answer scripts. Progress of examinees in Section A (Hardware) was relatively better as compare to other sections.

Section B Software was the weakest area of most of the examinees. Majority of examinees could not comprehend as to what was asked, which resulting in wrong and irrelevant answers. Programming language, operating system and Data base concepts was very weak which needs to be improvement in theory sessions.

Section C: network examinees progress was also average. This was one of the easiest section of question paper but precision level of answer was not up to the mark.

**SECTION "A" Hardware**

**QUESTION NO. 2**

- (a) Examinees showed good performance in this part of the question. Majority of the student knew the difference between analog and digital computer. However, while describing hybrid computer students technical knowledge was weak in some answer scripts. Hybrid computers are computers that exhibit features of analog computers and digital computers. The digital component normally serves as the controller and provides logical operations, while the analog component normally serves as a solver of differential equations.

**Analog Computers:**

These computers recognize data as a continuous measurement of a physical property. Their output is usually in the form of readings on dials or graphs. Voltage, pressure, speed and temperature are some physical properties that can be measured in this way.

**Digital Computers:**

These are high speed programmable electronic devices that perform mathematical calculations, compare values, and store the results.

**Hybrid Computers:**

Hybrid computers combine the best features of analog and digital computers. They have the speed of analog computers and the accuracy of digital computers. They are usually used for special problems in which input data derived from measurements is converted into digits and processed by computer.

- (b) In this part majority of students did not grasp/understand what was asking about. Students explained working and characteristics of magnetic tape/disks rather than reason / features of optical disks which make it prefer for data archiving.

As compared to magnetic tape and magnetic disk, optical disk is a relatively new secondary storage medium. During the last few years, it has proved to be a promising random access medium for high capacity secondary storage because it can store extremely large amount of data in a limited space.

- (c) Most of the examinees defined registers. But the requirement of the question in which the functions of different registers during processing was asked and was not adequately answered by many examinees. Students was lacking in concepts regarding functionality of different types of registers like I/O, MBR, General purpose registers etc.

There are some registers common to all computers. Functions of these registers are described below:

1. Memory Address Register (MAR)
2. Memory Buffer Register (MBR)
3. Program Control Register (PC)
4. Accumulator Register (A)
5. Instruction Register (I)
6. Input/Output Register (I/O)

### QUESTION NO. 3

- (a) The performance of most of the examinees in this part of the question remained below average because they did not specifically mentioned the factors like bus size, clock speed, register size, processor speed etc evaluating the processing power of a computer. However functions of internal bus that allows the processor to communicate with the system's was correctly defined by majority of the examinees.

Internal Bus is basically the lines of communication of the board, the highway so to speak of the mother-board, its infrastructure.

In general, keep these points in mind when trying to determine the processing power of a computer:

- i) Addressing scheme
  - ii) Register size
  - iii) Data bus
  - iv) Clock speed
  - v) Instruction set
- (b) Poor performance was observed in this part of the question. Most of the examinees misunderstood the question and gave wrong answers while describing the types of terminals. Mostly examinees discussed irrelevant details. Majority of examinees explain input terminals keyboard, usb, serial port, POS, intelligent, dump terminals are some of its examples of terminals. Very few students were able to get close to the correct answer.

#### Types of terminals:

1. Point-of-sale (POS) terminals
  2. Financial transaction terminals
  3. Executive workstations
  4. Portable terminals
  5. Micro computers used as terminals
- (c) In this part disk storage capacity from bit to terabyte was asked. When referring to a megabyte for disk storage, the hard drive manufacturers use the standard that a megabyte is 1,000,000 bytes. Majority of examinees confused between processor storage vs disk storage and used 1024 kilobytes=1 Megabyte and vice versa. Precision level is low in this part.

Bit	A binary digit, 0 or 1
Byte	8 bits, or 1 character
Kilobyte (K)	1,000 (actually 1,024) bytes
Megabyte (MB)	1,000,000 bytes
Gigabyte (GB)	1,000,000,000 bytes
Terabytes (TB)	1,000,000,000,000 bytes

### SECTION "B" Software

#### QUESTION NO. 4

- (a) The terms multitasking was correctly defined by the majority of examinees (although some of the examinees were confused and mix them with multiprogramming). In Multiprogramming the operating system can run MORE than one program. It divides the use of CPU among the programs on time sharing basis. While multitasking is the extension of multiprogramming in which the computer can perform more than one tasks (either with one processor or multiple processors). Overall progress was average in this part of question paper.
- (b) Majority of the examinees were unable to elaborate this answer properly. Direct, sequential and index sequential etc. are some methods of data retrieving. The performance of most of the examinees in this part of the question remained below average because they did not specifically mentioned the methods of storing and retrieving data.

#### Storing and Retrieving the Data Methods are:

1. Sequential Storage and Retrieval
2. Direct Access Storage and Retrieval
3. Indexed Sequential Storage and Retrieval

- (c) This was the simplest question but examinees do not understand what is asking about. Examinees are advised to first read the question thoroughly and ascertain what is the answer and then write answers as per the requirement of the question. Majority of examinees explained high level/low level computer language vs natural language rather than explained the salient features of natural language which is adopted by computer languages. Analogy is used for similarities between like features for comparison but most of the answer was not precise and relevant.

Several characteristics believed to be important for making a programming language good are:

1. Simplicity
2. Naturalness
3. Abstraction
4. Efficiency
5. Structured Programming Support
6. Compactness
7. Locality
8. Extensibility
9. Suitability to its Environment

#### **QUESTION NO. 5**

- (a) Progress of entire group in this part was inadequate. Majority of examinees were unable to distinguish b/w File and DBMS. File system is the method for storing and organizing computer files and the data they contain to make it easy to find and access them whereas data base system is a computer software that manages databases. The description of the concepts of FMS/DBMS techniques was not correctly provided by majority of the examinees.

Information, no doubt, is a key word in modern management. Anyone with a cluttered office knows, having a large quantity of information on hand does not guarantee ready access to any particular piece of information. Often the basic underlying data to satisfy these information needs are contained in computer files but cannot be accessed and output in a suitable format on a timely basis.

Data base management systems have the potential to meet this challenge. A Data Base Management System is an effective data management tool, provides invaluable help in coping with data organization and access problems, and improves the quality of information available to the management for decision-making.

- (b) Majority of the examinees have explained well system, application software and advantages of high level languages. The steps wise development of High-level programming languages which is also known as SDLC was not categorically and appropriately described by a large number of examinees. Mostly students discuss need of software development rather than steps which includes analyzing, implementation, testing, deployment, debugging phase.

#### **System Software:**

System software is a set of one or more programs designed to control the operation and extend the processing capability of a computer system.

#### **Application Software:**

Application software is a set of one or more programs designed to solve a specific problem, or do a specific task.

#### **Software Development Steps:**

All software needs to be developed by someone. Developing software and putting it to use is a complex process involving following steps:

1. Analyzing the problem at hand, and planning the program(s) to solve the problem.
2. Coding the program(s).
3. Testing, debugging, and documenting the program(s).
4. Implementing the program(s).
5. Evaluating and maintaining the program(s).

High-level languages enjoy following advantages over assembly and machine languages:

1. Machine independence
2. Easier to learn and use
3. Fewer errors
4. Lower program preparation cost
5. Better documentation
6. Easier to maintain

### **SECTION "C" Network & Security**

#### **QUESTION NO. 6**

- (a) In this part majority of examinees explained well the purpose of networking. In second section of question most of the examinees have no concept of value added and ISDN Network. A value-added network (VAN) is a private network provider (sometimes a turnkey communications line) that is hired by a company to facilitate electronic called data interchange or provide other network services. ISDN is the digital communication standard for voice, video & data communication. The functions and facilities provided by Value-Added Network (VAN) and ISDN were not specifically and to-the-point described by majority of the examinees. It felt as if some examinees knew what VAN and ISDN were but could not express them.

A computer network is a collection of computers and peripheral devices (the network components) connected by communication links that allow the network components to work together.

Networking serves five important purposes:

1. It allows departments to share hardware.
2. It allows information to be shared.
3. It allows for the electronic transfer of text.
4. It allows for decentralization of various data processing functions.
5. It allows for communication between organizations.

Some networks are designed specifically for an used completely by individual organizations. They are called private networks.

Another type of network is the value-added network. This is an established data communication network that owns or leases communication facilities and computers to manage communication.

Carriers can also provide communication services using the ISDN, a digital network that uses the commercial telephone system to provide users with a wide array of telecommunication services.

- (b) Majority of examinees concept was weak while explaining EDI. Electronic data interchange (EDI) is the structured transmission of data between organizations by electronic means. It is used to transfer electronic documents or business data from one computer system to another computer system. Examinees mostly wrote irrelevant details in this part.

Majority of examinees knew the function of TCP/IP protocol which is defacto standard for communication over internet. Progress of examinees were good in this part.

#### **Network Interface Unit:**

The network interface unit is a microprocessor based device containing hardware and software which supply the intelligence to control access to and communications across the network and to perform all communications processing.

#### **Electronic Data Interchange (EDI):**

EDI is the electronic exchange of structured business information, in standard formats, between computers. EDI is the electronic transfer of structured business documents in an organization – internally among groups of departments or externally with its suppliers, customers and subsidiaries.

### **TCP/IP Communication Architecture:**

When it comes to breaking down communication barriers between different computer suppliers, information systems managers in commercial companies now see TCP/IP as a fully functional, proven and low-cost alternative to open systems interconnection.

TCP/IP is used as shorthand for a large set of standards with many different features and functions. The letters "TCP/IP" stand for two communications protocols. Transmission Control Protocol (TCP) and Internet Protocol (IP).

- (c) In this part different terms related to internet was asked. Majority of examinees explained correctly the terms HTML, web server, web client & web browser. Mostly students are aware with these terminologies and their functions. However while defining the terms URL & HTTP students answer scripts shows they know about these terms but unable to define it properly. Concept regarding URL & HTTP was weak in this part.

**i) HyperText Markup Language (HTML):**

A powerful language used for creating hypertext documents.

**i) Web Server:**

Any computer on the Internet that uses HTTP protocol.

**ii) Web Client:**

Any computer on the Internet that can access web servers.

**iii) Web Browser:**

To be used as a web client, a computer needs to be loaded with a special software tool known as WWW browser (or browser in short). Browsers normally provide navigation facilities to help users save time while Internet surfing.

**iv) Uniform Resource Locator (URL):**

An addressing scheme used by WWW browsers to locate sites on the Internet.

**v) HyperText Transport Protocol (HTTP):**

An Internet Protocol for interaction among computers on the internet.

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**EXAMINERS' COMMENTS**  
**NEW FALL (E) 2011, APRIL 2012 EXAMINATIONS**  
**FINANCIAL ACCOUNTING**  
**Stage-3**

**Question No. 2**

**Accounting for Joint Venture:**

Majority of examinees showed good performance in it. However, the following mistakes were committed by the examinees:

- In joint venture account, posting errors were committed i.e., debit items were posted to credit and vice versa.
- Posting errors were committed in "Nazir's Account" as well.
- Commission was wrongly calculated due to incorrect valuation of agreed value for damaged goods which was Rs.7,957 and erroneous calculation of Nazir's entitlement under the agreement to a commission of 5% of net profits of joint venture after charging such commission. Correct calculation is:  
 $(Rs.5,250+Rs.108,281+Rs.7,957-Rs.105,000-Rs.3,500-Rs.1,750) \times 5/105 = Rs.535.$
- The sales value was not computed correctly due to the wrong calculation of cost of goods sold i.e., Rs.86,625.
- The claim for loss of fire admitted by Nazir was not worked out correctly. The reason was wrong computation of proportionate expenses which was Rs.321.

**Question No. 3**

**Accounting treatment of Royalties:**

Overall performance was satisfactory in this question. However, following deficiencies were observed:

- Journal entries were passed, which were not required at all.
- Posting errors were committed in Royalties account, Abdul Haleem account & short-working accounts.
- In Analysis of Royalties Payable, examinees gave erroneous calculations of "Recouped" and "Suffered" amounts. Those who made it correctly did not show excess workings figures of Rs.480,000 and Rs.320,000.
- The balance of royalties account was carried forward instead of closing it to profit and loss account or manufacturing account.
- Some examinees were not capable to find out the values of short-workings and their periodic adjustments correctly.

**Question No. 4**

**Preparation of Financial Statements from Incomplete Records:**

Examinees used vigorous approaches to solve it correctly but all their efforts were in vein. Following major deficiencies were observed:

- Off beam calculation of purchases of Rs.48,735,000 leads to incorrect figure for the cost of goods sold.
- In order to get the cash sale amount, receipt and payment account was completely missed out.
- Wrong computation of interest on capital was shown either caused by non consideration of additional capital or the period of six (06) months in its calculation.
- As the cash sales aspect was ignored, it leads to wrong calculation of account receivable opening balance.
- Opening balance sheet was either not prepared or prepared with the incorrect figures of account receivable which leads to the wrong figure of opening capital i.e., Rs.23,130,000.

**Question No. 5**

**Journal Entries and IAS 16:**

(a) Examinees performed well in it. However, following mistakes were committed by them:

- Discount on issuance of shares Rs.5000,000 and loss on issuance of bonds Rs.5,500 were not calculated properly. Hence, were not accounted for in the entry.
- Premium on issuance of bonds Rs.16,500 was incorrectly calculated.

(b) It seemed that examinees don't pay concentration to the study of IAS; moreover, they study a selective part of the syllabus.

**Question No. 6**

**Financial Statements in accordance with relevant IFRS / IAS:**

Examinees had attempted the question reasonably well but remain futile to take care of the question's requirement for preparing it in accordance with IAS-1. It shows lack of knowledge to the accounting standards. Common mistakes found are as under:

(a) **Income Statement:**

- Expenses were not classified by functions.
- The depreciation of Rs.4,968,000 on plant and equipment was not added to cost of sales.
- Financial charges was calculated @ 18% of loan and added to the amount already available in the trial balance, instead of the difference which is to be added to the trial balance amount i.e.,  
 $Rs.6,480,000 + Rs.810,000 = Rs.7,290,000$ .

(b) **Statement of changes in equity:**

- The dividend payable of Rs.2 million was not added back to retained earning balance.

(c) **Balance Sheet:**

- The assets and liabilities were not bifurcated between current and non-current properly.

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**EXAMINERS' COMMENTS**  
**NEW FALL (E) 2011, APRIL 2012 EXAMINATIONS**  
**BUSINESS TAXATION**  
**Stage – 3**

**Question No. 2**

**(a) Royalty and fee for technical services:**

Majority of the students attempted this question very well and secured good marks. However, many examinees failed to answer correctly “on which type of royalty / fee for technical services Section 6 of the Income Tax Ordinance, 2001 shall not apply. Majority of students answered this question by mere guessing and others not attempted this question.

**(b) Valuation of Perquisites provided by the employer:**

It was a simple and basic level question. Many examinees used examples to support their answers. Some examinees failed to refer to the fair market value of the utilities provided by the employer while some of them failed to explain the treatment of loan if given below the bench mark rate. Instead of taking the difference between the benchmark rate and rate at which loan given in the tax year, examinees charged the loan at the benchmark rate under “the head of salary”.

**(c) Income from Property:**

Majority of the examinees answered this part wrongly. Many of them explained in a general way and tried to solve it through examples. Examinees failed to explain the treatment of the advance received from the succeeding tenant. They only reproduced formula for adjusting amount received from succeeding tenant instead of explaining the treatment of refund and advance.

**Question No. 3**

**(a) Treatment of Bad Debt under Section 29 of the Income Tax Ordinance, 2001:**

Examinees guessed and wrote instead of focusing and defining the requirement of the question. While attempting this question examinees tried to explain ‘what is bad debt?’, ‘what is the accounting treatment of bad debt’ instead of explaining the specific provisions laid down in the Income Tax Ordinance, 2001. Writing expression of examinees was very weak and they don't know how to explain the provision in the context of law.

**(b) (i) Registration of income tax practitioners:**

Examinees failed to answer this question correctly. Many examinees were not clear about the “procedure for the registration of income tax practitioners” and tried to answer the question by guess work. Main emphasis, while answering the question, was on the professional and academic qualification required for the registration as an income tax practitioner instead of describing the whole procedure of registration specified in Rule 87 of the Income Tax Rules, 2002. The rule covers the provisions regarding the procedure of registration “from application to competent authority till the refusal of application or registration of income tax practitioner”.

**(ii) Duration of registration:**

Majority of the examinees misapprehend the requirement of the question and answered through guess work. Examinees mentioned the duration of registration as an income tax practitioner in days or in years rather than describing the conditions laid down in the rule 88 of the Income Tax Rules, 2002 regarding “waiver or duration of registration”.

**Question No. 4**

**(a) Definitions (i) Firm (ii) Open Market Price:**

This part of the question was related to the definitions under the Sales Tax Act, 1990. Well attempted by majority of the examinees but the following common mistakes were found in the answer:

- Writing expression was weak
- Examinees unable to fully explain the terms in the context of the Sales Tax Act, 1990.

**(b) (i) Particulars for Supply of Goods:**

Well attempted by many examinees. Almost all of the examinees listed down correct particulars of a tax



invoice which is required to be issued by a registered person at the time of taxable supplies. However, majority failed to mention that "Board may, by notification in the official Gazette, specify such modified invoices for different persons or classes of persons".

**(ii) Issuance of Invoice by an Unregistered Person:**

Examinees had a good knowledge regarding the requirement of Part **(b)(ii) of Question no. 4** and they properly answered that "no person other than a registered person or a person paying retail tax shall issue an invoice under specified section".

**(c) Offences under Section 33 of the Sales Tax Act, 1990:**

Examinees failed to attempt this question correctly. They were unaware of penalties in respect of offences under Section 33 of the Sales Tax Act, 1990 and arrived at wrong amount and rates of penalties in both the cases.

**Question No. 5**

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

Average performance was observed in this question. Following shortcomings were observed in this question:

- Examinees did not treat the Employers contribution to recognized provident fund and added to taxable income.
- Many examinees included T.A./D.A. in taxable income despite it was clearly mentioned in the question that T.A./D.A. was provided for official purpose.
- 10% of the cost of vehicle was applied instead of 5%, while calculating conveyance allowance.
- Tax treatment of shares of unlisted companies was attempted wrongly by the majority of the examinees. Some included partial capital gain in taxable income while some took it as non-taxable income.
- Donation to approved institute was very poorly treated. Instead of giving full credit for donation to approved institution at average rate examinees deduct donation from taxable income. Many of them calculated wrong tax credit on donation.
- Examinees failed to properly mention the working notes.
- Zakat paid was deducted from the tax liability instead of deducting from total taxable income.
- Income from property was not treated as a separate block of income.

**Question No. 6**

**(a) Duties specified in the First Schedule of the Federal Excise, 2005 to be levied:**

The performance of the majority was worst in this part. Mostly answered on the basis of their guesses without any knowledge of Federal Excise Act, 2005. Answers of examinees reflect that they do not read provisions of Federal Excise Act, 2005.

**(b) Section 93 of the Customs Act, 1969:**

Only few examinees were able to reproduce the exact provision. However, majority answered based on their presumptions without any knowledge. Writing expression was also very weak.

**(c) Definitions (i) Establishment (ii) Conveyance (iii) Import and Export:**

It was a very simple question based on the basic terminologies of the Federal Excise Act, 2005. Examinees attempted properly and secured good marks. However, some of them answered in a general way.

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**EXAMINERS' COMMENTS**  
**NEW FALL (E) 2011 APRIL, 2012 EXAMINATIONS**  
**COST AND MANAGEMENT ACCOUNTING – PERFORMANCE APPRAISAL**  
**Stage – 3**

**Question No. 2**

**Comparison of traditional and ABC system:**

The common mistake done by examinees were:

- Paint cost per unit was given in the question but same had been multiplied by litres per unit and / or coats required per unit.
- Labour cost and / or overhead (in absorption costing) were apportioned on the basis of per unit time instead of total time of product for customer X Y & Z.
- In Activity Based Costing electricity cost were allocated on the basis of per unit coats instead of total coats.
- In Activity Based Costing filling cost is allocated on the basis of litres per unit instead of total litres.

**Question No. 3**

**(a) & (b) Benefits of JIT system:**

The common mistakes done by examinees were:

- Drop in Inventory level had taken as saving instead of mark-up saved thereon
- Reduced cost of insurance, space, material handling and set-up had been taken as savings instead of reduction thereof.
- Reduced cost of rework had been taken as savings instead of reduction thereof.
- Increase in sales revenue had been taken as 900 million instead of 90 million or taken as cost.
- Spending on quality control had been taken as saving.

The benefits of Just-in-time had been mentioned instead of qualitative factor asked in the question.

**Question No. 4**

**(a) & (b) Sales volume, quantity and mix variances:**

The common mistakes were:

- Sales mix had been calculated on the basis of actual & budgeted sales amounts instead of quantities;
- Actual & Budgeted Contribution Margin per unit had been calculated only and total contribution for each product and / or of the company as whole had not been calculated;
- Sales volume & mix variance had been calculated on the basis of sales price instead of contribution margin.
- Sales quantity variance and sales volume variance were interchanged or treated as same.

Examinees stated general benefits of variance analysis instead of stating inference of answer to part (a) of the question.

**Question No. 5**

**(a) Feedback and feed-forward controls:**

After examining part (a) of the question, it was evident that the examinees had not understood the difference between feedback and feed-forward clearly. Therefore, they are advised to prepare themselves well to attempt such theory sections as well.

**(b) Projected income statement:**

Examinees committed following mistakes in attempting this part of the question:

- Tax had been calculated before charging financials expenses.
- Tried to prepare projected balance sheet instead of projected income statements.
- Tried to prepare projected Income statement for the group instead of individual companies
- Profit before financial charges and taxation for each company had been taken as profit of the group and had been divided into both companies.
- Rate of return had been calculated on total assets instead of shareholders equity.
- Tried to define feedback and feed forward in general Instead of distinguished differences between two controls from management accountants' perspective.

**Question No. 6**

**Return on capital employed:**

The examinees failed to calculate:

- Capital employed in most of the cases net current assets had not been included in capital employed.
- Profit (in most of the cases depreciation expense is deducted from profit).
- Capital employed (written down value of equipment purchased had been missed).

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**EXAMINERS' COMMENTS**  
**NEW FALL (E) 2011, APRIL 2012 EXAMINATIONS**  
**PRESENTATION & COMMUNICATION SKILLS**  
**Stage – 3**

**Question No. 2**

**(a) Ensuring Legal Communication:**

The question was about the laws and regulations of communication. Hardly few examinees came up with the correct answers. Some wrote about ethical guidelines to be considered in business communication skills rather than legal consideration and several others wrote on 7-Cs of communication. Majority could not understand the question in its real sense.

**(b) Steps involved in an Effective Listening:**

The majority of the examinees attempted the question well. However, some of them could not apprehend the question and wrote about strategies that make listening effective instead of five steps involved in an effective listening such as receiving, decoding, remembering, evaluating and responding. Few of them answered wrongly and wrote steps involved in effective presentation like clear pitch of sound; clear and easy language.

**Question No. 3**

**(a) Developing an Audience Profile:**

This part was attempted in a very general way. The question was about steps to be taken for audience analysis which include identifying the primary audience, audience size, geographic distribution, audience composition, audience level of understanding, audience expectations and preferences etc. These points were hardly written by the examinees. Some students mentioned strategies for making communication effective along with the required answer.

**(b) Letter to Your Friend regarding the Deteriorating Conditions of Pakistan:**

Majority of the examinees performed well on this question. However, some students included a 'subject' line which is not required in an informal letter.

**Question No. 4**

**(a) Types of Résumé:**

Here the examinees were required to describe different types of résumés such as chronological résumé', functional résumé, combination résumé. Most of the examinees were unable to identify and describe the types of résumés and mixed up all the types. Some of them listed other 'types' such as personal, academic, professional, long, short, etc which was not the requirement.

**(b) Letter to the Principals Seeking Permission for Conducting the "Informational Seminars":**

Most of examinees performed well on this question. A few did not follow the instructions given and wrote a letter inviting the students/principals to attend seminar at a certain venue. In this part, the examinees were required to write a letter to the principles of colleges seeking permission to hold the Institute's 'Informational Seminars' at their college premises. Examinees could not write the letter correctly. Instead of seeking the principals' permission, the examinees invited the principals' and the students' participation in the seminar.

**Question No. 5**

**(a) Distinguish Among Informational Reports, Analytical Reports and Proposals and Categories of an Analytical Report:**

Attempted by majority of examinees. The examinees distinguished the informational report, analytical report and proposal properly but in a general way. However, most of them failed to describe the three types of analytical report correctly and could not secure good marks in this part.

**(b) Report on Increasing Cost:**

Most of the examinees attempted and strived to cover all the points mentioned in the question. Some examinees did not give headings to each section of the report, while some missed out certain sections. Many examinees wrote in haphazard manner and mixed up all the sections. Majority did not write the increasing trend of cost in graphical and tabular form while some failed to write the causes affecting cost and suggestions correctly and logically.

**Question No. 6**

**(a) Various Ways to Overcome the Anxiety:**

Examinees performed well and wrote correct answers for this question but were unable to list out sufficient number of ways to overcome audience anxiety.

**(b) Letter to Librarian Refusing Replacement of Books:**

Examinees did well in this question. However, some examinees did not include the 'subject' line which is required in a formal letter. In this part of the question, letter was to be written to the librarian regretting replacement of the books damaged in transit. The examinees expressed their regret but the expressions were illogical and full of grammatical errors. Examinees are advised to learn proper letter writing and formatting for formal and informal letters.

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**EXAMINERS' COMMENTS**  
**NEW FALL (E) 2011, APRIL 2012 EXAMINATIONS**  
**ADVANCED FINANCIAL ACCOUNTING & ANALYSIS**  
**Stage – 4**

**Question No. 2**

**Consolidated Financial Statements:**

In this question, the candidates were required to prepare consolidated (i) 'Income Statement' and (ii) "statement of financial position" (SFP) as of December 31, 2011. Majority of the examinees attempted this question. Overall performance was satisfactory. However, following common mistakes were observed:

- A good number of candidates could not calculate the correct amount of sales (Rs.130.363 million) due to wrong calculation of sales made by the subsidiary company. The candidates took the sales amount for the whole year while the same was to be adjusted for the proportionate period i.e. for 9 months.
- Likewise, cost of sales was not adjusted correctly for inter-company sales (Rs.28.000 million), unrealized profit on unsold stock (Rs.1.250 million) and depreciation on revaluation of assets (Rs.0.960 million)
- A few students did not make correct adjustment for impairment of goodwill (Rs.0.600 million) under operating expenses.
- Similarly, finance costs and income tax of the subsidiary company were not adjusted for the proportionate period.
- Except a few examinees, none was able to calculate non-controlling interest (NCI) in the post acquisition earnings (Rs.0.948 million).
- Excess depreciation charged for the year was not correctly computed. Those who calculated it correctly failed to provide supporting workings.
- Most of the examinees were not certain as to the treatment of the impairment in the goodwill and consequently did not reduce the amount of the good by the impairment amount.
- Most of the candidates were not able to calculate the correct amount of tangible non-current assets (Rs.60.080 million), mainly due to wrong treatment of revaluation of the subsidiary company's assets and the resultant depreciation on the same.
- Many students did not support the relevant figures with appropriate workings that carried a good proportion of the total marks.
- Many examinees wasted their precious time by preparing journal entries against the requirement of the question.

**Question No. 3**

**Company Accounts – Reconstruction:**

This question required the examinees to prepare journal entries for the reconstruction scheme and the 'statement of financial position' immediately after the reconstruction. This question was answered correctly by majority of the candidates. However, following shortcomings were noted:

- A few candidates could not understand the question properly and prepared entries for purchase of business instead of company reconstruction.
- A few examinees did not calculate correct amount of settlement against creditors i.e. equity shares (Rs.800), 18% debentures (Rs.600) and cash (Rs.300).
- The majority erred in working out the figures of cash at bank and allowance for doubtful debts.
- Most of the examinees did not write off the goodwill and preliminary expense in the reconstructed 'statement of financial position'.
- Many examinees who passed journal entries correctly, failed to prepare SFP correctly.
- Long-term and short-term assets were not separately identified by many candidates.
- Share capital was not correctly calculated because of ignoring the shares issued to the creditors.
- As a result of the above shortcomings, a fair number of examinees could not prepare correct SFP. Generally, it was observed that the candidates were lacking in presentation skills.

**Question No. 4**

**(a) Financial Instrument – Convertible Bonds:**

This part of the question required the examinees to separate the equity and liability components in the bonds issued by a company. Overall, performance of the examinees was not satisfactory. The candidates were

required to calculate 'present value' of the amount of the bonds payable after four years and the interest accrued each year. Instead, candidates calculated the compound interest plus face value of the bonds as liability component and calculated the equity component by converting the bonds into share at the given conversion ratio. The majority of the candidates was not even conversant with the basic calculations and how to separate the liability and equity parts.

**(b) Finance Lease:**

In this part of the question, the candidates were required to prepare extracts of (i) 'income statement' and (ii) 'statement of financial position' (SFP) for three years. Majority of the candidates attempted this question and answered satisfactorily. Nevertheless, following common errors were noted:

- A few of the examinees could not calculate correct amount of depreciation by ignoring residual value of the asset.
- Some of the candidates could not calculate correct amount of interest included in each year's lease instalment.
- Surprisingly, some of the examinees could not mention the correct amount of leased assets in SFP.
- A good number of candidates could not prepare extract from SFP correctly since they could not split the total obligation into current and non-current portions.
- Many students prepared lease schedule correctly but could not make correct extracts of 'income statement' and SFP.

**Question No. 5**

**Deferred Taxation:**

In this question, the examinees were asked to calculate (a) deferred tax charge/ (credit) to the 'income statement' and (b) deferred tax balance to be shown in the 'statement of financial position'. A good number of candidates attempted this question but, overall, performance was not satisfactory. Following shortcomings were observed:

- Some candidates were able to calculate the correct amount of deferred tax credit (Rs.29,400) but they seemed to be confused conceptually whether it was a charge or credit.
- Some of the examinees calculated the correct amount of 'deferred tax liability' balance (Rs.313,600), but they mentioned it as 'deferred tax asset' in SFP.
- Many examinees treated deferred tax 'income' as 'expense' and many even as closing balance of 'deferred tax asset'.
- It was observed that after making correct calculation the examinees got confused as to how to finalise their answers.
- Another commonly committed error was the incorrect calculation of tax depreciation and the difference of tax depreciation and accounting depreciation.

**Question No. 6**

**Construction Contracts (IAS-11):**

In relation to a construction contract, this question required the candidates to compute (a) stage of completion for three years (2009 to 2011) using the ratio of 'cost to date' and the 'total estimated cost' and (b) revenues, costs and profits recognized each year. Barring the following common mistakes, this question was attempted well by the candidates:

- Some candidates could not calculate 'stage of completion' for the year 2009 correctly, mainly, due to the fact that they did not account for the material at the site for use in future (Rs.6.610 million).
- A good number of candidates could not calculate correct revenues, costs and profits to be recognized for the years 2010 and 2011, since, they reported cumulative figures for the years 2010 and 2011 instead of reporting the respective amounts for the current years only.
- There were instances where 'total estimated costs' and 'cost incurred to date' were wrongly calculated.
- Some of them failed to make adjustment in the revenue of the second year due to 'variation' in the contract.

**EXAMINERS' COMMENTS**  
**NEW FALL (E) 2011, APRIL 2012 EXAMINATIONS**

**INTEGRATED MANAGEMENT**  
**Stage – 4**  
**SECTION "A"**

**QUESTION NO. 2**

More concepts of strategic management should have been elaborated. Contemporary leadership methods and methodologies should have been explored as part of organizational direction and goal setting for the functional audit part, ISO and other contemporary standards should have been explained to the students.

(a) Formulating meaningful objectives at any level in the organization involves at least four stages:

- Identifying the Different Key Result Areas to be Covered by Objectives
- Determining the Time Frame covered by the Objectives
- Determining the Magnitudes of the Objectives
- Putting the objectives in Written Form

(b) Some of the students over emphasised about strength and weakness as a result of functional audit. However, they did not include the standards for functional audit of marketing, operation, finance, personnel and R & D engineering and technical. This was a major portion of the question wheels they omitted.

Standards for Functional Audit are:

- Marketing
- Operations
- Finance
- Personnel
- R&D, engineering, and technical

**QUESTION NO. 3**

Each strategy implementation should be backed by real time business example. This may include implementation of MIS system by the organization to the repositioning of a product and the list goes on.

(a) Most of the candidates correctly explained "concentration, vertical integration, diversification along with there part. The answer was satisfactory. However many students did not mention about "vehicles for realising growth which include internal growth, acquisition, merger and joint venture. They also did not explain internal growth vs acquisition merger.

Several different generic strategies fall into the growth category. The most frequently encountered and clearly identifiable of the growth strategies are:

- Concentration
- Vertical Integration
- Diversification
- Concentric Diversification
- Conglomerate Diversification

(b) The performance of the examinees was below average. They couldn't define the three categories of business level strategies. The three categories are:

1. Overall Cost Leadership
2. Differentiation of the Product or Service
3. Focus of the Product or Service



## SECTION "B"

### QUESTION NO. 4

Most of the students wrote this model in their own words. Core PMI/principle methodology should have been used.

(a) Four major Project Risk Management processes are:

1. Risk Identification
2. Risk quantification
3. Risk Response Development
4. Risk Response Control

(b) Examinees could not define this part of the question, hence the performance was below average. In a project network diagram, the series of activities which determines the earliest completion of the project. The critical path will generally change from time to time as activities are completed ahead of or behind schedule.

Critical Path Method (CPM) – calculates a single, deterministic early and late start and finish date for each activity based on specified, sequential network logic and a single duration estimate.

Program Evaluation and Review Technique (PERT) – uses sequential network logic and a weighted average duration estimate to calculate project duration.

### QUESTION NO. 5

(a) This question was simple and was regarding project solicitation and its input. A good number of examinees were unable to understand it. They wrote about planning, gathering data, feasibility report, cost analysis etc. This was wrong the term involves to obtain information about bids, proposals, procurement documents, bidders conference, advertising etc.

Solicitation involves obtaining information (bids and proposals) from prospective sellers on how project needs can be met. Most of the actual effort in this process is expended by the prospective sellers, normally at no cost to the project.

Inputs of Solicitation are:

- Procurement documents
- Qualified caller lists

Tools and Techniques for Solicitation are:

- Bidder conferences
- Advertising

(b) The question was regarding tools and techniques for cost estimation of a project. few examinees answer the question correctly and they explained analogous estimates parametric modelling, bottom up estimates and computer tools. Other examinees replied in a general manner. This shows their non-seriousness.

Tools and Techniques for Cost Estimation of a Project are:

- Analogous estimating
- Parametric modelling
- Bottom-up estimating
- Computerized tools

## SECTION "C"

### QUESTION NO. 6

Most of the examinees understood this part and did that correctly.

(a) Four ways to enhance team effectiveness are:

**Team Building**

**Collaboration**

**Group Leadership**

**Cultural/Global Issues**

- (b) In this part of the question, the performance of examinees remained below average. Horizontal designs replace the traditional vertical, hierarchical organization. The advanced information technology and globalization environment, suggests the use of horizontal structure to facilitate cooperation, teamwork, and a customer rather than a functional orientation.

The network designs go beyond even horizontal structures and totally abandon the classical, hierarchical, functional structure of organization.

The term virtual organization has emerged not so much because it describes something distinct from network organizations but because the term itself represent the new Information Age and the partnering, alliances, and outsourcing arrangements found in an increasing number of global companies.

#### **QUESTION NO. 7**

“House of Podskoff” model was misinterpreted by the examinees. They wrote the leadership theories in their own terms which was the evidence of their lack of understanding and comprehension.

Basic research findings are:

- Vision.
- Passion and self-sacrifice.
- Confidence, determination, and persistence.
- Image building.
- Role modelling.
- External representation.
- Expectations of and confidence in followers.
- Selective motive arousal.
- Frame alignment.
- Inspirational communication.

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**EXAMINERS' COMMENTS**  
**NEW FALL (E) 2011, APRIL 2012 EXAMINATIONS**  
**CORPORATE LAWS & SECRETARIAL PRACTICES**  
**Stage – 4**

**Question No. 2**

**(a) Financial Institution:**

Fair number of examinees realized the difference between a financial institution and a bank. Mistakenly, they also described financial products i.e., TFC, Modaraba certificate as financial institution. Only few examinees mentioned power of Federal Government to specify an institution as financial institution if doing similar business.

**(b) Legal Provisions Regarding Prohibition of Certain Names of the Company:**

Examinees failed to write the answer in the legal language. They explained prohibitions like, identical names, religious susceptibility patronage but with irrelevant details. They wrote same point with different words like identical name and similar name, patronage of head of state and president of country. Moreover, only few examinees highlighted that whenever a question arises as to whether or not the name of a company is in violation of the foregoing provisions of this section the decision of the Commission shall be final.

**(c) Provisions Related to the Application of Share Premium Account:**

Most of the examinees showed average performance in it. However, some of them described accounting treatment (recording and presentation) of share premium account and legal provisions related to the issuance of shares on premium. Even examinees who wrote correct answer could not use appropriate technical phrases.

**(d) Particulars for Maintaining a Register of Shares:**

This was poorly answered question, although question was clear about purchase of own shares but examinees could not realize difference between investment in shares of other companies and purchase of own shares. Instead of particulars for maintaining a register of purchase of own shares, majority of examinees described register of shareholders of the company and some of them described register of investment by company in shares of other companies.

**Question No. 3**

**(a) Disqualification Criteria for the Appointment of Receiver or Manager:**

Majority of the examinees failed to mention the criteria like a company director, corporate body, disqualified by court and un-discharged insolvent in their replies. Even those who cited it used irrelevant language.

**(b) Circumstances in which Company may be Wound Up by Court:**

The question was not attempted in its real sense. Examinees did not indicate the important points. For example, if the company has, by special resolution, resolved that the company be wound up by the Court; and if, being a listed company, it ceases to be such company etc. The presentations of examinees were inadequate by reason of lack of relevant language and repetition of same circumstances into different wordings. For instance, if company is unable to pay debts and if company become insolvent, are same point.

**(c) Circumstances in which Company may be Wound Up Voluntarily:**

Most of the examinees remain abortive to demonstrate proper knowledge on the subject matter. Examinees were confused between winding up a company through court and voluntarily winding up. It seemed that they considered the voluntarily winding up is just a part winding up through court. They failed to inscribe point like when the period (if any) fixed for the duration of the company by the articles expires, or the event (if any) occurs, on the occurrence of which the articles provide that the company is to be dissolved and the company in general meeting has passed a resolution requiring the company to be wound up voluntarily.

**Question No. 4**

**(a) Provisions related to the Change in Status of a Single Member Company in case of Operation of the Law:**

Most of the examinees seemed unaware with the meaning of operation of law, so they mentioned requirement for obtain succession certificate. They failed to state that in case of operation of the law, transfer the shares, within seven days, in the name of relevant persons to give effect to the order of the court or any other authority etc.

**(b) Clearing House:**

Most of the examinees had the wrong perception that the clearing house has been established by the securities and exchange commission of Pakistan instead of the stock exchange. The point related to settlement of trading in future contracts was also missing. Some examinees described it as clearing house of state bank where cheques are settled.

**(c) Particulars included in the Books of Account and Other Documents:**

The examinees were asked the name of books like record of security deposits; and register of authorised clerks; but in place of it they came up with the title of accounts and particulars. For instance, assets and liabilities etc.

**Question No. 5**

**(i) Connected Person:**

The examinees failed to mention the percentage of holding in share capital and directly or indirectly voting rights. Most of the examinees have wrong perception that the spouse and the employee of the NBFC is a connected person. Majority of the examinees replied 20% of voting power instead of 10%.

**(ii) Investment Finance Services:**

The majority of the examinees failed to state the corporate finance services; instead, they just defined it in general terms which demonstrated the selective studies. Majority of examinees mixed up investment finance services with financial institutions as well. They failed to state that investment finance services include money market activities, capital market activities, project finance activities, corporate finance services and general services as specified by the Commission by notification in the official Gazette;

**Question No. 6**

**(a) Provisions related to Minimum Number of Directors of a Company:**

Most of the examinees replied the question in its real sense. However, some of them mixed it with the procedure of hiring a director.

**(b) Secretarial Functions of a Company Secretary:**

Most of the examinees have mentioned the non-secretarial functions of secretary which includes administrative, organizational and managerial functions rather than mentioning secretarial functions. Beside this, examinees wrote unnecessary details and repeated same points. Some secretarial functions of a company secretary which were rarely mentioned by examinees are given below:

- To ensure that the company's properties and interest are adequately insured and deal with all insurance matters arising.
- To ensure the custody and administration of the company's property investments, other investment, patent, trade mark, and trade agreements.
- To advise, in conjunctions with the company's solicitors, the chief executive or other executive, in respect of the legal matters, as required.
- To prepare, in consultation with the chairman, the agenda and other documents for the annual general meetings and extraordinary meetings.
- To engage legal advisors and defend the rights of the company in Courts of Law

**(c) Notice of an Annual General Meeting of the Company:**

Most of the examinees demonstrated the body of the notice correctly but found unaware with the correct format of the agenda of the annual general meeting. The following deficiencies were observed:

- The date on the top was missing.
- Usual agenda items of an annual general meeting like approval of audited annual financial report was not mentioned.
- Wrong classification of ordinary resolution and special resolution was mentioned.
- Use of chairman designation instead of company secretary designation to sign the Annual General Meeting (AGM) notice was written. "By order of the Board" in the end was not stated as well.

**EXAMINERS' COMMENTS**  
**NEW FALL (E) 2011, APRIL 2012 EXAMINATIONS**  
**FINANCIAL REPORTING**  
**Stage – 5**

**Question No. 2**

**Consolidated Statement of Cash Flows:**

This question required the candidates to prepare consolidated 'statement of cash flows' using 'indirect method' as per the requirements of IAS-7 (Statement of Cash Flows). This question was well attempted by majority of the examinees. However, following common mistakes, by the examinees, were noted:

- While calculating the 'cash flows from operating activities', a few candidates, started calculation with operating profit (Rs.81.3) but wrongly made adjustment for 'finance cost' (Rs.6.2) which was not required in this case.
- Some of the examinees did not have clear concept of treatment of the assets and liabilities of the subsidiary acquired during the current year, hence, could not calculate correct amount of changes in working capital and amount of tax paid during the year.
- A few candidates calculated cash outflow against purchase of 'intangible assets' (Rs.9.0) although there was no purchase of intangible assets involved. In fact, this amount represented goodwill that arose as a result of acquisition of subsidiary's net assets and this was a 'non-cash' item.
- A few candidates did not prepare sufficient workings to show calculations of cash flows.
- Some examinees did not compute the amount invested in 'non-current' assets correctly because they included the disposal of the 'non-current' asset in the 'property, plant and equipment' account at disposal proceeds rather than at 'book value' of the asset. Similarly, they did not include the amount of non-current assets of the subsidiary acquired during the current year.
- Many examinees considered the 'finance cost' charged to profit and loss account same as the interest paid during the year, which was not correct.
- Non-controlling interest was not correctly calculated because of ignoring the non-controlling interest (NCI) of the subsidiary which was acquired during the year.
- 'Gain on sale of non-current asset' was included twice by some students.

**Question No. 3**

**Financial Statements:**

The candidates were required to prepare (i) 'income statement' and (ii) 'statement of financial position' (SFP). Surprisingly, overall performance of the candidates was very poor. Following common mistakes were observed:

- Majority of the candidates could not calculate adjusted 'cost of sales' correctly as they did not take the effect of 'impairment' in the inventory [(Rs.30) = (Rs.135-Rs.105)].
- A few candidates did not account for gain on revaluation of 'investment property' (12,500) correctly. Some wrongly showed this under 'statement of retained earnings'.
- Surprisingly, some of the examinees showed payment of dividend as an expense for the year. This is a serious accounting conceptual mistake.
- Majority of the candidates did not calculate income tax charge for the year, correctly, which was to be arrived at by calculating tax on taxable income, adjustment for overprovision of tax and deferred tax expense for the year.
- A good number of candidates did not calculate correct amount of 'property, plant and equipment' (Rs.36,700) mainly due to wrong calculation of depreciation. The question clearly stated that the company uses 'reducing balance method' but candidates applied the depreciation percentage on the original cost. Likewise, some candidates calculated depreciation on 'leased asset' using 5-year life instead of 4-year.
- While calculating value of inventory, majority of the candidates did not make adjustment for the defective item expensed out in the P&L (Rs.30).
- Some examinees, incorrectly, calculated balance of cash by making adjustment of (Rs.105) against sale of defective goods which was not required since it pertained to the next accounting period.
- Except a few examinees, no one was able to calculate correct amount of 'retained earnings' (Rs.45,475)

mainly due to wrong calculation of profit for the year.

- A few numbers of candidates did not calculate correct amount of 'loan notes' (i.e., Rs.12,100) which was to be adjusted for accrual of interest for the current year (Rs.1,100).
- A good number of examinees did not have clear concept of accounting treatment of 'leased assets' as they calculated wrong amounts of current and non-current portions of leasing obligation.
- It was noted that the examinees have very poor concepts of corporate taxation. Due to this lacking, majority of them could not calculate correct amount of deferred tax liability (Rs.4,970) and income tax payable (Rs.10,500). Some of them even did not consider the inclusion of current deferred tax expense in the income tax charge to the 'income statement'.
- Examinees did not compute 'finance cost' correctly because of wrong calculation of interest on loan notes.
- Some examinees charged whole instalment payment to profit and loss account instead of bifurcating it into interest and capital portions.

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

##### **(a) Disclosure Requirements for Intangible Assets:**

This part of the question required the candidates to describe the disclosures under IAS-38, which an entity shall make for each class of 'intangible assets' distinguishing between internally generated 'intangible assets' and other 'intangible assets'. A good number of candidates attempted this question but a few could answer to the point. Following common mistakes were noticed:

- No one was able to mention even 10% of the disclosures. Some examinees gave irrelevant answer only for the sake of filling up the pages.
- Many wrote definitions instead of describing the disclosures.

##### **(b) Share-Based Payments:**

The examinees were required to calculate share-based payments to the employees of a company for three years (2012 to 2014) and show their effects in the 'income statement' and 'statement of financial position'. Overall, performance of the candidates was satisfactory. However, following shortcomings were observed:

- A few candidates did calculate the correct amount of expense for the current year and cumulative expenses for all the three years but could not show the same in the 'income statement' and 'statement of financial position' correctly.
- Some examinees calculated only the number of persons who remained with the company each year and ignored the amounts to be included in the 'financial statements'.
- Some of them prepared working notes but could not show extracts of financial statements and vice versa.
- Many failed to adjust the number of people leaving and expected to leave on yearly basis. They did not know that the employees leaving in the past and those who were expected to leave in future should be reduced from the number of total employees.

#### **CASE STUDY**

This case study provided the examinees with the 'financial statements' and other relevant data including comments by CEO. Examinees, as CFO, were required to present to the Board of Directors a report showing financial position of the company as well as briefly explaining the comments of CEO. Overall, performance of the examinees was good. However, following observations were made:

- A proper report should have been in memo form in this case, in which, the profitability analysis, working capital structure and CEO's comments must have been comprehensively discussed. The ratio analysis must be presented separately in the form of an annexure. Mostly, the two parts were combined which is not impressive and as per the requirement.
- Most of the reports looked like a 'report on the ratios and what they mean' rather than 'report on the financial statement analysis of the company'.
- The question required the CFO to elaborate the statement of the CEO and while doing so, set the area for the students. The students were required to focus on what the CEO said in the light of what the crucial ratios depicted. The students lost focus and could not suggest the way forward.

**EXAMINERS' COMMENTS**  
**NEW FALL (E) 2011, APRIL 2012 EXAMINATIONS**  
**MANAGEMENT ACCOUNTING – DECISION MAKING**  
**Stage – 5**

**Question No. 2**

**Adding/ deleting a product, discount of operation:**

Examinees were asked to prepare profitability statement of the shopping mall in three different seasons, Peak, Mid and Low Seasons. Most of the examinees could not properly understand the question and as a result attempted it poorly. Common mistakes of examinees were noted as under:

- Some examinees did not apply stall occupancy rate.
- Fixed costs were not divided into avoidable and unavoidable fixed costs by most of the examinees.
- Calculations were not complete, like if examinees were required to calculate total visitors cost as “No. of stalls x average visitors per stall x per visitor cost”, but most of the examinees either missed out one of these elements/ components for calculation resulting in incorrect amount.
- Most of the examinees did not consider occupancy of stalls during different seasons.
- Some of the examinees correctly calculated contribution margin but did not evaluated result of three activities separately and summed up the contribution margin of stalls, refreshment and restaurant and subtracted aggregate fixed cost from the total contribution margin.
- As examinees were not having grip of the topic they could not explain properly the parts (b) and (c) of the question.

Examinees are advised to exercise due care as a small calculation error makes the question and hence the decision based on this calculation as wrong.

**Question No. 3**

**Relevant cost:**

Most of the examinees attempted the question satisfactorily. However, some examinees also took into consideration the costs which were not relevant for the decision making, like the leasing cost of the machine and the cost of supervision of labour. Following shortcomings were observed:

- They failed to observe that fabric is in use and thus replacement cost is relevant.
- Some of the examinees charged only 1,500 kgs of dyes and rest 500 kgs was kept for repeat order although it was not confirmed.
- Wrong calculation of working hours and committing mistake in choosing cheapest source thus applied incorrect rates of labour/ overtime.

This being one of the basic concepts of the subject and examinees are supposed to have its complete grip.

**Question No. 4**

**(a) Effect of inflation on investment decision:**

Most of the examinees committed following common mistakes in taking effect of inflation:

- Some did not take effect of inflation.
- Instead of taking inflation impact on both 'fixed cost' and 'contribution margin', impact was taken only for one of them.
- Inflation impact of only one year was taken and compounding impact previous years was not considered.
- Some of the examinees were not aware of sum of the year digit method.
- Significant number of examinees correctly calculated depreciation but applied in reverse order i.e., last year depreciation was charged in first year.

**(b) Capital rationing decision:**

Significant number of examinees gave priority to option 'A' as its NPV was highest. They did not consider that amount of investment in this option is higher. They decided on the basis of NPV and failed to use profitability index so lead to wrong decision.

**(c) Discounted cash flow (DCF) techniques:**

This part is related to discuss the essentials of DCF techniques. Majority of the examinees failed to discuss the topic being theoretical.

**Question No. 5**

**Life cycle costing and target costing:**

Examinees were asked to calculate per year profit of the lawn movers. Examinees were provided variable costs and variable selling expenses per lawn mover, yearly fixed costs and fixed selling expenses were also provided.

The mistakes by a sizeable number of examinees were:

- They did not read the question properly and added per unit costs with total costs.
- Some examinees ignored selling expenses during the calculation of total costs.
- Development costs were not allocated properly and incorrectly amortised.

Part (b) of the question was regarding calculation of minimum prices that should be offered. Examinees were required to arrive at the price at which profit should have been 10% of the sales. Significant number of examinees suggested minimum price equal to variable cost. They did not realise that it was a new project and fixed cost was not sunk cost at the time of evaluation.

In target costing (Part c) approach, the costs are the targets and required to be adjusted according to the market price but the examinees emphasized on setting of the prices for achieving desired results.

**Question No. 6**

**Break-even analysis:**

Question was regarding calculation of contribution margin, break-even point and operating income at different level of activity (visits) under various options. Examinees attempted the question satisfactorily. Most common mistakes observed were:

- Fixed pay per doctor was not multiplied with number of doctors to arrive at fix pay of the doctors.
- Some examinees applied variable cost of second option and fixed costs of the first option.
- Significant number of examinees exposed their inability to calculate contribution margin/ break-even point citing the reason that there was no variable cost. It shows that they have just learnt the formula and have not clear understanding of concept.
- Some examinees applied fixed cost of only one day in calculating the break-even point.

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**EXAMINERS' COMMENTS**  
**NEW FALL (E) 2011, APRIL 2012 EXAMINATIONS**  
**RISK MANAGEMENT AND AUDIT**  
**Stage – 5**

**Question No. 2**

**(a) Some significant risks and ways to minimize them:**

A significant number of examinees failed to identify risk specifically attributable to the given situation but they talked about general risks; They failed to inscribe points like judgments are involved in identifying whether and when there is an identifiable asset that will generate expected future benefits etc. On the other hand, recommending controls in order to minimize identified risks were not matching to risks. They even failed to state simple points. For instance, monthly review and monitoring the development is needed to minimize the risk etc.

**(b) Definitions:**

- (i) "Risk Analysis" was attempted well by most of the examinees.
- (ii) Some examinees mixed the concept of "Absolute risk" with "Inherent risk". Some even remain futile to attempt it.
- (iii) Most of the examinees were able to define the correct definition i.e., Inherent risk is the risk found in the environment and in human activities that is part of existence.

**Question No. 3**

**(a) Course of Action to be Adopted:**

Most of the individuals remain abortive to mention that in the light of relevant ISA an engagement scope may be changed subject to certain factors. They stated the last resort or action i.e., withdrawal from audit assignment or issuance of disclaimer of opinion report without considering the circumstances and conditions under which such change request is acceptable. More legal or contractual implications of change were not addressed/ defined that needs to be considered. Some examinees even support the aspect that auditor should accept the client request and change his assignment to a review exercise without realizing the complexity of the situation.

**(b) Matters dealt in Quality Control Reviewer's Report:**

Majority of examinees attempted this question in a manner that they took it as Quality Control Audit. Majority of the examinees described that quality control reviewer's report includes the points/matters regarding the standards/rules to be followed for ensuring best product or sources. Some even wrote that it includes matters that are helpful in improving an organization's internal control environment. They failed to demonstrate points like acceptance and continuance of client; and watching professional development and advancement etc.

**(c) Objectives of quality control policies and procedures:**

This question was poorly attempted by majority of the examinees. They were unable to describe the objectives of quality control policies and procedures specially the points that individual audits comply with professional standards and legal requirements and audit reports issued are appropriate. They stated the objectives from client's perspective rather than from audit firm's point of view. Some examinees stated advantages of quality control and procedures with respect to their operations and types of products/ services including the maintenance of proper accounts/ financial statement. In significant cases, majority of the examinees give a wrong explanation of the issue or put lengthy unwanted explanations.

**Question No. 4**

**(a) Items in the Auditors' Audit Programme:**

Majority of the examinees described the different steps and procedures to be used is performance of the audit which was not required at all. Except few examinees, rest of examinees could not describe contents of an audit programme even they had discussed about planning of audit. They failed to state simple points; for instance, Name of the client, previous auditors' reports and examination of cash book and petty cash book, bills receivable and bills payable books etc. Few examinees even did not attempt this part, which shows poor study approach.

**(b) Information, Documents, Evidence or Analysis included in Working Papers:**

Most of the examinees performed good in this part of the question. However, majority of the examinees failed to write all the ten points as per the requirement of the question. Where as, few could not answer it correctly as they did not refer specific items of working papers like information concerning the legal and organisational structure of the entity and information concerning the industry, economic environment and legislative environment within which the entity operates etc.

**(c) Steps Taken for an Affective Check on Cash Received from Debtors:**

Except few, most of the examinees described the procedures for accurate recovery of cash received from debtors that involve checking of the sale invoices, credit terms, bank reconciliation of amount received etc.

Most of examinees failed to describe steps to be taken by an auditor. They simply pointed out procedures to be adopted by the cashier and other concerned staff of accounts section. They missed the points like the management must follow as an inflexible guiding rule that all bearer or other cheques received are immediately crossed "Accounts Payee only".

**Question No. 5**

**(a) Control Procedures and Points included in Specific Control Procedures:**

This question was attempted by majority of examinees in an improper manner. Unnecessary explanations of control procedures and wrong description of specific points included in control procedures were given. Majority of the examinees stated the specific control procedures that an auditor adopt to perform the audit of an entity. They failed to mention relevant points to be included in specific control procedures. For instance, controlling applications and environment of computer information systems, like by establishing controls over: changes to computer programme; access to data files and approving and controlling of documents etc.

**(b) Auditor's Opinion:**

Three different scenarios were given and examinees were required to give their understanding of effect of those on auditor's opinion.

- (i)** Majority of the examinees straight away supported the issue of a qualified and disclaimer of opinion report stating it a significant matter that must be disclosed for fair presentation of financial statement and appropriate audit opinion. Some of examinees even referred to going concern issue therefore concluded a qualified report. Quite a large number of examinees failed to mention that provision is not required, as the decision has not yet been communicated to affected parties. An unqualified report will be in order.
- (ii)** Mostly attempt this part in a proper way. However, different impact on auditor's opinion with respect to year 2010 and 2011 was not clearly mentioned by some examinees. Some examinees wrongly supported the issue of the qualified report both is years 2010 and 2011.
- (iii)** Majority presented it fairly. However, few examinees supported the expression of an "adverse or disclaimer of opinion" by the auditor based on the statement that Directors have refused to record the loss on the ground that the value of other fixed assets is substantially higher than their carrying values.

**Question No. 6**

**(a) Purposes of Cost Audit:**

Most of examinees explained it in a way that they described benefits of cost audit instead of purposes thereof. They did not engrave the points like to ascertain the abnormal losses or gains together with their causes etc.

**(b) (i) Materials Cost:**

Most of the examinees performed good in this part of the question. However, just to increase the points, some of the examinees repeated the points. Few of them were unable to demonstrate points like the system of materials receipts, inspection and issue and the system of quantifying of wastage, supported with the course and steps taken to reduce them etc.

**(ii) Depreciation:**

Steps required for checking depreciation were fairly presented by majority of the examinees. However, few of them were unable to state points like the treatment of gain or loss on disposal of machine and repairs and maintenance expenses etc.

**EXAMINERS' COMMENTS**  
**NEW FALL (E) 2011, APRIL 2012 EXAMINATIONS**  
**STRATEGIC FINANCIAL MANAGEMENT**  
**Stage – 6**

**Question No. 2**

**Calculation of (a) break even point, (b) earning per share (EPS), (c) degree of operating leverage (DOL), (d) degree of financial leverage (DFL) and (e) degree of total leverage (DTL):**

The examinees performed exceptionally well in this part of the question. However, a few mistakes committed by many examinees are as under:

- Many examinees included the interest expenses of Rs. 400,000 into fixed cost. Resultantly, they could not correctly calculate the break even point in units.
- A few examinees did not deduct the interest expenses from EBIT and incorrectly calculated the tax @ 35% on EBIT instead of EBT. Besides, a few examinees also incorrectly calculated the tax after deducting the preference dividend from the profit before tax (PBT).
- Most of the examinees were not having any fair idea how to calculate the DFL and DTL. They were also not able to calculate the effect of 50% sale increase on EPS using DTL formula.

**Question No. 3**

**(a) Calculation of cash operating cycle and four methods of reducing the duration of the cash operating cycle:**

The examinees did not perform well in this part of the question. There was hardly any examinees that correctly calculated the cash operating cycle. However, most of the examinees produced relevant arguments to reduce the length of cash operating cycle. A few mistakes committed by the examinees are as under:

- A large number of the examinees did not correctly calculate the cost of materials although, It was clearly stated in the question paper that materials cost represented the 50% of the cost of sale. Resultant, they could not correctly calculate the days in raw material inventory.
- The examinees also did not calculate correctly the days in work-in-process inventory. They divide the work in process of Rs. 1,100,000 incorrectly by Rs. 8,400,000 instead of Rs. 6,720,000 (80% of COS).
- A substantially large number of examinees were also not able to calculate the days in accounts payable due to dividing the accounts payable by incorrect amount of raw material purchased.

**(b) Calculation of total annual cost of ordering and holding cost under current policy and under EOQ model and viability of discount offered by Beta Ltd.:**

The overall performance was just an average in this part of the question. Though, it was rather comparatively easy question on the EOQ model. A few mistakes committed by the examinees are as under:

- Most of the examinees were having no concept of safety (buffer) stock. They either could not calculate the buffer stock or did not add it into the average inventory held while calculating the average holding cost. Resultantly, they were unable to correctly calculate the annual cost of current ordering policy and EOQ policy.
- A substantial number of examinees, instead of adding the buffer stock into average inventory held, added the buffer stock into units in an order and then averaged it under current policy and EOQ policy.
- Most of the examinees could not determine the viability of the 2% discount offered by Beta Ltd for settlement of account within 20 days. The examinees were required to calculate the reduction in payable due to discount offer and then compare the increase in finance cost with discount offered by the supplier. However, hardly any examinee was able to calculate the saving of Rs. 69,268 for opting discount offer.

#### Question No. 4

##### Calculation of WACC (weighted average cost of capital):

The overall poor performance was observed in this question. Most of the examinees could not tackle this question properly. A few mistakes committed by the examinees are as under:

- A large number of examinees could not correctly estimate the future rate of growth (g) from the average growth in dividends over the past four year i.e., 2007 to 2011. They incorrectly considered the growth (g) over five years instead of four years.
- Many examinees also did not correctly calculate the cost of equity. They incorrectly used market price of share cum div., instead of market price of share ex. div., in Gordon's Growth Model.
- Most of the examinees also did not correctly calculate the cost of TFCs. They did not consider the annual interest payments net of tax while calculating the NPV of TFCs. Moreover, they also did not apply IRR to calculate the true cost of debt based on NPV of TFCs at two different rate of interest.

#### Question No. 5

##### (a) Calculation of operating cash flow (OCF) and viability of the lathe machine replacement decision:

The overall performance was below average in this part of the question though almost all the examinees attempted this part of the question. A few mistakes committed by the examinees are as under:

- Many examinees did not include the tax savings due to loss on old lathe machine as cash inflow of Rs. 105,000 ( $\text{Rs. } 300,000 \times 0.35$ ) in the initial investment.
- A large number of examinees incorrectly calculated the depreciation of fifth year without considering the salvage value of Rs. 400,000. They incorrectly apply the 20% depreciation rate on lathe cost at the beginning of 4th year, instead of taking the difference of lathe cost at the beginning of 4th year and salvage value.
- A substantial number of examinees took the depreciation of new lathe machine instead of incremental depreciation over the period of five years while calculating the operating cash flow (OCF). Resultantly, they also could not calculate the correct figure of NPV.

##### (b) Calculation of maximum NPV if the projects are divisible and not divisible:

The examinees performed poorly in this part of the question. Most of the examinees could not understand how to tackle it. Though, it was comparatively an easy question on capital rationing. Most of the examinees were not able to rank the projects based on profitability index (PI) before calculating the maximum NPV under the assumptions of divisible and indivisible.

#### Question No. 6

##### Servicing of debt through the six years if the prime rate stays at 12% and if the prime rate were to rise to 20% at the beginning of the second year:

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

- Senior debt principal amount of Rs. 28 million over the period of first five years and junior debt principal amount of Rs. 40 million in sixth year were required to be paid. However, most of the examinees did not consider that tax benefit @ 33% was not available on discharge of debt. Therefore, the requirement of EBIT would be Rs. 42 million ( $\text{Rs. } 28 \text{ million} / 0.667$ ) and Rs. 60 million ( $\text{Rs. } 40 \text{ million} / 0.667$ ) for refund of senior and junior debt respectively.
- Many examinees did not correctly calculate the interest expenses on senior debt. They either could not add the 2% in prime rate of 12% and 20% respectively or consider the payment of senior debt principal at the end of the five years in lump sum.

**EXAMINERS' COMMENTS**  
**NEW FALL (E) 2011, APRIL 2012 EXAMINATIONS**

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

**SECTION "A"**

**QUESTION NO. 2**

- (a) Performance of the examinees was average to this question and they correctly define obstacles to applying IT successfully.

Some of the obstacles to applying IT successfully in the real world of business include:

- Unrealistic expectations and techno-type
  - Difficulty Building and Modifying IT-Based Systems
  - Difficulty Integrating IT-Based Systems
  - Organizational Inertia and Problems of Change
  - Genuine Difficulty Anticipating What Will Happen
- (b) In principle based systems analysis method, it was imperative to mention the use of work system principle to explore situation and search for possible improvements. Also, the sequencing as define the problems, using work systems principles and marking a recommendation was needed which was not written properly by some students.

PBSA converts the four steps of systems analysis into three steps that can be pursued at whatever level of detail makes sense in the situation. These steps involve:

- Defining the Problem and the Work System
- Using Work System principles to Explore Situation and Search for Possible Improvements
- Making a Recommendation That Addresses the Problem While Supporting the Organization's Priorities

**QUESTION NO. 3**

- (a) Four system approaches of system life cycles were asked and not four steps of life cycle. Many students wrote Initiation, requirement gathering, development and maintenance as approaches whereas the approaches are:

1. Traditional system life cycle
2. Prototype
3. Application packages
4. End-user development

- (b) Students discuss this topic on average basis and their performance was below expectation as this was very easy question and could be described in much better way. Four main factors related to information usefulness are:

- Information quality
- Information accessibility
- Information Presentation
- Information security

- (c) The performance of examinees was below expectation. In convergence of computing and communication, the communication implied was digital and telecommunication and not business communication. Many students tried to prove the convergence of computing and business communication.

Four aspects of the convergence of computing and communications are :

- Reliance of Telecommunications on Computers
- Role of Telecommunication in computing
- New Options in Wired and Wireless Transmission
- New Combinations of Data and Computing

## SECTION "B"

### QUESTION NO. 4

The overall performance of students was average and most of them wrote answers with the help of guess work. IS roles and responsibilities are briefly discussed below:

(a) **Media Management:**

Media management is required to record, issue, receive and safeguard all program and data files that are maintained on removable media.

**Systems Administration:**

the system administrator is responsible for maintaining major multiuser computer systems, including local area networks (LANs), wireless local area networks (WLANs), wide area networks (WANs), personal area networks (PANs), storage area networks (SANs), intranets and extranets, and mid-range and mainframe systems.

**Security Administration:**

Security administration begins with management's commitment. Management must understand and evaluate security risks, and develop and enforce a written policy that clearly states the standards and procedures to be followed.

**Quality Assurance:**

Ensures the quality of the project/systems.

**Quality assurance personnel** usually perform two distinct tasks:

**Quality assurance (QA)** – Helps the IS department to ensure that personnel are following prescribed quality processes.

**Quality control (QC)** – Responsible for conducting tests or reviews to verify and ensure that software is free from defects and meets user expectations.

**Database Administration:**

The database administrator (DBA), as custodian of an organization's data, defines and maintains the data structures in the corporate database system.

**Network Administrators:**

Network administrators are responsible for key components of this infrastructure (routers, switches, firewalls, network segmentation, performance management, remote access, etc.).

(b) It was asked to explain the required contents in information security policy document. Many students mentioned the audit process of security policy and not the contents of information security policy document.

Policies are high-level documents that represent the corporate philosophy of an organization and the strategic thinking of senior management and business process owners.

### QUESTION NO. 5

(a) To perform variable sampling, some of the terms like confidence coefficient, expected error rate, sample standard deviation and tolerable error rate are need to be understood. Very few students were able to mention these statistical sampling terms.

**Statistical sampling.** An objective method of determining the sample size and selection criteria. Statistical sampling uses the mathematical laws of probability.

**Nonstatistical sampling (often referred to as judgmental sampling).** Uses auditor judgment to determine the method of sampling, the number of items that will be examined from a population (sample size) and which items to select (sample selection).

(b) The examinees performance was below average to this question and they could not define the roles and responsibilities of groups/individuals involved in the development process of a project management structure. The various roles and responsibilities of groups/individuals that may be involved in the development process are:

- Senior management
- User management
- Project steering committee
- Project sponsor
- Systems development management
- Project manager
- Systems development project team
- User project team
- Security officer
- Quality assurance (QA)

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**EXAMINERS' COMMENTS**  
**NEW FALL (E) 2011, APRIL 2012 EXAMINATIONS**  
**MANAGEMENT ACCOUNTING-BUSINESS STRATEGY**  
**Stage – 6**

**Question No. 2**

**(a) Various opportunities and threat faced by the business sector in recent global economic recession:**

The examinees did not perform well in this part of the question due to non-preparation of the topic. Most of the examinees produced irrelevant external opportunities and threats. Many examinees, instead of mentioning the opportunities and threats, elaborately explained the economic, social, cultural, demographic, environmental, political, governmental, legal and technological and competitive factors. However, most of the examinees quoted relevant examples of a threat for one company and an opportunity for others.

**(b) Role of information technology (IT) in the strategic management and examples of industries using wireless technology:**

The examinees performed very poorly in this part of the question. There were hardly few examinees who justified the topic. Most of the examinees produced irrelevant details. It was quite evident that the examinees were not having any fair idea about the topic. A large number of examinees just quoted the examples of airlines, automotive, banking and market research industries that are using wireless technology. However, most of the examinees were not able to quote the examples of education, energy, health care, hotels, politics and publishing industries.

**Question No. 3**

**(a) Guidelines when defensive strategies like divesture, liquidation and retrenchment can effectively use:**

The overall performance was just an average in this part of the question. Most to the examinees did not justified their answers. They either produced irrelevant details or mentioned the guidelines of one defensive strategy under the heading of other defensive strategy.

**(b) Benefits of carefully developing a mission statement:**

Most of the examinees performed poorly in this part of the question. Instead of explaining the importance of vision or mission statement, the examinees either produce irrelevant details or elaborated nine component of mission statement. A few examinees also produced the sample vision and mission statements.

**(c) The steps in developing the external factor evaluation (EFE) matrix:**

Most of the examinees performed well in this part of the question and secured good marks. However, many examinees did not mention in the start of their question that an external factor evaluation (EFE) matrix allows strategists to summarize and evaluate economic, social and cultural etc information. Many examinees did not sufficiently explained the five steps in developing the external factor evaluation (EFE) matrix.

**Question No. 4**

**(a) Relating the functions of management to the stages of strategic management:**

The examinees performed well in this part of the question. However, a few mistakes committed by the examinees are as under:

- Many examinees were not able to correctly relate the functions of management with stages of strategic management process.
- A large number of examinees, instead of elaborating task, areas and activities related to the functions of management, explained at length the strategy formulation, strategy implementation, and strategy evaluation of strategic management process.
- Most of the examinees either produce irrelevant details or too little details while explaining the activities covered under each function of management. A few examinees could not even correctly pen down the functions of management and at times they discussed the activities of a management function under the heading of another management function.



**(b) Comparison of financial objectives with strategic objectives of a business entity and benefits of having clear corporate objectives:**

Most of the examinees' performance was just an average in this part of the question. A large number of examinees were not able to compare and contrast financial objectives with strategic objectives by producing the relevant arguments. A few other mistakes committed by the examinees are as under:

- Most of the examinees did also not focus on the trade-off between financial and strategic objectives related to the riskiness of actions, concern for business ethics need to preserve the natural environment and social responsibility issues. Moreover, they also did not mention that financial and strategic objectives should include both annual and long-term performance targets.
- Most of the examinees produced either irrelevant or incomplete benefits of corporate objectives.

**Question No. 5**

**(a) Management issues to be resolved while strategy implementation process is started and importance of annual objective for strategy implementation:**

Most of examinees performed well in this part of the question. However, many examinees either produced irrelevant or incomplete management issues central to strategy implementing process. In the same way, many examinees partially listed down the purpose of annual objectives.

**(b) The corrective actions that can be taken during strategy evaluation process and dealing with the anxieties of employees and managers:**

Most of the examinees produced relevant corrective actions taken during strategy evaluation process and secured good marks. However, a large number of examinees were not having any fair idea how the anxieties of employees and managers could be satisfied.

**Question No. 6**

**(a) Difference in net income for the year between accepting or rejecting the customer's offer and minimum selling price without reducing or increasing net income:**

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

- A large number of examinees were not able to calculate the variable portion of overhead and variable overhead percentage of direct labour cost. Resultantly, they were not able to calculate the minimum selling price amounting to Rs. 138,000 that could be quoted. They also failed to indicate that there would be an increase in income of Rs. 12,000 (Rs.150,000 – Rs.138,000) if customer's offer is accepted.
- Most of the examinees incorrectly calculated the minimum selling price of newly ordered boat based on absorption costing.

**(b) Advantages of contribution margin approach:**

Many examinees were not able to mention the advantages of contribution margin approach i.e., it indicates the relationship between marginal cost to be incurred and sales revenue as a result of accepting the order; it helps to estimate minimum selling price and profit on specific order.

**(c) Pitfalls of contribution margin approach:**

Most of examinees correctly mentioned that contribution margin approach ignored the fixed cost but they were not able to state that fixed cost could not be ignored in the long run.