

**EXAMINERS' COMMENTS  
FALL (WINTER) 2006 EXAMINATIONS**

**FUNDAMENTALS OF FINANCIAL ACCOUNTING  
STAGE-1**

**QUESTION NO:- 1 – MCQs**

Above average performance was noted in this question.

**QUESTION NO:- 2**

**(a) Explanation of the terms:**

- (i) Going concern**
- (ii) Cost Principle**
- (iii) Consistency, and**
- (iv) Materiality**

- It was noted from the answers that most of the examinees had no idea of the terms. It appears that examinees do not give due attention to IASs. Moreover, the examinees were found very weak in expression.
- The explanation of these terms was required in few words, but most of the examinees wrote long and irrelevant stories and could not earn any marks.

**(b) Preparation of Sales Journal and Purchase Journal.**

- The question was very simple and easy, but majority of the examinees was not able to attempt this question properly.
- Examinees were found ignorant of the format of sale and purchase journals. Many of the examinees had prepared general journal instead of sales and purchase journal.
- Most of the examinees were not aware of the concept of special journals and did not know which type of transactions had to be posted in these journals.
- Many examinees, instead of preparing the sales and purchase journal, passed general journal entries to record the transactions.

**QUESTION NO:- 3**

**(a) Preparation of Debtors and Creditors control accounts.**

- This was an easy question, and overall performance of examinees was found to be satisfactory. However, few of the examinees could not attempt this part of question correctly.
- Few instances were noted where examinees did not know the basics of debtors and creditors accounts.

**(b) Determination of the cost of inventory lost by fire, under two different assumptions.**

- The question was very easy and was well attempted by majority of the examinees.
- Many of the examinees, however, were not able to attempt the question correctly, and lost few easy marks.

**QUESTION NO:4**

**(a) Calculation of depreciation for three buses purchased on different dates under three different methods viz:**

- (i) Straight-line method**
- (ii) Declining balance method, and**
- (iii) Units of activity method.**

- Question was not difficult, but most of the examinees were able to calculate the depreciation under straight-line method only and could not calculate the depreciation correctly under declining balance and units of activity methods.
- Lack of knowledge of such an important topic was evident from the answers of the examinees.

**(b) Passing of Journal entries to record bad debt expenses under different assumptions from the given data.**

- This was the simplest question of the paper, but unfortunately most of the students failed to attempt this question correctly and completely, and were unable to compute correct amount of bad debts for passing necessary journal entries.

**QUESTION NO:-5**

**(a) Definition of “goodwill” and discussion of the types of attributes that could result in “goodwill”**

- From the answers it was evident that examinees had the knowledge of the topic, but were unable to express themselves due to poor English comprehension.
- Many examinees, instead of writing the types of attributes had mentioned the methods of calculating “goodwill”.

**(b) Preparation of bank reconciliation statement, determination of cash balance to be reported in balance sheet and passing of necessary adjusting entries.**

- The question was very easy and could have been solved in a very little time, but only a few examinees were able to solve this part of the question completely and correctly.
- Most of the examinees did not have the knowledge of the topic and did not know which item is to be adjusted in cash book and which had to be adjusted against balance as per bank statement. They mixed-up all the adjusting items and were unable to compute the correct / adjusted cash balances. Few of the examinees even passed journal entries for those items, which were to be adjusted against bank balance.

**QUESTION NO:-6**

**Preparation of profit and loss account and balance sheet after passing necessary year-end adjusting entries.**

- Few examinees were able to pass necessary year-end adjusting entries correctly and completely.
- A large number of examinees was unable to pass the adjusting entries correctly, and few examinees were unable to pass the journal entry for depreciation and bad debt expenses.
- It was noted that majority of the students did not have any idea of the format of profit and loss account and balance sheet and the sequence of items to be reported in these two statements.
- Since, majority of the examinees was unable to pass year-end adjusting entries correctly, therefore, they could not prepare the profit and loss account and balance sheet correctly.

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**EXAMINERS' COMMENTS**  
**Fall (Winter) 2006 EXAMINATIONS**

**BUSINESS ENGLISH**  
**STAGE-1**

**QUESTION NO. 2**

- (a) This question comprised three sets (pairs) of words, asking the examinees to frame sentences so as to show that the difference in meaning is clear. The performance of majority of examinees was very poor; few of them could compose proper sentences differentiating meaning of given three pairs distinctly and clearly. All the given words were very simple and drawn from every day use. More practice and understanding would prove beneficial and fruitful.
- (b) This question carried a list of six words followed by two sentences as option (i) and (ii) with blank spaces after each sentence and candidates were asked to find the word(s) for these blank spaces " that means the same" from the given list of words. Majority of candidates provided correct answers and scored full marks in this section.

**QUESTION NO. 3**

- (a) This part of question required students to make correct choice of preposition from those given in parentheses. Majority performed well and accurately identified the appropriate preposition, for each option.
- (b) In this part of question, the given UNDERLINED words and phrases were to be replaced / changed with the help of helping verbs, modal auxiliaries, main verbs, and their forms, to make the given five sentences accurate in each case. The success rate was almost 50%.

**QUESTION NO. 4**

This question on comprehension, required examinees to answer the given four sub-questions

(a), (b), (c), and (d). Most of the examinees resorted to lift the text material and un-intelligently reproduced it. It was noticed particularly in writings or section-(c) and (d). Most of the examinees simply ignored that answers were to be framed in their own words with proper understanding of relevant question. Success rate for this question, however, satisfactory as the two sub-questions (a) and were very simple to answer. It is suggested that comprehensive reading skill be practiced by students and exercise in skimming, scanning, surveying, searching out connectors, comprehensive revision of tenses, spelling and structures should be undertaken. This would facilitate and enhance comprehension skill of the students.

**QUESTION NO. 5**

In this question, the examinees were required to write an essay of about 300 words on one of the given four topics, which were quite interesting and relevant. Almost all the topics were attended but very poor, vague, irrelevant and misconceived piece of writings were produced. Coherence and logical development was found in very few answer scripts. Paragraphing and correct syntax was very poor. Majority of examinees provided wrong spellings and abbreviations. Examinees are advised to read newspapers / articles on current affairs to enhance and broaden their views so that they can form their own opinion about any issue which can confront them in real life. While composing an essay, a writer must apply rules of punctuation, sentence structure, conjunctions, verbs, active and passive sentences etc.

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

Majority of examinees produced good answers for this question in term of material but poor in presentation. Most of the candidates reported two or more considerations for the interviewee for each of three steps. Material concerned was good and relevant but reported carelessly with numerous faults of various types. Due care was not given to avoid mistakes of spellings, sentence formations and mark of punctuation.

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

This question required the candidates to pick up or identify and report the correct language function narrated in the sentences shown as (a) to (g). The answers were reported in different formats and styles. The candidates formulated a complete column matching exercise. Majority of the examinees could not secure good marks from this relatively easy but interesting question.

#### **QUESTION NO. 8**

Majority of the candidates failed to comprehend the requirement of the question. Very few examinees composed initial note considering the given situation as narrated in the question. Some of the examinees preferred to compose a letter while a good majority of students drafted a speech on "**Career Choices in Pakistan**". These writings were reported in very poor spoken language style. Length of sentences composed and vocabulary used were also not matching with the situation or topic.

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**EXAMINERS' COMMENTS**  
**Fall (Winter) 2006 EXAMINATIONS**

**BUSINESS LAWS**  
**STAGE-1**

**QUESTION NO. 2**

This question required the candidates to define various types of **"business laws"**. Most of the candidates attempted this question but could not provide proper answers. Common Law was defined as every one's Law by most of the examinees. Whereas it is a customary and traditional law. In the case of Equity Law, most of the candidates defined it as capital / investment instead of fairness and justice in Law. Civil Law had been defined as Civilian Law whereas it is Law to settle dispute through Civil Courts.

**QUESTION NO. 3**

Most of the candidates attempted the question about **"Legislation and Act of Parliament"** and secured good marks. That was an easy question and the students who were in touch with current affairs could solve it very sufficiently.

**QUESTION NO. 4**

This question comprised four parts, the parts (a) & (b) on **"Performance of Contract"** and **"Unpaid Seller"** were bookish questions and most of the examinees attempted & secured good marks but the parts (c) & (d) were practical and tricky questions, few were able to get good marks in these parts.

**QUESTION NO. 5**

Part- (a) of this question was practical-oriented in nature, however it was poorly attempted by majority of the examinees. Part- (b) of this question on **"Law of Agency"** was stereotype and simple in nature therefore majority of the candidates provided correct answer and secured good marks in that part.

**QUESTION NO. 6**

In part- (a) of the question, the difference between **"Fraud and Misrepresentation"** was required. Majority of the examinees replied inadequately and provided very vague and poor answers. In part- (b) of the question, requiring (i) partnership at will, and authority of partner in emergency, were not explained sufficiently.

**QUESTION NO. 7**

This question pertained to the **"legal provisions relating to health of workers"** under the Factories Act, 1934. It was very simple question wherein elementary information had been asked but the performance of examinees was not sufficient.

**QUESTION NO. 8**

Majority of the examinees attempted this question on short notes and secured good marks. It was relatively easy question. However, few examinees provided extra details without considering the corresponding marks to the question.

**EXAMINERS' COMMENTS**  
**Fall (Winter) 2006 EXAMINATIONS**

**BUSINESS ECONOMICS**  
**STAGE-1**

**QUESTION NO. 2**

This simple question was attempted by majority of the examinees but in part –(a) of the question the concept of “**Command Economy**” was not clear to them and in part- (b) of the question “**Mixed Economy System**” was also explained very poorly.

**QUESTION NO. 3**

Majority of the examinees attempted this question but they showed very poor performance. The meaning of “**Market Structure**” was not properly explained and the “**form of the market**” which was discussed, based only on the ground of competition. Although there is many other factors on which the classification of market is based i.e. time, place, and commodity.

**QUESTION NO. 4**

In section – (a) of the question, majority of the students could not provide proper concept of “**Elasticity of Demand**” and failed to gain easy mark. Majority of the examinees was very confused between income elasticity of demand and cross elasticity of demand. In section – (b) of the question, examinees carried out various methods of computation of elasticity of demand, which were irrelevant.

**QUESTION NO. 5**

Most of the examinees understood that the answer is available in the question therefore they produced exactly the same statement which was given in the question. Many examinees did not discuss the description of “**Quantity Theory of Money**”. Few examinees provided the critical examination of the theory and secured good marks.

**QUESTION NO. 6**

In part- (a), concept of “**Consumption**” was presented in a confused manner and poorly discussed the concept of “**Consumption Function**”. Majority of the examinees performed poorly and were unable to distinguish between the two concepts.

In part- (b), very few examinees could explain the main subjective and objective factors of “**Consumption Function**” in the light of macro analysis.

**QUESTION NO. 7**

This question was simple and academic in nature but performance of examinees was very poor. They failed to explain the concept of “**Agriculture Credit**”. Most of the examinees discussed the drawbacks of the agriculture credit rather than the sources of agriculture credit.

**QUESTION NO. 8**

The question comprised three parts i.e., State Bank's significance, functions, and role in economic development of Pakistan but majority discussed only functions. The candidates were very confused between role and functions of State Bank of Pakistan.

**EXAMINERS' COMMENTS  
FALL (WINTER) 2006 EXAMINATION**

**FUNDAMENTALS OF COST AND MANAGEMENT ACCOUNTING  
STAGE-2**

**QUESTION. NO:- 1**

**MCQs** - Above average performance was noted in the question.

**QUESTION. NO:- 2**

This question was on "**Material Costing and Control**" and consisted of three parts. A large number of students attempted this question but was not properly answered.

- (a) It was a theoretical part set up to build confidence of the students, but their general understanding of the relevant topic was very poor. Many students could not understand the requirements of the question and ultimately produced wrong and inappropriate answers.
- (b) It was very easy part to attempt and gain easy marks. This was for testing the general understanding of LIFO valuation which students performed well and satisfactorily. Only few students could not perform because of lack of study and carelessness.
- (c) It was also very general question designed to test students' understanding of inventory valuation methods. It was so disappointing that majority of students could not present their working notes properly, even in few cases it was observed that only conclusion of the question was answered and that too was wrong.

**QUESTION. NO:- 3**

This question was based on "**Costing Systems**" and was the easiest question of this paper. This question was attempted by students very positively and most of them secured very good marks. The first three parts aimed to test the knowledge about basic concepts of three different topics. Students generally performed well but at the same time few students did not have the required knowledge. The last part of the question provided an opportunity to earn easy marks, and was aimed to test the general understanding to calculate equivalent units, unit costs, and cost of work in process. Being an easy question, most of the students managed to get good marks in it.

**QUESTION. NO:- 4**

This question was on "**Marginal Costing**" and consisted of two parts.

- (a) A basic conceptual question which was framed to examine students' theoretical knowledge of the topic. Unfortunately, majority of the students was unable to apply their knowledge and could not answer well and properly. Lack of study was clearly apparent from answers which is not expected from professional students.
- (b) This part consisted of three sub-parts.
  - (i) Generally most of the students were aware of formulas of break-even, so they calculated amount of break-even very easily, except few, but many of them failed in calculating break-even point in units which was perhaps due to lack of practice.
  - (ii) Once again due to lack of practice and general understanding, most of the students failed in calculating "Margin of Safety" in units and amount. Only few students attempted this question correctly, while majority of the students could not attempt this question.
  - (iii) This part of the question was not attempted correctly by majority because they failed to understand the question. They also failed to calculate correct variable cost and consequently could not calculate correct operating income.

**QUESTION. NO:- 5**

The question was on “**Cost Classification and Apportionment of Production Costs**” and consisted of two parts.

- (a). Very common topic of product and period costs was asked in this part of the question. The aim was to test basic knowledge but hardly few students could produce satisfactory answers. It was observed that students are not giving due importance to the theoretical questions.
- (b). This part of the question was on apportionment of production costs and preparation of gross profit statement. Once again students misunderstood the requirements of the question and calculated gross profit incorrectly. Students could not even calculate and bifurcate closing stock and production cost separately. This showed that proper time and due practice was not given to this topic. As such, overall performance was below average.

**QUESTION. NO:- 6**

This question was on “**Factory Overhead Departmentalization**” and consisted of two parts.

- (a) Majority of students attempted this question but since students are not giving due weightage to theory part of syllabus therefore they attempted this part on the basis of general knowledge about factory overhead. They produced long answers but very few mentioned the main concept and required answer.
- (b) It was a very simple question which was attempted by the majority. Students were asked to calculate departmental cost which could easily be solved by method of algebraic substitution, but few students applied repeated distribution method which was very long way to solve this question and was also time consuming. It was also observed that a number of students who applied algebraic distribution method could not apply relevant percentage of services in the department where they had to be applied.



**EXAMINERS' COMMENTS**  
**Fall (Winter) 2006 EXAMINATIONS**

**MANAGEMENT AND MARKETING**  
**STAGE – 2**

**(SECTION –A-MANAGEMENT)**

**QUESTION NO. 2:-**

- (a) A majority of candidates mixed the term “**Organization**” with “**Organizing**” and, hence, came up with wrong answer. “**Organizing**” is a function of management while “**organization**” as a noun carries different meaning i.e., a deliberate structure involving people with distinct purpose.
- (b) This part was generally attempted correctly. Nevertheless, some examinees did define the “**external environment**” but could not come up with the reasons as to why should managers be concerned with the external environment.
- (c) This part on “**Key elements of an organisation**” had a mixed response. Some examinees just reversed the elements and attempted the answer wrongly.

**QUESTION NO. 3:-**

- (a) It was one of the most ill-attempted part. Instead of describing “**why**” do managers plan, examinees just came up with the definition of planning.
- (b) This part on “**Techniques that managers use**” had a mixed response. Although many candidates attempted it correctly. Some examinees answered it very generally, in a layman's manner.
- (c) Although examinees had a fair idea of what the “**decision-making steps**” are, some examinees failed to “**apply**” those steps to a practical scenario.

**QUESTION NO. 4:-**

- (a) Instead of coming up with concrete definitions, examinees came up with their own definitions of “**credibility**” and “**trust**”.
- (b) Again, almost none of examinees could come up with the correct “**dimensions**” that make up the concept of trust.
- (c) As with the previous parts, almost everyone attempted this part on “**Job characteristic model**” wrongly.

**(SECTION – B- MARKETING)**

**QUESTION NO. 5:-**

- (a) This part on “**marketing myopia**” had a mixed response, but some candidates did not take “**myopia**” to be a negative thing, rather took it positively, which shows an entire lack of concept. Some, however, defined it correctly, but did not come up with its implications correctly.
- (b) This part on de-marketing was generally well-attempted.
- (c) It was one of the most ill-attempted part on “**Marketing Information Systems**”. Responses of almost all candidates were very different from each others.

**QUESTION NO. 6:-**

- (a) Instead of defining what “**marketing research**” is, examinees either came up with its functions or benefits.
- (b) This part “**on why marketing research needed**” was generally attempted correctly.
- (c) Instead of coming up with the correct sequence and format, many candidates came up with their own “**steps of conducting a marketing research**”.
- (d) A majority made a blunder in this part. They confused the term “**sampling**” with “**free sampling**” and provided the answers entirely wrong. “**Sampling**” relates to choosing an appropriate “**sample**” from the population while “**free sampling**” relates to giving samples of products free to potential customers for promotional purposes.

**QUESTION NO. 7:-**

- (a) This part on “**Brand**” was generally attempted correctly but many examinees could not come up with the precise definition of “brand”.
- (b) This part on “**Brand name and Brand mark**” was generally attempted correctly.
- (c) A majority could not come up with the correct definition of “**trademark**”, and considered brand mark and “**trade mark**” to be the same things.
- (d) This part on “**difference between brand and product**” had a mixed response. But by and large it was attempted correctly.

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**EXAMINERS' COMMENTS**  
**Fall (Winter) 2006 EXAMINATIONS**

**BUSINESS MATHEMATICS & STATISTICS**  
**STAGE – 2**

**QUESTION NO. 2:-**

- (a) A good number of examinees had attempted this question correctly, however, a very few of them had used the formulating approach. The formulation of “**Mathematical functions**” needs to be practiced more.
- (b) Majority of examinees lack the concept of “**average velocity**” or “**average rate of change**”. The conceptual training in the areas of limits and derivatives is emphasized.
- (c) The understanding of “**sequence and series and its application**” on real-life problem needs more attention.
- (d) The concept and techniques of evaluating “**anti-derivatives**” also needs to be practiced. Majority of examinees could not attempt this part of the question correctly due to lack of knowledge and practice.

**QUESTION NO. 3:-**

- (a) A satisfactory performance was given by majority of examinees in the area of “**Financial Mathematics**”.
- (b) Examinees attempted this part satisfactorily however, majority of them failed to interpret the slope correctly that indicates their lack of concept on the subject. The concept is the basis of applications which should be stressed upon.

**QUESTION NO. 4:-**

- (a) Hardly, any examinee could attempt this part of the question of “**differential functions**” correctly. The subject needs serious attention.
- (b) Examinees had demonstrated good knowledge on the subject, however more practice on the “**differentiation**” is needed to improve upon the skills.
- (c) Lack of concept and poor practice were the main hurdle in solving the application problems. Solving approach be strengthened through more and more practice.

**QUESTION NO. 5:-**

- (a) Examinees had good knowledge on the subject of “**sampling**”. A good number of examinees attempted this part of the question remarkably well.
- (b) Required understanding of the concept of “**probability**” was missing. Without proper concept, the solution could not be obtained. The area of “**probability**” needs improvement.

**QUESTION NO. 6:-**

- (a) Majority of examinees failed to plot a scatter diagram correctly. Concept of “**Regression Model**”, understanding of dependant and independent variable was missing. Due to weak concepts on the subject, majority failed to solve the application. The area needs more conceptual understanding rather than solving skills.
- (b) Majority of the examinees attempted this part on “**variance and standard deviation**” correctly.

**QUESTION NO. 7:-**

- (a) A small number of examinees could arrive at the “**graphical solution of the LP Model**”. The more practice is required on plotting of graph of the LP Models, identifying area of feasible solution and corner points and then arriving at optimal solution. The examinees who arrived at the area of feasible solution could not get the optimal solution. This important subject needs more attention. (b) Majority of examinees failed to standardized the LP Model, indicating their lack of knowledge on the subject of “**simplex method**”.

**QUESTION NO.8:-**

Majority of the examinees attempted this question on “**networking**” remarkably well. Majority examinees showed a good knowledge on drawing network diagrams, calculation of expected time and determining critical path and project length. However, majority of them failed to calculate the variance of the critical path and the required problem of network analysis.

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**EXAMINERS' COMMENTS  
FALL (WINTER) 2006 EXAMINATIONS**

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

**QUESTION NO. 2:-**

In part (a), which was related to computer memory, most of the students could not describe functionality of “**CMOS, Pipeline Burst cache, virtual memory of DIMM- concepts**” regarding computer hardware memory. Most of the students discussed irrelevant details and did not differentiate “**CMOS and RAM memory**”. Majority of students had no concept regarding “**Pipeline Burst Cache**”. Very few students explained properly these concepts regarding memory. In part (b), only few students had knowledge about factors to determine “**processor speed**”. Most of the students discussed irrelevant factors.

**QUESTION NO. 3:-**

In part (a), the performance of examinees was relatively good. However some students could not properly describe “**serial and parallel port**” and their functions. The knowledge on latest technology development of “**USB**” was also lacking by the examinees. In part (b), concepts regarding “**MICR scanning device**” was very weak. Most of the students’ knowledge regarding “**MICR**” and its working was not impressive.

**QUESTION NO.4:-**

In part (a), students’ programming concepts and knowledge about “**4GL Languages JAVA and VB**” was very weak. Students were unaware of latest facilities provided by “**JAVA and VB**” and had no idea about “**Dot net**” and other features of these languages and their role in internet environment. Most of the students were unable to discuss latest features provided by “**JAVA and VB**”.

In part (b), concepts regarding “**database terminology**” was found to be the weakest area of most of the students. Very few students got good marks in this part.

**QUESTION NO. 5:-**

Most of the students performed well in this part on “**utility software**”. However, in-depth knowledge regarding “**utility software**” was lacking in some answer scripts. Functions and features of these “**utility software**” were not discussed appropriately.

**QUESTION NO. 6:-**

In part (a), students’ concept regarding “**digital signature, its working and implementation**” was not very clear. Few students provided good answers about role of “**firewall and its implementation**” in network security. In part (b), some students discussed features of “**wireless communication**” rather than “**WAP**”. Some students were unaware of ring protocol. Features provided by “**WAP, FTP, HTP and TR**” communication protocol was also not discussed at all.

**EXAMINERS' COMMENTS  
FALL (WINTER) 2006 EXAMINATIONS**

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

**Word Processing.**

This was a fairly easy paper. The first part consisted of MCQs that most students found very easy and scored good marks. The second part, however, was not attempted so well. Many students were unable to recreate the format that was required. However, most of them did well in this part also. It is very important to note that many students attempted the MCQs on the question paper while others typed out the answers. Some examinees only wrote the answers and not mentioned the corresponding MCQ part number.

**Spreadsheet**

Most of the examinees did not perform well in this questions. They were unable to make the required calculations and totals. Some examinees were got confused regarding the shape and design of the various charts that were required by the question. Because of this, many students lost valuable marks.

**Database**

This question was not compulsory, many students attempted the Peachtree question instead of this one. However, those examinees attempted this question they got very good marks. It is however suggested that students do more practice in MS Access to improve their skills. Furthermore it is suggested that the dates used in the question should be in format where it is clear whether the month is written first or the day, since many computers are configured for British date standards while others adhere to American date standards.

**Peachtree**

This question was attempted by most of the students and many students got very good marks in this section. This shows that their accounting skills need severe practice to be considered and they also need to learn to better use of Peachtree. Since this is an effective tool no business student should avoid, therefore, must be given more attention.

**PowerPoint**

This was the easiest question of all. Most students got very good marks in this question. The students should practice more and should learn to manage their time while attempting such papers.

**EXAMINERS' COMMENTS  
FALL (WINTER) 2006 EXAMINATIONS**

**FINANCIAL ACCOUNTING  
STAGE-3**

**QUESTION NO:- 1- MCQs**

Average performance was displayed by the examinees in this question.

**QUESTION NO:- 2**

**(a) CONSIGNMENTS - Passing of journal entries in the books of "consignor" and "consignee" and computation of closing / unsold stock to be shown in the books of consignor.**

- General Journal entries were correctly passed by most of the examinees however, majority of examinees was not able to compute the amount of "stock-on-consignment" and "Stock Reserves" correctly.
- Examinees were unable to pass two important journal entries to record profit / loss on consignment and commission payable to consignee correctly.
- Examinees were unable to compute the correct amount of commission payable to "consignee" although the rate of commission was very clearly given in the question.

**(b) Distinguishing between:**

**(i) Joint Venture and Consignment**

**(ii) Partnership and Joint Venture**

- Overall performance of the examinees in this part of the question was found to be satisfactory. However, most of the examinees were found to be poor in expression.
- Many of the examinees wrote long paragraphs instead of giving brief and to the point answer.
- Many of the examinees simply described the terms separately, whereas requirement of the question was to differentiate between the terms, not to describe the terms.

**QUESTION NO:- 3**

**PARTNERSHIP - DISSOLUTION**

- Revision of profit and loss sharing ratio, realization of goodwill and ultimate retirement of two partners by selling the firm to an existing partner - passing of necessary journal entries and preparation of partners' capital accounts.
- It was evident from the answers that examinees had tried to attempt the question without understanding the requirements of the question.
- Almost all examinees were unable to prepare Partners' capital accounts and "W'S" account after take over of the firm by him.
- Most of the examinees were unable to compute the distributable amounts of General Reserve, Capital Reserve and Goodwill to partners.

**QUESTION NO:- 4**

**Preparation of Financial Statements as per requirements of relevant IAS and local Statutory Laws.**

- Very poor performance was noted in this question, which showed that examinees did not devote their time to important topics and resort to selective studies.
- Few examinees tried to attempt the question, but they were unable to prepare the required statements as per legal provisions.
- It was evident from the answers that most of the examinees had never gone through the relevant IAS and the Companies Ordinance, 1984.
- Few examinees had included amount of share premium to current assets, while others have disclosed "share premium" and "surplus on revaluation of fixed assets" as current liabilities.
- In few cases examinees had simply jotted down the assets and liabilities in the balance sheet without classifying them as current / fixed / long term.

**QUESTION NO:-5**

**(a) Explanation of the conditions under which a company can lawfully issue shares at a discount.**

- It was observed from the answers that most of the examinees were not aware of this topic and were unable to give correct answer to this part of question.
- Many of the examinees had written long and irrelevant answers and could not earn any mark.
- The question was not understood by majority of the examinees, as they had discussed the use of funds generated from issue of shares rather than the legal requirements of issuing shares at a discount.

**(b) Passing of journal entries for issuance of bonus shares, rights shares, and the issuance of shares other than cash, and drafting of extract of balance sheet after passing the required journal entries.**

- It was an easy question but majority of the examinees was not able to pass the required journal entries correctly and completely, as they did not have the understanding of the topic.
- Many of the examinees were, however, secured goods marks in this part of the question.

**QUESTION NO:-6**

**Computation of financial ratios.**

It was a very simple question of ratio analysis where examinees had the opportunity to earn 10 easy marks by just spending few minutes. Many of the examinees were able to earn good marks, whereas equally good number of examinees was able to compute "current ratio" only.

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**EXAMINERS' COMMENTS  
FALL (WINTER) 2006 EXAMINATIONS**

**BUSINESS TAXATION  
PROFESSIONAL-II / STAGE-3**

**QUESTION NO:- 1 - MCQs**

Examinees demonstrated above average performance in this question.

**QUESTION NO:- 2**

**Discussion of terms under the Income Tax Ordinance, 2001:**

**(a) Provision of additional payments for delayed refunds under section 171.**

- Majority of the examinees had not understood the question, and the answers were out of context, as they have discussed the additional payment for non-payment of tax by the assesseees, instead of discussing the additional payment to be made by the department on delayed refunds under section 171.
- Some of the examinees had answered the question reversely, mentioning in their replies that "if refunds are not paid by the tax payer to the Commissioner of Income Tax, additional payments are required to be made by the tax payer", which was totally incorrect answer.
- Few of the examinees were able to mention the rate of compensation correctly, however, they could not discuss the period for which compensation is payable.

**(b) Penalty for failure to furnish a Return or Statement under section 182.**

- This part of the question was also incorrectly answered by most of the examinees, as they had discussed the penalties to be levied on non-payment of demand.
- Most of the examinees did not have the knowledge and requirements of the law as they had discussed different types of penalties like imprisonment, etc. which was not correct answer.

**QUESTION NO:-3**

**Explanation of the terms:**

**(a) Foreign source salary of a resident individual under section 102.**

- It was evident from the answers that examinees had attempted the question without understanding the requirements of question as they had written in their answers that tax credit is allowed on foreign income. UN employees and employees of Embassies are actually earning foreign source salary etc.
- Most of the examinees had mentioned to include / adjust foreign tax credit or had only defined the foreign source salary, which was totally incorrect answer.
- Some of the examinees mixed-up the answer with foreign business income and had discussed the foreign business income instead of foreign source salary of resident individual.

**(b) The provision for extending time for furnishing Returns and other documents under section 119.**

- Examinees again failed to comprehend the requirements of the question, and instead of discussing the powers to grant extension under exceptional circumstances had discussed different tax authorities and different periods of extension.
- Many examinees answered the question merely on the basis of general knowledge without any reference to law. Implication of additional tax was not discussed by any of the examinee.

**QUESTION NO:-4**

**Explanation of following terms under the Income Tax Ordinance, 2001:**

**(a) "Turnover" under section 113(3).**

**(b) "Best Judgment Assessment" under section 121.**

**(c) "Evidence of Assessment" under section 126.**

- Explanation of "Turnover" was required as per the Income Tax Ordinance 2001, however, the examinees were found confused, and discussed "Turnover Tax" levied on different types of tax payers instead of discussing the "Turnover" under section 113(3).
- Most of the examinees had mentioned "Sales" as "Turnover".
- The examinees were unable to understand the requirements of the question and instead of discussing the "Best Judgement Assessment", they had discussed the best scrutiny / examination of the tax Returns by the authorities.
- Most of the examinees defined "Best Judgement Assessment" as "assessment on the basis of evidence and information" provided by the taxpayer to support his Return.
- Most of the examinees incorrectly mentioned the evidence of assessment as the supporting documents of the tax Return instead of discussing the evidence of assessment e.g. certified copy of assessment order etc.
- Many examinees discussed evidence provided by the taxpayer in support of declared income and expenses e.g., invoices, vouchers and records etc.

**QUESTION NO:-5**

**Computation of total income, taxable income, and income tax payable by a salaried individual having other sources of income.**

- The compulsory question carrying 20 marks was very simple, but majority of the examinees was not able to attempt the question completely and correctly.
- Following errors / shortcomings were generally noted from the answers:
  - No computation of monthly figures of salary and allowances into yearly figures was done (Figures for salary and allowances as given in the question paper were on monthly basis).
  - Non-computation of tax on the flying allowance as a separate block of income was made.
  - Non-inclusion of dearness allowance, special relief allowance and taxable amount of medical allowance in total taxable income i.e., incorrect treatment of these allowances as tax-free.
  - Incorrect computation of cost of accommodation for inclusion in taxable income.
  - No computation of tax on property income as separate block of income was carried out.
  - No computation of rebate on investment in shares and rebate on contribution to approved pension fund was presented.
  - Incorrect computation / omission of taxable amount of interest on confessional loan.

**QUESTION NO:-6**

**Brief explanation of:**

**(a) Assets eligible for initial depreciation allowance under section 23 (5).**

**(b) Set off of losses other than the speculation business losses and capital losses under section-56.**

**(c) Powers of tax authorities to modify orders under section 124-A.**

- Most of the examinees had written all the available explanations of depreciation given in the Ordinance or in the accounting books instead of giving the relevant answers.
- Like answers to part (a) of the question, most of the examinees again gave all the explanations of business and capital losses instead of discussing the set off of losses as per the requirements of section-56.
- Part (c) of the question required the answer with reference to powers of tax authorities to modify the orders in case of decision of superior courts. Majority of the examinees discussed different powers vested in tax authorities under the Income Tax Ordinance 2001, instead of discussing the powers to modify orders under section 124-A.

**QUESTION NO:-7**

**(a) Writing of short notes on the following in terms of Sales Tax Act, 1990.**

**(i) Arrears – section 2 (2A)**

**(ii) E-intermediary – section 2 (9A)**

**(iii) Retail price – section 2 (27)**

- Overall performance was found to be satisfactory in this part of the question. However, following errors / shortcomings were noted from answers:
- Some examinees had included other taxes and duties in arrears as prescribed under the Income Tax Ordinance, 2001 and the Federal Excise Act, whereas question was under Sales Tax Act, 1990.
- Some examinees had described E-Intermediary as “Software” and / or a person to audit tax payers.
- Explanation of retail price with reference to Sales Tax Act, 1990 was required, which is fixed by the manufacturer, inclusive of all charges and taxes, but exclusive of sales tax. Many of the examinees had defined the “retail price” as a price fixed by the “retailers”.

**(b) Description of procedure for recovery of tax not levied or short levied or erroneously refunded under section 36 of the Sales Tax Act, 1990.**

- Almost all the examinees provided incorrect answer to this part of the question. Some examinees had mentioned the Commissioner of Income Tax as competent authority instead of Collector of Sales Tax. Some examinees had mentioned the penalties and other punishments liveable under the Sales Tax Act, without discussing the correct procedure.

**QUESTION NO:-8**

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

**(i) Registration Authority – Section 7(1)(d) of the Capital Value Tax.**

**(ii) Rounding off of duty – Section 19-B of the Customs Act, 1969.**

**(iii) Transaction value of identical or similar goods – Section 25(6) of the Customs Act, 1969.**

**(iv) Computed value – Section 25(8) of the Customs Act, 1969.**

- Majority of the examinees had mentioned different tax authorities as the registration authority of the capital value tax, which was an incorrect answer.
- Many examinees had also discussed requirement of registration under Sales Tax Act, 1990 whereas question (8-a-i) was on Capital Value Tax.
- The examinees had mentioned the rounding off of custom duty to nearest Re.1/=, whereas, as per the Customs Act, rounding off of duty is required to be made to the nearest hundred rupees not nearest to one Rupee.
- In part a-iii of the question, the examinees were required to explain the transaction value of identical or similar goods, if customs value of imported goods cannot be determined. Most of the examinees had discussed the meaning of identical or similar goods only, which was an incorrect answer.
- Majority of the examinees failed to provide correct explanation of computed value as per section 25(8) of the Customs Act.

**(b) Definition of the following terms as per the Federal Excise Act, 2005:**

**(i) Duty Due – Section 2 (9a)**

**(ii) Goods – Section 2 (13)**

**(iii) Zero rated – Section 2 (26)**

- Many examinees had discussed the products or services on which duty is to be paid, instead of discussing the Duty Due under Section 2(9a).
- Many students were found confused while defining the term “Zero rated”. They had defined it as “Exemption from payment of Excise Duty”.

**EXAMINERS' COMMENTS**  
**FALL (WINTER) 2006 EXAMINATION**

**OPERATIONAL COST ACCOUNTING /**  
**COST AND MANAGEMENT ACCOUNTING-PERFORMANCE APPRAISAL**  
**STAGE-3 / PROFESSIONAL-II**

**QUESTION. NO:- 1**

**MCQs** – Good performance was noted in this question.

**QUESTION. NO:- 2**

This question was on “**Budgeting**” and consisted of two main parts.

- (a) This part of the question was on the terms of “**Budget Factor**” and “**Budget Manual**”. Quite a few students knew budget factor as a limiting or key factor which limits the activities of an organisation. Most of the students defined budget rather than budget factor. Budget manual is a collection of instructions, procedures, forms and records, and allocation of responsibilities for long-term planning and administration of the enterprise. Majority of students had no idea of budget manual while answering this part of the question.
- (b) This practical part of the question required preparation of quarterly sales, production, material usage, material purchase, and production cost budget for four quarters of the year 2007. The budget exercise involved one finished product and three types of raw materials/ components R, T, and S, labour hours and labour costs, fixed and variable factory overhead. While answering the question following lapses were made by the students:
1. They did not pay attention to proper formatting of various budget statements and made a mess of the presentation.
  2. Instead of preparing quarter-wise budget many examinees prepared budget on annual basis.
  3. Some of the examinees were able to prepare budget to the extent of material usage, but majority was failed to prepare material usage and production cost budget.

**QUESTION. NO:- 3**

This question was on the topic of “**Standard Costing**” and consisted of two parts.

This question required the examinees to calculate variances. Question included two types of finished products, SR and TR and two raw materials, Wood and GUT. Cost variances were required for each of the two products and prices and usage variances separately for two raw materials. Following errors were committed by examinees while attempting this question:-

1. Calculation of unit standard cost was wrong in majority of the cases due to error in allocating the fixed costs.
2. Material price and usage variances were jointly calculated.
3. Direct labour and variable overhead efficiency variances were wrongly derived in most of the cases due to errors in identifying actual and standard hours.
4. Volume variance could not be worked out due to mistake in identifying budget hours and standard hours and calculating the fixed overhead rate.

**QUESTION. NO:- 4**

This question was on the topic of “**Process Costing**” and consisted of two parts, both dealing with preparation of process accounts. Question required, preparation of process cost account and normal loss account, abnormal loss/ gain account and scrap account, assuming that lost units can be sold at Rs. 80 each. Following mistakes were committed by examinees while answering this question:

1. Single process cost account was prepared for two different requirements.
2. Cost of normal loss, abnormal loss, and scrap calculations were wrongly worked out.

**QUESTION. NO:- 5**

This question was on the topics of “**Absorption Costing**” and “**Direct Costing**” consisted of two parts, requiring preparation of income statements under both the costing methods. Examinees were required to prepare two income statements for two years applying both of these two approaches. Following mistakes were noted in the answers given by examinees:-

1. Poor presentation in formatting the answer.
2. Error in valuation of closing stock under both the approaches.
3. Income statements were prepared on per unit basis.

**QUESTION. NO:- 6**

This question was on “**Transfer Pricing**”.

Majority of examinees did not attempt this question. The question was simple but due to lack of knowledge and study, the examinees were found confused. Overall performance in this question was extremely poor and hopeless. Very few students had attempted this question correctly.

**EXAMINERS' COMMENTS  
FALL (WINTER) 2006 EXAMINATIONS**

**BUSINESS COMMUNICATION & REPORT WRITING /  
PRESENTATION & COMMUNICATION SKILLS  
PROFESSIONAL-I / STAGE-3**

**QUESTION NO. 2:-**

The examinees responses revealed that this question on “**various legal aspects in communication**” was a difficult question. The answers were vague or written from a general view point rather than discussing the technical aspects of the questions. The concept was superficial and an in-depth understanding was missing.

**QUESTION NO. 3:-**

This question was a straight one but even then students adopted a non-specific viewpoint and they wrote answers which reflected as if a layman is writing rather than students who have studied the topic and then prepared for exams. A well-crafted concise and focused answer was only given by a small group of examinees. Also students' answers showed many repetitions and overlapping.

**QUESTION NO. 4:-**

Majority of the answer scripts reflected that the students had misunderstood the questions and they failed to understand the word “**Prefatory**” in the given question. Consequently, students gave a list of all the parts of each section of the report. The question also mentioned the word “**checklist**” which was completely ignored and many students explained these parts to define them and few students even drew and developed samples to illustrate these parts. This was a sheer waste of time and the students had faced difficulty in completing their paper. So students must be advised to read and understand the question and then develop a specific plan to write answer as the time for each question is calculated and if more time is given to one question in writing down the irrelevant details it will prevent them from planning or answering another important question of the paper.

**QUESTION NO. 5:-**

Majority of the students did not understand the situation; hence, they failed to discuss the necessary and relevant details. The examinees wrote this letter as if the organization is recently established sending this information out for the first time, capturing customers towards their business and other products and services. Also students did not reveal an understanding of the concept of service maintenance contract. The kinds of justification or reasons given to build interest or motivate actions reflected a non-professional approach. The technical business vocabulary was completely missing. The format of the letter as well as the elements used were not effective and professional.

**QUESTION NO. 6:-**

Majority misunderstood the requirement of the question that required them to prepare “**a memo report covering two aspects of the given situations;**” however, the students understood two aspects as two reports and ended up writing two reports with two different subject lines. The biggest weakness identified in this question was students' lack of understanding to the professional world. They also are not familiar with job descriptions associated with different job titles, for instance, in this particular question the report was to be written by business development executive and the students were not able to relate their report to the nature of this job and the kinds of information that a business development officer be using in his report.

The main focus of the report was to discuss feasibility on the basis of convincing facts and figures (imaginary) however, there seemed to be again a problem faced by the students on how feasibility was to be established within business environments.

**EXAMINERS' COMMENTS  
FALL (WINTER) 2006 EXAMINATIONS**

**ADVANCED FINANCIAL ACCOUNTING /  
ADVANCED FINANCIAL ACCOUNTING AND ANALYSIS  
PROFESSIONAL – II / STAGE–4**

**QUESTION NO:- 1- MCQs**

Satisfactory performance was given by the examinees in this question.

**QUESTION NO:- 2**

**AMALGAMATION:**

- (i) **Calculation of number of shares to be issued indicating the ratio thereof to former holders of shares of two companies.**
- (ii) **Passing of necessary journal entries to record Rights issue of ordinary shares and TFCs.**
- (iii) **Preparation of an extract of balance sheet showing the assets that would appear in the balance sheet after amalgamation.**
  - Average performance was noted in this question. Common mistake from all answer scripts was the incorrect calculation of “goodwill” while arriving at swap ratio of shares of two companies.
  - Some examinees had computed the consideration to be settled without netting-off the current liabilities.
  - Some examinees had not written off the debenture discount to share premium account.

**QUESTION NO:-3**

**FINANCIAL ANALYSIS / RATIOS**

- (i) **Computation of 3 to 5 relevant ratios of two companies, and**
- (ii) **Comparison of the two companies identifying the ratios which have moved in an unfavourable direction.**
  - Many examinees failed to produce two other basic and relevant ratios such as “acid test ratio” and “long term solvency ratio”.
  - Majority of the examinees was not able to compute the “No credit interval” which was specifically required in the question.
  - Examinees failed to interpret the ratios to explain in which direction the two companies are moving.

**QUESTION NO:- 4**

- (i) **Construction Contracts - IAS-II – Computation of percentage of completion and amount of revenue, costs, and profit to be recognized.**
  - This part of the question was very poorly attempted by almost all examinees.
  - None of the examinees was able to compute the percentage of completion correctly.
  - Many examinees included marketing and selling costs in total cost while calculating the “contract cost incurred to-date”, which was not correct.
- (ii) **Deferred Taxation – Explanation of deferred tax implications based on the data / information as given in the question.**
  - Although examinees were able to compute the monetary effect of the deferred tax correctly, however, its implication was not explained by any examinee.
  - Examinees were generally found lacking in knowledge of “deferred tax” implication and gave poor performance in this part of the question.
- (iii) **IAS-29-Financial Reporting in Hyperinflationary Economy – Preparation of balance sheet after adjusting for hyperinflation.**
  - Poor performance was noted in this part of the question as examinees were unable to prepare the balance sheet completely and correctly.

**QUESTION NO:-5**

**Description of the classification and provisioning requirements with respect to “Short term Financing Facilities” under “Prudential Regulations”.**

- It was surprising to note that not a single examinee was able to attempt this question, which showed examinees' inclination towards study of selective topics of syllabus.

**QUESTION NO:-6**

**ACCOUNTING FOR LEASES – IAS – 17.**

**(i) Discussion with reasons of the:**

- a. Treatment of lease in the books of the lessee.
- b. Rates to be used for capitalization of lease in the books of lessee.
- c. Disclosure required by lessee and lessor for finance lease.

**(ii) Calculation of the amount to be capitalized in the books of lessee.**

**(iii) Preparation of lease amortization schedule in the books of lessee showing the amount of interest and reduction in capital.**

- Average performance was noted in this question. However, most of the examinees were not able to discuss the disclosure requirements by lessee and lessor for finance lease as per IAS – 17.
- Amortization schedule was, however, prepared correctly by majority of the examinees.

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**EXAMINERS' COMMENTS  
FALL (WINTER) 2006 EXAMINATIONS**

**CORPORATE LAWS AND SECRETARIAL PRACTICES  
PROFESSIONAL – II / STAGE-4**

**QUESTION NO. 2:-**

- (a). This part was on **“mortgage and its types”**. The knowledge about the **“mortgage”** was generally not good. Unnecessary details were given for the kind of assets available for mortgage. Mortgage was confused with mortgage financing in many cases. Fixed/ floating charge was explained as fixed / floating interest rate. (b) This section pertained to **“Public & Private companies”**. The description of public and private companies was relatively better deliberated upon. Some answers were very lengthy.

**QUESTION NO. 3:-**

- (a). This part required examinees to discuss **“winding up of companies”**. Good number of answers was based on the general perception and guess work of the candidates rather than specific provisions of law. Some candidates had gone into unnecessary details of the modes and reasons of winding-up of a company whereas the question asked the powers of the liquidator in case of winding-up by the court. Very few mentioned the powers available to the liquidator **“to continue the business”**. (b) This part was on **“Memorandum of Association”**. Large number of candidates ignored the issues of company's name and legality of the objectives set forth in the memorandum. Many did not have a clear concept of the **“effects of registration of the memorandum”**.

**QUESTION NO. 4:-**

This question was on **“the position, powers and liabilities of directors of the company”**. Significance of the Articles of Association with respect to directors was not highlighted by the majority. Approval of half-yearly / quarterly accounts of listed companies was not mentioned in the powers of directors. Some candidates had the wrong perception that directors could approve the final dividends. Very few examinees could answer this question comprehensively correct.

**QUESTION NO. 5:-**

This question was on **“Code of Corporate Governance”**. The items were described in general terms rather than the required context of the **“Code of Corporate Governance”**. In many cases the position for the non-listed companies was described without any such requirement. There was greater awareness about the qualifications of CFO and company secretary. Some candidates unnecessarily described the personal qualities or expertise of CFO and company secretary without knowing that it was not asked for. The nature of Internal Audit, its necessity and benefits were described instead of highlighting the provisions of the **“Code of Corporate Governance”** in the matter.

**QUESTION NO. 6:-**

- (a). The first part of the question about definition of **“non-banking finance company”** was answered relatively better.
- (b). The second part about **SECP** was not properly understood by majority of examinees, who elaborated the process of registration of companies or stock market regulations etc., instead of the procedure for conduct of business by **SECP**.

**QUESTION NO. 7:-**

The question on “**issue of shares**” was attempted by vast majority of candidates. The first part on “**issue of shares at a discount**” of the question was answered relatively better than second part which was on “**issue of shares at premium**”. The standard of answer was generally good. Some candidates ignored the significance of SECP and shareholders in the matter.

**QUESTION NO. 8:-**

Some candidates did not properly understand the statement “**closing of Register of Members**” and wrongly assumed it equivalent to discarding the current register due to non-availability of space for new entries. The question about “**quorum of general meeting pertained to listed companies**” but some candidates also elaborated the details for non-listed companies. Very few candidates described the “**adjournment of meeting**” due to lack of quorum and the quorum requirements for the adjournment of the meeting.

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**EXAMINERS' COMMENTS  
FALL (WINTER) 2006 EXAMINATIONS**

**FINANCIAL REPORTING  
PROFESSIONAL – III / STAGE-5**

**QUESTION NO:- 1- MCQs**

Very poor performance was noted in this question.

**QUESTION NO:- 2**

**(a) Accounting Treatment of reversal of impairment loss.**

**(b) Accounting treatment of lease obligation.**

- Answers to part a & b of the question were based mostly on general knowledge. Lack of specific accounting knowledge of the topics was apparent from the answers.

**(c) Computation of the impact on the profit and loss account, if it is decided to treat a recently constructed shopping mall as an investment property under IAS – 40.**

- Poor performance was displayed by almost all the examinees in this part of the question, as they were unable to calculate the impact on profit and loss account of the decision of the company to treat the Mall as investment property under IAS – 40 using the “fair market value” and “cost model”.

**(d) Implications of reporting of investments - IAS –39 and IAS – 34.**

- Examinees demonstrated disappointing performance in this part of the question and were unable to display their technical knowledge of the topic.

**QUESTION NO:-3**

**(a) Calculation of deferred tax provision by computing difference between carrying value and tax base, showing the amount of the adjustment required to the deferred tax provision and any amount to be charged to revaluation reserve.**

- Average performance was noted in this part of the question.
- Most of the examinees gave correct treatment for property, plant and equipment, receivables and payables, however, they were not able to give correct treatment to financial assets, and employees' benefits. Presentation was also found to be very poor.

**(b) Treatment of grants under IAS – 20.**

- Below average performance was noted in this part of the question. Lack of technical knowledge was apparent from most of the answers of the examinees.
- Many examinees had recognized the “grant” on equal basis each year. Few examinees had suggested recognition of “grant” equal to (not proportionate to) expenses each year and balance to be recognised in last year.

**QUESTION NO:-4**

**CONSOLIDATION – Preparation of consolidated balance sheet.**

- Very poor performance was given by almost all the examinees in this question, as they were found to be lacking in the clear concept of the topic.
- Common errors were:
  - Incorrect elimination of unrealised profit on inventory and plant.
  - Incorrect calculation of goodwill.
  - Non-adjustment of overdraft and / or cash-in transit.

**QUESTION NO:-5**

**CASE STUDY PRESENTATION – Writing of report providing a comparative analysis of performance of two regions of a Charity Trust.**

- Examinees computed all types of ratios which they knew of, irrespective of it's relevance to the question.
- Proper presentation and effective discussion thereon was lacking from the answers / presentations.

**EXAMINERS' COMMENTS  
FALL (WINTER) 2006 EXAMINATION**

**MANAGEMENT ACCOUNTING-DECISION MAKING  
STAGE-5**

**QUESTION. NO:- 1**

**MCQs-** Very poor performance was displayed by examinees in this question.

**QUESTION. NO:- 2**

(a) The question covered the topic of **“least square method for segregating fixed and variable costs”** from the information on labour hours and factory overhead costs covering period of 24 months. Instead of taking the 24 months data for calculation, students divided the information in two parts of 12 months each yielding two answers instead of one on the basis of 24 months. Furthermore, instead of squaring the mean deviation, mostly students squared direct labour hours.

In part (b) of the question standard error calculation was involved and students repeated the same mistake as they did in part (a) of the question and worked out two answers for 12 months each. Many students applied wrong formula of Standard Error. In this part Coefficient of Correlation was to be determined. In this part students applied wrong formula and with two answers.

**QUESTION. NO:- 3**

(a) This question required students to calculate **“the expected net present value of cash flows with probability occurrences at 10 percent discount rate”**. Students generally failed to pick up and understand requirement of the question. They could not match the probability occurrences with estimated cash saving for different estimated useful life of the equipment and failed to calculate the combined probabilities at different time scale. Some students without understanding multiplied combined cash saving with probability of occurrence for finding out expected present values. In part (b) of the question calculation of standard deviation and coefficient of variance was required to arrive at net present values. The wrong answers calculated in first part eventually resulted in wrong answer in this part. Students applied wrong formula of coefficient of variance.

**QUESTION. NO:- 4**

This question related to transport business with different passenger mix in which students were required **“to calculate the revenues and profitability”** for the year 2006, by passenger category since fare for each category was separate. (a) Students failed to calculate the distance in kilometer for each of the categories of passengers hence could not calculate the correct revenue for the period. All the students with the exception of a few could not understand the requirement of the question and failed to solve the question. In Part (b) of the question percentage capacity was required to be calculated for breakeven in 2007 with increase in fares and cost with certain percentages over previous year. This required calculation of weighted average fare for passengers. Students could not pickup this point and failed to calculate the breakeven capacity utilization.

**QUESTION. NO:- 5**

The question was misunderstood by a large number of students that required examinees to compute the effect on the profit due to change in prices. However, some answered well. Some students considered volume independently of price decrease. Lack of preparation was generally evident from answers.

**QUESTION. NO:- 6**

It was a short and simple question, and required examinees to work out (a) **capacity of the merged plant** (b) **“computation of breakeven point so as to compare profitability at 75% of the merged capacity”**. Very few students considered breakeven point calculation. As such they failed to assess the profitability at 75% capacity. Lack of preparation was apparently the main reason for poor performance.

**EXAMINERS' COMMENTS  
FALL (WINTER) 2006 EXAMINATIONS**

**RISK MANAGEMENT AND AUDIT  
STAGE-5**

**QUESTION NO:- 1- MCQs**

Average performance was given by the examinees in this question.

**QUESTION NO:- 2**

**(a) Discussion of controls to mitigate risk, and brief description of important models of internal controls.**

- Very few examinees attempted the question. Majority of the examinees failed to answer the question correctly. Most of the examinees were found unaware of the internal control models in practice.

**(b) Description of five components of internal controls as covered by COSO Report.**

**(c) Explanation of steps suggested by COSO report in developing the controls.**

- As in part (a) of the question, the examinees were found to be ignorant of components of internal control and the steps involved in the process of designing the internal control system.

**QUESTION NO:-3**

**(a) Discussion of risk prioritization and the objectives to prioritise risk by an organization.**

- From the answers it was noted that the examinees had the concept of risk prioritization, however, they were unable to discuss the objectives of risk prioritisation.

**(b) Discussion, whether a non-banking corporation take any measures to manage the financial risk exposure.**

- Satisfactory performance was noted in this part of the question, however, examinees were unable to produce quality material in support of their understanding of the concept.

**QUESTION NO:-4**

**(a) Comment on the statement "The members of an audit team, the firm and the network firms are required to be independent of the audit client".**

**(b) Discussion of possible threats to the independence of auditor.**

**(c) How do the firm's own systems and procedures provide safeguards against threats to its independence.**

- Majority of the examinees failed to demonstrate the required knowledge and failed to even touch the basics of the concept. Not a single examinee could demonstrate the knowledge of relevant guiding material of IFAC on the concept of independence.
- Not a single examinee was able to demonstrate the knowledge of relevant code of ethics as prescribed by IFAC on the concept of independence.

**QUESTION NO:-5**

**PRACTICAL QUESTION – GIVEN SCENARIO OF A CONSTRUCTION COMPANY.**

**(a) Identification and explanation of the principal audit risks to be considered for planning the audit.**

**(b) Explanation of the nature and extent of reliance, which should be placed on the work of quantity surveyors (work of an expert).**

- Almost all the examinees were unable to answer this question correctly and completely.
- Examinees lacked the ability to critically analyze the scenario in order to pick-up the principal audit risks to be considered for the purposes of planning.
- Examinees could not differentiate between the audit risk generally present in an engagement and principal risks for planning consideration.
- Quality of expression by most of the examinees was poor.
- Examinees failed to understand requirements of part (b) of the question. Discussion by most of the examinees was general in nature and hardly any examinee could discuss the importance of the reliance required to be placed on expert's work, which showed the lack of knowledge of relevant Auditing Standard.

**QUESTION NO:-6**

**(a) Definition of “Materiality”.**

**(b) Explanation-how materiality affect the audit and when it should be considered by the auditor.**

**(c) Relationship between materiality and audit risk.**

- From the answers it was evident that examinees were lacking the knowledge of Auditing Standards and other relevant guiding material on the “materiality”.
- Very few could rightly define the “materiality” and could appreciate the importance of “materiality” in determining the audit risk and procedures to be designed and performed by the auditor.
- Mostly the answers were general in nature and were irrelevant.

**QUESTION NO:-7**

**(a) Discussion of auditor’s specific procedures to respond to assessed risk of material misstatements at assertion level.**

**(b) Discussion with examples of estimates and judgments made by management in preparation of financial statements in context to inventories.**

- Majority of the examinees failed to answer the question correctly and none of the examinee was able to describe the auditor’s procedure as per requirements of the question.
- Answers to part (b) were general and examinees were unable to specifically address the area of inventories in the context of management’s estimates.

**QUESITON NO:-8**

**(a) Preparation of statements to verify and confirm the net profit reported by company for:**

**(i) External reporting purposes, and for,**

**(ii) Internal reporting purposes.**

- It was very surprising to note that examinees were unable to understand the requirements of the question.
- Examinees had serious problems with presentation, calculation and computation of various figures and determination of net profit for two different purposes.

**(b) Setting out of significant matters to be covered in the cost audit report.**

- Poor performance was noted in this part of the question, as very few examinees were able to list down correctly and completely the matters to be covered in cost audit report.

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**EXAMINERS' COMMENTS  
FALL (WINTER) 2006 EXAMINATIONS**

**STRATEGIC FINANCIAL MANAGEMENT  
PROFESSIONAL-IV / STAGE-6**

**QUESTION NO:- 1 - MCQs**

Average performance was noted in this question.

**QUESTION NO:- 2**

**Computation of sustainable growth rate of a company from the data given in the question.**

- This was simplest of all other questions given in the question paper, but the examinees performed very badly. Not a single examinee was able to answer the question, and had wasted pages after pages without any success for two steps (lines) solution of the question.
- Few of the examinees had calculated different financial ratios instead of providing the answer as per the requirements of the question.

**QUESTION NO:-3**

**(a) ACQUISITION OF A COMPANY –**

**(i) Computation of:**

1. **Maximum price to be paid by acquiring company.**
2. **Minimum price that the shareholders of the company to be acquired will be willing to accept for their shares.**

**(ii) Total number of new shares to be issued by acquiring company for purchase of entire share capital of the company to be acquired.**

- Very poor performance was noted in this part of question.
- Except for the answer to requirement (ii), not a single examinee was able to provide correct answer to requirements (i) of this part of question.
- As regards to answer to requirement (i), of this part of question, the main point i.e., calculation of the future combined value of acquiring company after acquisition by using combined value formula was altogether missed by all the examinees. Although, all the relevant data was given in the question, but the examinees failed to comprehend this important requirement.
- Almost all of the examinees did not have the knowledge of using the formula to calculate value of combined company to arrive at maximum price of shares of company being acquired.

**(iii) Brief discussion of other factors that the directors and share-holders of both companies might consider in assessing the desirability of proposed take-over.**

- The requirement of describing “other factors” was easy to answer, if general knowledge was applied, however, very few examinees could focus on correct factors.

**(b) Definition of the terms:**

- (i) **A de-merger**
- (ii) **A sell-off**
- (iii) **A spin-off, and**
- (iv) **A management buy-out**

Satisfactory performance was noted in this part of the question.

#### QUESTION NO:-4

##### **Determination of asset replacement period i.e., how often the asset should be replaced.**

- There were two aspects of the question:
  - (i) Calculation of present value of cost for each replacement cycle over one cycle, and
  - (ii) Calculation of the equivalent annual cost using the given discount rate i.e., determination of P.V. of equivalent annual cost at given discount rate, if machine is replaced:
    1. Every year
    2. Every two years
    3. Every three years and so on.
- Very poor performance was noted in this question. None of the examinees was able to attempt the question completely and correctly. Some of the examinees finished their findings after one step only.
- No examinee was able to comprehend the question and computed depreciation and tax benefit as assumed by him to arrive at values at the end of each year. Many examinees took replacement as one time activity instead of testing the data separately for each year. A glaring mistake of omitting the replacement cost was also noted from the answers. Almost all examinees failed to convert calculated replacement cost of a particular year to present values to put the result on one footing for which cost of capital was given.
- Following common mistakes were also noted from answers:
  - Present values for years 1 to 4 were wrongly calculated.
  - The concept of annualised NPV was not known to many of the examinees.
  - Timing of cash in flow / out flow was wrongly worked out.
  - Cost of machine was taken as if it was purchased at the end of the year instead of year "Zero".

#### QUESTION NO:-5

##### **(a) Explanation of the meaning of dividend signalling effect as proclaimed by Miller and Rock.**

- Below average performance was noted in this part of the question. Examinees generally mentioned that dividend does affect the price of shares, whereas few simply suggested that dividend does not affect the prices of shares.

##### **(b) Computation of:**

- (i) **Dividend per share and external financing required if dividend policy is treated as residual decision.**
- (ii) **The amounts of external financing in each year that will be necessary, if the present dividend per share is maintained.**
- (iii) **Dividend per share and the amount of external financing that will be necessary, if dividend payout ratio of 50% is maintained.**

##### **Discussion that under which of the above three dividend policies:**

1. **Aggregate dividend is maximized, and**
2. **The external financing is minimized**

- This was a very simple question, and was reasonably attempted by almost all examinees.
- In some of the answers, the examinees had taken the net income after deduction of capital expenditure for the purpose of dividend.
- Few of the examinees were not clear about 50% pay out ratio and took it as if 50% of par value of share is paid as dividend rather than taking the earnings of the year.



**QUESTION NO:-6**

**Preparation of cash budget and proforma balance sheet and computation of additional bank borrowings required to maintain a cash balance of Rs.1,500,000/= at all times.**

- It was surprising to note that majority of the examinees did not have the ability to prepare and present a cash budget. Instead of presenting the cash budget for three months in a columnar form on a single page, a large number of examinees prepared the cash budget for each month in isolation, thus defeating the purpose of the exercise.
- Majority of the examinees was able to correctly calculate the receipts / collection from the sales, however, payment for purchases was not calculated correctly by a large number of examinees.
- Almost all the examinees were not able to correctly determine the amount of borrowing required, as they ignored the previous borrowing as given in the balance sheet.
- Few examinees ignored the available cash balance as given in the balance sheet.
- Few examinees were not able to correctly present the balances of cash receipts and payments for respective months.
- Very few examinees were able to calculate the correct amounts of trade debtors and accounts payable.
- Retained earnings were incorrectly calculated by almost all the examinees.

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**EXAMINERS' COMMENTS  
FALL (WINTER) 2006 EXAMINATION**

**MANAGEMENT ACCOUNTING-BUSINESS STRATEGY  
STAGE-6**

**QUESTION. NO:- 1**

**MCQs-** Examinees demonstrated a very encouraging performance in this question.

**QUESTION. NO:- 2**

This question was on “**cost drivers**” that can help in determining a firm’s costs in a particular value chain activity.

None of the students was able to answer this question. All the students without exception discussed the cost components of a product i.e., the key resource output. The question was related to cost driver in a particular value chain activity and not the one’s own activity. All the students spent their energy on describing the various inputs like material, inventory etc. The wrong / irrelevant answers had seriously affected the overall performance of the students.

**QUESTION. NO:- 3**

(a) The question was on “**organizational changes**” and (b) **Business Process Re-engineering (BPR)**.

The students failed to describe what an organization change strategy is? None touched upon the strategic changes in organization, communication and attitude. Similarly, the reaction to these changes was not discussed by anyone like acceptance indifference, positive or active. (b) It seemed as if the students had a fair idea to the answer of the question, but could not transform it in to appropriate words. Few students came near to explaining the five steps approach to **BPR**.

**QUESTION. NO:- 4**

(a) This question was on necessity of having a “**mission or strategic vision**”, and (b) “**external and internal factors**” which determine a company’s strategic situation.

Instead of describing the necessity of mission or strategic vision a large number of students attempted to differentiate between these two concepts. Quite a few came near to answering the same.

Part (b) was well answered by few students. External factors were well explained than the internal factors. Few had touched upon the SWOT for internal factors. General weaknesses noticed were lack of organizing the discussion and clarity of presentation.

**QUESTION. NO:- 5**

This question was on alternative “**marketing strategies**” that may be used to maintain and / or increase sales of business units and products. On the whole this question was well answered. It seemed that the students had fair idea of what was asked and what was to reply. The general idea which ones get from the answer was that the text was well read but the explanation was lacking due to poor expression in English.

**QUESTION. NO:- 6**

This was a case problem, required examinees to (i) “**forecast five years profit**” (ii) find out the “**feasibility to buy the company’s assets**” (iii) calculate “**pay-back period**” and (iv) carry out “**SWOT analysis**”. As this question related to the financial strategic decision, and was relatively simple therefore, it was well attempted by the students. Those who attempted this question first had done relatively well than the others who were pressed by time pressure at the end. Hardly few students came up with the answer that although the NPV was negative in the fifth year but due to available capacity and market growth it was still feasible to buy the company. The SWOT analysis was also done well by some students.

**EXAMINERS' COMMENTS  
FALL (WINTER) 2006 EXAMINATIONS**

**MANAGEMENT INFORMATION SYSTEMS-II (THEORY)  
FOUNDATION-II**

**QUESTION NO. 2:-**

- (a) A very simple question which was answered incorrectly by almost all of the students because they failed to understand what was meant by “**characterization of information**” and how such information is helpful in various decisions.
- (b) Majority was unable to answer this question correctly. Students assumed that it referred to client-server architecture. Others simply thought it referred to mainframes. It is evident that students were not prepared to attempt the question.

**QUESTION NO. 3:-**

- (a) Most of the examinees did not answer the first part of this question properly which was on “**neural networks**”. However, only a few could do justice to this question by differentiating between the neural networks and expert systems. (b) This question was answered correctly by most of the students. However, they weren't very clear in explaining the capabilities of the “**EIS**”.

**QUESTION NO. 4:-**

This question on “**strategies in digital economy**” was the most incorrectly answered by all the examinees. Unfortunately the overconfidence of the students led them to believe that just by explaining strategies which are applicable in normal economies (non-digital) they could somehow answer this as well. Lack of seriousness towards the subject was seemed to be main factor of their failure.

**QUESTION NO. 5:-**

- (a) This was another question which was answered incorrectly by majority. They tried to apply their knowledge of contemporary business on such topics which are the sole domain of “**E-Business and E-Commerce**”. (b) This question on “**security protection**” was answered by most of the students although the answers were not very satisfactory which resulted in securing average marks.

**QUESTION NO. 6:-**

- (a) This was a question was on “**mining technology**” and that was answered well by most of the students. However, few examinees provided very irrelevant and vague answers. (b) This question was on “**system conversion**” and answered well by few. Other examinees simply misunderstood it and had written about the various categories of software and how they could be designed. The replies of some examinees on “**system conversion**” were based on their general knowledge.

**QUESTION NO. 7:-**

- (a) This question on “**attack and threat**” was answered correctly by the majority and secured good marks. (b) Although this question was quite simple in nature, however, majority failed to truly understand the question. Instead of writing about the types of “**security, attacks**” majority of the examinees provided only the examples of these attacks.

**EXAMINERS' COMMENTS  
FALL (WINTER) 2006 EXAMINATIONS**

**MANAGEMENT INFORMATION SYSTEMS-II (PRACTICAL)  
FOUNDATION-II**

**QUESTION NO. 1:-**

This was a simple question on "**Chart of Accounts with current balances**". However, most of the students were unable to create valid account codes of Chart of Accounts.

**QUESTION NO. 2:-**

This question on "**General Journal entries**" was answered correctly by most students. It was very basic and simple question.

**QUESTION NO. 3:-**

The question on "**GL Trial Balance**" caused confusions as many students printed the General Ledger instead of the GL Trial Balance. The questions should be understood more clearly. Examinees should utilize their accounting knowledge at the time of attempting practical question.

**QUESTION NO. 4:-**

This question on "**Balance Sheet**" was also attempted satisfactorily. But many failed to score well in this part because of mistakes made in the earlier questions. Many examinees made casting errors and could not present proper format of "**Balance Sheet**".

**QUESTION NO. 5:-**

This question on "**Income Statement**" was answered correctly by the majority. However, most of the examinees made the same mistakes as they did while working out "**Balance Sheet**". Overall performance of examinees was remained average.

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**EXAMINERS' COMMENTS  
FALL (WINTER) 2006 EXAMINATIONS**

**ORGANISATIONAL BEHAVIOUR & STRATEGIC MANAGEMENT  
PROFESSIONAL - III**

**QUESTION No. 2:-**

- (a) Definition of quality of work life (QWL) was given by most of the students correctly. However, they could not relate its importance in the context of overall climate, socio technological design, and teams. (b) This part related to certain aspects to achieve over – riding purpose of changing climate at work. Students were supposed to select any four. An encouraging thing was that students had given upto the mark answers of “**rewards**”, “**challenge**” and “**ethics**”. They could not, however relate individual respect, growth and enthusiasm as over-riding purpose. (c) Legislation of quality of work life (QWL) standards were discussed appropriately. It appeared that students understood importance of QWL in present day organisations.

**QUESTION No. 3:-**

- (a) “**Non-verb communication**” is being given increased attention in current business organisations. Non-verbal human responses transmit true picture of human feelings and emotion and it's understanding is very important for sales persons, speakers and managers. Most of the examinees replied very general and irrelevant answers. (b) This part relates to different “**aspects of non-verbal communication**” (NVC). Except for sub liminal cues, students correctly explained other elements. In case of dress, they only explained impression effect although it explains entire personality and had great significance in job interviews and other settings. (c) This part was on “**improvement in effectiveness of non-verbal communication (NVC)**”. The observation was very important to consider the discrepancies between non-verbal behaviour and the verbal statement. People carry out this exercise almost throughout their lives. However, examinees could not discuss the effectiveness of “NVC” in the context of practical work life.

**QUESTION No. 4:-**

- (a) This question was on “**advantages / disadvantages of conflict**”, however students only explained the disadvantages part correctly. They did not take the employee turnover aspect in their replies. (b) This part was on “**functional and dysfunctional conflict**”. In this part students applied their guesswork and could not mention the appropriate differences between the two types of conflict. (c) This part on “**benefits of conflicts**” attempted by majority examinees but without any conceptual background. They could not explain that how can the conflict be beneficial to a group. The question “**Macro Dynamic**” organisation behaviour understanding of conflicts is instrumental in developing negotiation skill and candidates should possess a detailed knowledge.

**QUESTION No. 5:-**

- (a) This question was on “**Planning**” and “**Hierarchy of organisational plans**”. Most of the students were confused between strategic and operational plans. (ii) Planning is an ongoing process that gives a sense of direction and provides basis of control. They could not elaborate the differences. (b) This question was on “**concept of level of strategic management**”. Majority of students could not explain the level of strategy within the organisation. They even could not differentiate between the corporate and business level strategies. (c) This part on “**force corporate strategy**” is critically important as far as success at market place is concerned. Students correctly mentioned threat of new entrant and rivalry among competitors.

**QUESTION No. 6:-**

- (a) This question was on “**steps in control process**”. The most significant aspect “**ensuring that the actual activities confirm to the planned activities**” was rightly pointed out by majority of examinees. Most of the students failed to mention the “**corrective action**” aspect of control. (b) This question was on “**budgets**”. Students answered this part which was entirely based upon their general knowledge. At times the information provided was based upon sheer guesswork. (c) This question was on “**Decision Support System**” (DSS). “**Expert System and conventional MIS**” that was not responded correctly by majority however it was very common topic. Only few students correctly mentioned the aspect of information manipulation that help managers in non routine decision.

**QUESTION No. 7:-**

- (a) i) This question was on “**training and development**”. Most of the students correctly replied to this part and secured good marks. However, they could not explain the training and development aspect of “**Human Resource Management (HRM)**” process. Most of the answers were based on the general knowledge of the examinees. ii) This question was on “**the procedure to determine training needs of the employees**”. Most of the examinees shared their personal experiences, however, very few of them highlighted the major points of the procedure to determine the training needs. (b) This question was on “**the major on-job training methods**”. Majority of the examinees replied very well and described a number of on-job training methods and secured good marks.

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**EXAMINERS' COMMENTS  
FALL (WINTER) 2006 EXAMINATIONS**

**AUDITING  
PROFESSIONAL—III**

**QUESTION NO:- 1 - MCQs**

Very good performance was noted in this question.

**QUESTION NO:- 2**

**(a) Discussion of concept of Internal Accounting Control Structure.**

- Majority of the examinees, without comprehending the requirements of the question had discussed the qualities and components of the Internal Control.

**(b) Discussion of audit objectives to verify the income disclosed in the financial statements of a listed company.**

- Majority of the examinees discussed the general objectives of an audit, instead of discussing the objectives to verify the income disclosed in the financial statements of a listed company.

**(c) Explanation of the general principles of an audit.**

- Examinees instead of discussing the general principles of audit had discussed the various objects of an audit.

**QUESTION NO:-3**

**(a) Examples of Teeming and Lading.**

- Most of the examinees did know what the term “Teeming and Lading” refers to, but majority of them did not know as to how the cashier uses this money for his personal use, which clearly reflects that the examinees did not have the in-depth knowledge of the term.

**(b) Discussion of steps to be taken to prevent occurrence of “Teeming and Lading”.**

- Most of the examinees did not have any knowledge of steps to be taken to prevent occurrence of “Teeming and Lading” and had mentioned only the basic steps of Internal check system in their answers.

**(c) Discussion of audit vouching steps for following transactions appearing in the financial statements of a listed company:**

**(i) Sale of Securities.**

**(ii) Sale of Fixed Assets.**

- Examinees had described the general steps of vouching, like vouching of invoices and vouchers etc., instead of discussing the vouching steps for sale of securities and fixed assets. It shows that either the examinees had not prepared themselves for the examination, or they did not comprehend the requirements of the question.

**QUESTION NO:-4**

**(a) Discussion of importance of understanding of Internal control system of an organisation by an auditor and discussion of important components of Internal control system.**

- Majority of the examinees failed to produce the correct answer to this part of the question. Most of the answers were based on the understanding that internal control is necessary in order to detect errors and frauds. None of the examinees was able to correctly explain the components of Internal control.

**(b) Discussion of, how the work of an auditor vary in small enterprises.**

- Most of the examinees answered that it is easy for an auditor to audit small enterprises due to small number of transactions and minimum reporting requirements, instead of discussing the limited or no internal control and total control of the managers / owners on the affairs of the small enterprises where auditor has to plan and perform his duty very carefully.

#### QUESTION NO:-5

(a) **Discussion as to how an auditor ascertains whether an asset is suffering from a charge or not and what should the auditor do if the management does not agree to mention the existence of charge on assets in the financial statements?**

- Majority of the examinees had attempted this question, but they did not have any knowledge of the required legal provisions and the steps required to ascertain whether an asset is suffering from charge or not? Most of the examinees had mentioned in their answers that Minutes of the meetings of Board of Directors and shareholders be checked, and previous auditors or accountant of the organisation should be contacted for this verification.

(b) **Definition of term “completeness” in the context of the financial statements and how does an auditor obtain evidence relating to completeness of assets, liabilities, revenues and expenses disclosed in financial statements.**

- The term “completeness” was misunderstood by the examinees, and was mixed up with the completion of books of accounts and financial statements, instead of assertions about completeness, which means that all the transactions and accounts to be presented, are included in the financial statements. The auditor obtains this evidence from directional testing, numerical continuity, clerical accuracy and third party confirmation etc.

#### QUESTION NO:- 6

(a) **Discussion of audit procedures to be adopted by an auditor to conduct share transfer audit.**

- Most of the examinees did not have the idea of “Share Transfer Audit”. They had assumed in their answers that “Share Transfer” refers to the initial sale of company’s shares to the shareholders or the shares purchased by the company from other organisations for investment purposes. They failed to discuss the procedure to be followed when a shareholder sells or due to his death or due to any other circumstances the shares of the company are required to be transferred to other person / shareholder.

(b) **Discussion of Characteristics of evidence gathered by the auditor to make audit work more useful.**

- Very few of the examinees were able to produce correct answer to this part of the question. Majority of the examinees was not aware of the answer to this part of the question.

#### QUESTION NO:-7

(a) **Brief discussion of areas in which auditor uses his /her professional judgement in the light of International Auditing Practice Statement 104, which states “Judgment permeates the auditor’s work”.**

- It seems that examinees did not comprehend the requirements of the question and quickly jumped over to answer the question.
- Majority of the examinees gave irrelevant answers and mentioned that the auditor should use his judgement in verifying the estimates of profit, purchase of assets, and sale of shares etc., as prepared by the management.

(b) **Discussion of the significant policies formulated by the Board of Directors in the light Code of Corporate Governance.**

- Most of the examinees had mentioned different financial policies, like accounting systems, internal control etc., to be the significant policies to be framed by the Board of Directors which was not the specific answer.

#### QUESTION NO:-8

(a) **Discussion as to why an auditor should compare previous estimates with actual results in the light of relevant ISA.**

- Majority of the examinees misunderstood the question and had mentioned in their answers that the estimates if not made correctly will be a case of fraud by the management and financial statements will not be prepared correctly, which was an incorrect answer.



**(b) Discussion of three areas in which chances of fraud and error could occur in payment of wages.**

- Most of the examinees were of the view that due to manual preparation of accounts, payment of overtime, hiring of staff without following proper procedure or handling of accounts by a single person may lead to fraud or error in payment of wages.

**(c) Discussion of what should an auditor do if:**

**(ii). Significant delay in signing or approval of financial statements arises, and**

**(iii). Management refuses to provide representation.**

- Most of the examinees did not even know as to what type of opinion is required to be given in this regard. Few students had mentioned that the auditor should give un-qualified opinion.
- Few others were of the view that adverse opinion be given by the auditor without mentioning the specific words, instead of discussing the scope limitations and expression of a qualified report or a disclaimer of opinion by the auditor.

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**EXAMINERS' COMMENTS  
FALL (WINTER) 2006 EXAMINATIONS**

**STRATEGIC MANAGEMENT ACCOUNTING  
PROFESSIONAL–III**

**QUESTION NO:- 1 - MCQs**

Good performance was displayed by the examinees in this question.

**QUESTION NO:- 2**

**(a) Definition of “Responsibility Accounting” and discussion of difficulties in implementing it in non-profit organisations.**

- Examinees generally mixed up the term “Responsibility Accounting” with the term “Activity-Based- Costing” and defined the “Activity-Based-Costing” instead of “Responsibility Accounting”. Examinees were also not able to give the reasons for failure in implementing “Responsibility Accounting” in non-profit organizations.

**(b) Preparation of performance report for domestic and foreign markets based on the assumptions that the company has separate managers for each market.**

- Most of the examinees had attempted the question, and overall performance was found to be satisfactory. Many of the examinees committed mistakes in apportioning the separable fixed cost to three products in domestic and foreign markets.
- Examinees failed to understand the concept of allocation of joint cost and apportioned the joint cost between three products. Similarly separable fixed cost was required to be allocated on product –A only, but few students allocated part of this cost to products B and C also.

**QUESTION NO:-3**

**(a) Definition of “Target Costing” and description of steps needed in implementation of “Target costing” process.**

- Examinees generally failed to give a proper definitions of “Target costing” and were only able to mention at the most two or three steps for it’s implementation.

**(b) MACHINE REPLACEMENT DECISION – Computation of relevant cash flow for the new “Moulding machine”, and to arrive at decision using the NPV method to purchase or not to purchase the new machine.**

- Examinees gave average performance in attempting this question.
- Most of the examinees did not consider the tax shield in their answers. Similarly incremental cash flows were also not calculated correctly.

**QUESTION NO:-4**

**(a) Computation of:**

- (i) Number of kidney and heart operations performed.**
- (ii) Variable cost of performing a heart operation.**
- (iii) Charges billed for each operation of kidney and heart.**

- Average performance was noted in this part of the question. However, few examinees were not able to calculate the variable cost of kidney and heart operations correctly.

**(b) Recalculation of charges for kidney and heart operations using “Activity-Based-Costing” and comparison of charges calculated under two different assumptions.**

- Poor performance was noted in this part of the question, as examinees were unable to correctly calculate the charges under “Activity-Based-Costing”.

**QUESTION NO:-5**

**(a) Definition of “Marginal Pricing”, and discussion of how it helps in pricing of a product at different stages of it’s life cycle.**

- Majority of the examinees was found confused in answering this part of the question, as it was generally mixed up with “Marginal Costing”.
- Many examinees missed to discuss the aspects of product life cycle, and marginal cost and separable period cost data relevant to that stage in pricing at each stage of product life cycle.

**(b) Preparation of flexible budget by ignoring the abnormalities as given in the question.**

- Following errors were generally committed by almost all the examinees in answering this question:
  - ❑ Examinees failed to adjust the effect of abnormalities in the cost of materials, labour, overhead and selling and admin expenses.
  - ❑ Not breaking the cost into fixed and variable elements, which is necessary for preparation of flexible budget.
  - ❑ Not computing the selling price for each level of sales.

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**EXAMINERS' COMMENTS  
FALL (WINTER) 2006 EXAMINATIONS**

**MARKETING MANAGEMENT  
PROFESSIONAL – IV**

**QUESTION No. 2:-**

- (a) This question was on “**definition of marketing**”: Most of the students came out with the correct definition, except few of them. This was relatively easy part of the question. In channel discussion, they appeared quite confused neither they had any idea how marketers operate in a task environment nor they know how environment affects marketing.
- (b) This question was on “**importance of understanding customers and market place**”. Students came out with different answers but could not mention; need, wants, demands, market offers etc. Students could not able to understand the question, altogether.

**QUESTION No. 3:-**

Part (a ) of this question on “**major factors influencing consumer behaviour**” was very long. This question could be answered briefly, but most of the students replied to the extent of writing 4-6 pages for the answer.

In part (b) of the question, the students gave astray to discuss “**buying consideration**” instead “**buying behaviour**”. There was no semantic ambiguity in framing the question. It appeared that students could not seriously follow the cause and effect relationship and took consideration (effect) for the cause (behaviour). Only overlapping area had accrued some credit. Only naming of the steps was required in Part (c), but there, too, the students provided long answers. Students must learn time management and should know how to maintain a balance between allowed time and actual time consumed in answering a questions.

**QUESTION No. 4:-**

- (a) This question was on “**patterns of market segmentation**” however, the performance of the examinees was average in this question. They provided their general knowledge based answers rather than the exact patterns of market segmentation.
- (b) No student attempted segment attractiveness in terms of growth, competitive intensity, market access etc. Students restrained themselves to profitability aspect only. Similarly, no student described segment test aspect but left it to the whim of a marketer whether to enter into a segment or not. Although cut off points were measurable substantial, accessible, differentiable and actionable, students had enumerated some more points through guesswork.

**QUESTION No. 5:-**

- (a) Most of the students attempted this question on “**market leader**” correctly. Enjoying a market leader position is the core view of pursuing “**Marketing Management**” discipline. This essay type analytical discourse covered the entire procedure from expansion of the overall market to present market share. Every candidate provided that strong market positioning aspect is the main theme of guarding the present / existing market share. A detailed answer covering entire aspect of maintaining market leadership position was required.
- (b) This question was on “**Flanking Defence**” in the context of marketing strategy. Most of the examinees were confused with the term and provided very vague and irrelevant replies.

**QUESTION No. 6:-**

- (a) Students who rightly pointed out that sales promotion is a range of tactical marketing techniques designed within a strategic marketing framework and explained their viewpoint explicitly, received full marks. The push and pull strategy without pertinent channel is of no significance. Those who did not show channel in diagram were penalized by two marks. In push strategy incentives were provided to distributors and sales force who put in their efforts in popularising goods among buyers. Likewise in pull strategy consumer are given incentives and convenience so that they are induced to buy the product. Students were required to explain all these things to get full marks.
- (b) It was a descriptive on “**benefits of sale promotions**” question and those who attempted it, done well using sensible guess.

**QUESTION No. 7:-**

- (a) This question was on “**several pressures and problems which marketing executives face**”. Students could not understand the question, particularly the marketing activities. They could not point out the human factors that affects control process.
- (b) This question was on “**problems which affects assessments of marketing performance.**” Most of the examinees did not attempt this part, however, those attempted, could not provide appropriate answer. Their replies were based on sheer guess work.

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**EXAMINERS' COMMENTS  
FALL (WINTER) 2006 EXAMINATIONS**

**CORPORATE PERFORMANCE AUDIT & EVALUATION  
PROFESSIONAL-IV**

**QUESTION NO. 2:-**

Few students attempted this question on “**balance scorecard approach**” and performed below average in this question. Most of the examinees had no concept of “**profit measurement approach**” and “**non-financial measures**” for the short and long-term control of business.

**QUESTION NO. 3:-**

This question was on “**the concept of product development from the research and development point of view**” fairly attempted by a large number of students. This was high scoring question. Some students provided appropriate answer of this question, however, majority relied on their general knowledge. Some students provided objectives / benefits of internal controls in general term rather than in relation with research and development.

**QUESTION NO. 4:-**

This numerical question on “**return on investment**” was attempted very well by majority who secured good marks. However, few examinees could not provide advantages and disadvantages of “**return on investment**” and “**residual income**” as divisional performance measures.

**QUESTION NO. 5:-**

A large number of examinees tried to attempt this question correctly but only few of them secured the reasonable marks.

**Part-(a):** Some student gave the persuasive answer, majority assumed that production / manufacturing environment is associated with material only and they defined it from acquisition of material to production stage and then wastage etc.

**Part-(b):** Most of the students described the “**control objectives for personnel to achieve production objective**” very well and secured reasonable marks but some examinees got confused in understanding that whether they should define it as “**personnel objective**” or “**production objective**”. **Part-(c):** Majority of the examinees could not provide the specific control objectives for “**law and regulatory compliance**”. Most of the answer were based on their general knowledge.

**QUESTION NO. 6:-**

This question on “**Cost Audit**” was attempted very well by majority. They found it quite easy question and tried to get full marks in it. This was the question of the paper which exposed the overall knowledge of the examinees about “**costing and cost audit**” and the knowledge they had about the industry and “**cost audit rules**” etc.

**QUESTION NO. 7:-**

**Part (a):** Majority of students badly attempted this question on “**cost control and cost reduction**” and overall performance remained unsatisfactory. Some of the jargons used by the students in reply to this question which was not expected from them who were going to become qualified accountants. Very few examinees provided examples of the techniques and principles used for “**cost control and cost reduction**”. **Part (b):** Majority of the examinees could not provide the relevant answer of the term “**cost audit evidence**”. Their answers were very vague and irrelevant.

**QUESTION NO. 8:-**

This numerical question was attempted by majority of the examinees but few of them could understand the requirement of the question and provided the correct solution. Replies of majority of the examinees showed that they were confused between the basic concept of “**joint and by-product costing**”.