

**EXAMINERS' COMMENTS
FALL (WINTER) 2009 EXAMINATIONS**

**FUNDAMENTALS OF FINANCIAL ACCOUNTING
Stage – 1**

Question No. 2

(a) (i) Prime objective of Financial Statement:

This question was theoretical where examinees were asked to describe the *prime objective of financial statements* as per IASB's Framework. Answer to this question was very simple in two or three lines, but the examinees did not know it and gave very irrelevant answers in details.

(ii) Basic Assumptions of Financial Statements:

This question was also theoretical and the examinees were asked to explain two basic assumptions of financial statements i.e., '*accrual basis*' and '*going concern*'. The answers were very straight forward but the examinees were not aware of these assumptions and wrote long stories, which were uncalled for.

(b) Cash Payments Journal:

This question was taken from the topic of 'special journals' and the examinees were asked to record the given transactions using cash payments journal. In addition, they were also required to foot and rule the journal. Following shortcomings were observed:

- Some examinees did not prepare the correct format.
- Some examinees prepared correct format, but they did not foot and rule the journal.
- A number of examinees included '*Bank*' column in addition to '*Cash*' column in the journal.

Question No. 3

(a) (i) Net Realisable Value (NRV):

This was very simple theoretical question. Examinees were asked about the meaning of NRV as per IAS-2. Most of the examinees only spelt out that NRV meant net realizable value and nothing more. Very few examinees (just about 2 to 3 percent) provided correct definition and understanding of the topic.

(ii) Lower of Cost or Market Value:

This question was practical one and related to sub-part (i) above. Examinees were asked to work out the NRV from given data. They were also expected to apply the concept of NRV in combination with the principle of lower of cost or market to determine the correct value of inventory to be included in the statement of financial position. Response to this part was even worse than what was elicited in sub-part (i). Following was the most common error committed by the examinees:

- Most of them failed to find out NRV, which could be obtained by adding expected selling cost and additional cost to put them into saleable condition and then deducting the resultant amount from the estimated selling price. Since, NRV calculated in this way, Rs.440,000, was less than the cost, Rs.500,000, the former would be shown in the statement of financial position.

(b) Reconciliation of Control Account and Subsidiary Ledger:

Requirement of the question was to prepare (i) sales ledger control account (adjusted), and (ii) a statement showing the reconciliation of total of sales ledger balances of customers' accounts with the balance of sales ledger control account (adjusted). In this part a scenario was given, in which, sales ledger control account did not agree with the related subsidiary ledger, because a number of errors had been committed during the year. Examinees were expected to assess each error and make correction in either control account or subsidiary ledger as the case may be. After making all corrections, both totals should agree. Examinees responded poorly to this part and following mistakes were noticed:

- Some examinees posted credit entries to the debit side of the control account and vice versa.
- A number of examinees could not balance and close the control account.
- Some of them were not conversant with the difference between a control account and the related subsidiary ledger.
- Many examinees failed to understand the nature of different errors and consequently could not rectify them. For instance, discount allowed to a customer, Rs.23,200, was wrongly posted to the debit side of the customer's account. Reversal of this error needed deduction of Rs.46,400 (23,200 x 2) from the given total of customers' accounts. They, however, wrongly deducted Rs.23,200 from above total.

Question No. 4

(a) Accounting for Bills of Exchange:

This part related to the acceptance of a bill of exchange, payable after one month, by Mumtaz Traders to finance his friend, Ishaque Brothers, and examinees were asked to prepare journal entries in the books of both the parties to record acceptance of the bill by Mumtaz Traders, discounting of the bill by Ishaque Brothers and ultimately payment made by Ishaque Brothers. The following common errors were witnessed:

- Most of the examinees did not prepare the journal entries in the books of both the parties.
- They even did not know how separate books of accounts should be maintained.
- Some examinees made the entries correctly but did not mention the names of the parties, they related to.
- In response to acceptance of bill by Mumtaz Traders, some examinees credited Accounts Payable - Mumtaz Traders in the books of Mumtaz Traders in place of Ishaque Brothers, which meant they did not have any concept of the topic.
- Most of the examinees took discount for one year instead of one month.

(b) Exchange of Non-Current Asset:

In relation to exchange of an old equipment for a new one, examinees were asked to (i) compute the cost of new asset, (ii) compute gain or loss on exchange and (iii) give journal entry to record the exchange transaction. Following errors were noticed in this part:

- Most of the examinees failed to correctly compute the cost of new asset, which could easily be found by adding the fair value of the old asset and cash paid to the vendor.
- Loss on exchange (difference between fair value and book value) was also not correctly computed by a number of examinees.
- Some examinees computed the amounts correctly in sub-parts (i) and (ii), but they made wrong journal entry in sub-part(iii).

(c) Recording Petty Cash Transactions:

Examinees were required to give journal entries to record the establishment of, the expenses from and then reimbursement of the petty cash fund. It was the easiest question of the paper. Nevertheless, following mistakes were observed:

- Some examinees did not know how to make the entry for reimbursement of petty cash, which could easily be prepared by debiting petty cash fund and crediting cash account with the total of all expenses i.e., Rs.7,600.
- Some examinees were ignorant about the difference between petty cash and cash accounts.

Question No. 5

(a) Accounts Receivable:

Examinees were required to prepare accounts receivable, allowance for doubtful debts and bad debts expense accounts from the given data and also to close and balance these accounts. Most of the examinees failed to prepare above accounts properly. Following errors were committed by them:

- Some examinees made journal entries instead of accounts.
- The majority did not compute bad debts expense correctly, which was computed on gross credit sales instead of net credit sales.
- A large number of examinees did not know the treatment required in respect of credit balance in customers' accounts amounting to Rs.10,000, which required a Rs.10,000 posting to the debit side of accounts receivable account.

(b) Cash Flows from Operating Activities:

In this part, examinees were required to prepare cash flows from operating activities section of the statement of cash flows. In spite of being a easy part, examinees could not fare well. They committed following mistakes:

- They did not know which amount was to be added to or subtracted from net profit. They need to know that increase in current asset and decrease in current liability is deducted from net profit and decrease in current asset and increase in current liability is added to net profit.
- Some examinees made the above additions and subtractions correctly but they failed to add depreciation to net profit.

Question No. 6

Preparation of Financial Statements:

Examinees were asked to prepare (a) Income Statement (by using classification of expenses by nature) and (b) Statement of Financial Position. Although, preparation of financial statements has been an integral part of the paper, it seems, examinees do not give adequate time and attention to this topic. Following shortcomings were observed:

- Some of the examinees prepared income statement and worked out net profit correctly but they did not fulfill the requirement of the question i.e., preparing it by using classification of expenses by nature.
- Some examinees did not classify items of statement of financial position into current assets, current liabilities etc.
- Assets and liabilities were not written in correct order.
- Hardly, any examinee could prepare notes to the statements i.e., staff cost, depreciation and other operating expenses etc.

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**EXAMINERS' COMMENTS
FALL (WINTER) 2009 EXAMINATIONS**

**BUSINESS ECONOMICS
Stage – 1**

SECTION "A"

Question No. 2

(a) Specification of the terms (i) Production-Possibility Frontier (PPF), (ii) Scarcity, (iii) Productive efficiency, and (iv) Inputs and Outputs:

Examinees were required to give the definitions with illustrations in this part of the question. Answers with regard to PPF, Scarcity, and Inputs and outputs were not upto satisfactory level. The production-possibility frontier shows the maximum amount of production that can be obtained by an economy, using its technological knowledge and quantity of inputs available. A situation of scarcity is one where goods are not enough to meet everyone's desires. Productive efficiency occurs when an economy cannot produce more of one good without producing less of another good; this implies that the economy is already on its production-possibility frontier. Inputs are commodities or services that are used to produce goods and services.

(b) Steps taken to economize the use of time:

This was scenario based question in which examinees were required to produce the PPF showing trade off between leisure time and earning time of rich and poor in the context of opportunity cost. There was extremely poor response by the examinees in this part of the question. The time management can be illustrated by using PPF technique whereby the poor and wealthy can be seen having two different approaches over their time requirement.

(c) Strengths and weaknesses of rationing systems:

This was straight forward question in which examinees were required to explain strengths and weaknesses of the systems devised when the resources are scarce and government announced to provide the goods to general public. The performance in this part of the question was also not satisfactory. The commodity supply once scarce leads to high prices either due to shortages or malpractices like black marketing for privileged class of people leading to illegal transactions above the regulated prices. This results in application of rationing devices often adopted by many countries particularly developing countries, resorting to, auction, coupons distribution and 'first come, first served systems'. The devices like auctions, first come first served systems, would results in large crowd / line formation with considerable wastage of precious time such devices could not control sales flow, supply of goods, procurement and distribution.

Question No. 3

(a) Income of farmers:

Examinees were required to explain the inelastic demand for the crop and its effect on price. Mostly examinees explained simple interaction of demand and supply which was not required. The demand for food increases very slowly because most food items are necessities, and their demand is inelastic. Due to nature's blessing say good rainfall bumper harvest results increased supply causing fall in price which lowers the income of farmers.

(b) Difference between total utility and marginal utility:

The examinees had to explain law of diminishing marginal utility by giving numerical example. Examinees did well in this part of the question as it was very simple and straight forward question.

(c) Consumer equilibrium for food consumption:

Examinees failed to explain the consumer equilibrium in the context of given scenario. Majority of the examinees explained the indifference curve analysis which was not asked in the question. Consumer equilibrium can be illustrated for food consumption as the position in which the consumer is maximising utility (i.e., total utility). In other words for such food items which provides the requisite calories with maximization upto 1800 calories.

SECTION "B"

Question No. 4

(a) Importance of multiplier on the basis of Keynesian theory of income and employment:

Majority of the examinees did well in this part of the question as the examinees were required to explain the multiplier. Multiplier denote the change in an induced variable (such as GDP or money supply) per unit of change in an external variable. Keynes emphasizes the importance of changes in hidden expenditures for determining changes in output and employment.

(b) National income using expenditure, income, and value added approaches:

It was a numerical question in which examinees had to compute national income using three different approaches. The examinees did not know the basic idea that the National Income computed by any approach brings the same result.

(c) Tax on import:

Government imposes taxes on imports to encourage infant domestic industries, which will lead to increase in employment, balance of payment and revenues. Fair performance was observed in this part of the question.

Question No. 5

(a) Invisible earnings:

Examinees gave satisfactory answers in this part of question which required definition and examples of invisible earnings. Invisible earnings may be foreign exchange money earned by a country from foreign students (sale of educational services) or money earned by Airline by selling out tickets to the foreigners on international routes (sale of transport services).

(b) Current account deficit:

Majority of examinees were not able to define the current account deficit. If the total receipts under current account are less than the total payments it is running in deficit and is called as current account deficit.

(c) Balance of trade and balance of payments:

The examinees explained well the difference between the balance of trade and balance of payment. Balance of payments takes into account all the receipts and payments of an economy for a particular year. Balance of trade is only a part of balance of payments. It takes into account, the trade of goods only which is called visible trade.

(d) Balance of trade surplus rather than a deficit:

The examinees did fairly well in this part of the question and were successful in explaining that every government wants to exports more than imports as it improves certain economic indicators. An improvement in trade means that the balance of payments is surplus and the economy is receiving more amount of foreign exchange than it has to pay to the foreign countries on that account.

SECTION "C"

Question No. 6

(a) Privatization programme and its impact on Pakistan:

Majority of the examinees seemed to assume every government is inefficient, therefore, it privatizes its industries, which is not the case world wide. Some fine answers were expected in this regard but the examinees responded poorly. In almost all the developing and developed countries of the world, public sector industries are being privatized. The rationale for privatization and disinvestments is that government does not do business, it rather facilitates business in the private sector. Privatization is described as a process for the transfer of state owned enterprises to the private sector.

(b) Capital formation:

Examinees were required to explain the capital formation and its sources. There was average performance in this part of the question. Capital formation is the increase in the stock of both material and human capital by making available a part of society's currently available resources. There are two sources of capital formation (i) Domestic resources and (ii) External resources.

**EXAMINERS' COMMENTS
FALL (WINTER) 2009 EXAMINATIONS**

**BUSINESS LAWS
Stage – 1**

SECTION "A"

Question No. 2

Precedent and Act of Parliament:

Examinees defined the Precedent as well as the Act of Parliament but did not mention the types of Precedent and the purpose of the Act of Parliament. The discussion pertains to Parliament and its functioning with regard to passing of the Acts by Parliament. Precedent is a judgment or decision of a court of law cited as an authority for deciding an identical cases (i.e., similar set of facts). Four types of precedents are original precedent, declaratory precedent, binding precedent and persuasive precedent.

SECTION "B"

Question No. 3

(a) Essentials of a valid contract:

Very few examinees were able to give the exact points of a valid contract which are (i) offer and acceptance, (ii) contractual capacity, (iii) free consent of parties, (iv) lawful consideration and object, (v) agreement expressly declared as void, (vi) agreements in writing and registered.

(b) (i) & (ii) Practical case of contract of sale:

The majority could not identify the types of mistakes and did not mention the relevant case laws which reflects their inadequate knowledge of the Contract Act. There is a mutual mistake as to the terms of the contract regarding the mode of payment. A contract of sale was held valid where the buyer believed he was buying old oats, in fact they were new oats and the seller was unaware of the buyer's mistake. The contract will either be deemed void or so flawed as to merit rescission on equitable grounds.

Question No. 4

(a) Cheque crossings:

Generally, the format of crossing was discussed instead of the ways. Relevant sections or all four types of cheque crossings were missing. A cheque may be crossed in the following different manners (i) general crossing, (ii) special crossing, (iii) restrictive crossing, (iv) second crossing.

(b) Rights of an unpaid seller:

Majority of examinees unnecessarily discussed the definitions of 'unpaid seller' and some of them assumed that it can happen only in case of sale on credit. The unpaid seller of goods has, by law, two kinds of rights (i) rights against the goods themselves, (ii) rights against the buyer personally.

(c) Non-registration of a partnership firm:

Commercial aspects of non-registration was discussed in greater details rather than the legal aspects. The legal consequences are: (i) No partner can enforce his rights against the other partner and firm while the firm is continuing, in a court of law by means of a suit, (ii) Firm cannot enforce its claims against third parties nor the partners can do so by filing suit in their own name instead of in the name of the firm, (iii) Neither the firm nor the partners, when sued, is entitled to counter — claim or set-off.

SECTION "C"

Question No. 5

(a) Collective Bargaining Agent (CBA):

Many examinees mis-construed it as a person instead of union. The certification by Registrar was discussed by few examinees. Collective Bargaining Agent is that union of an establishment which has been declared as such agent by the registrar for a period of two years from the date of such declaration.

(b) Rights of CBA:

Rights of CBA was ignored by many examinees. They put more emphasis on good conduct of CBA. Some examinees did not quote relevant sections i.e., of the Industrial Relations Ordinance Act, 2008.

(c) Shop Steward:

Examinees could not mention the importance of shop steward and his relation with the management. In every establishment employing 50 or more workmen a shop steward shall be appointed who should act as a link between workmen and management.

Question No. 6

(a) Safety provisions:

The question related to the area where non-compliance may cause injuries to workers. They did not mention the relevant sections of Factories Act, 1934 regarding the role of Safety in the Factories and the effects of the non compliance of the Act.

(b) Industrial and Commercial Employment Ordinance, 1968:

The provisions relating to seasonal factories were described by few examinees. Majority of the examinees attempted the question but could not answer properly and they seemed to possess inadequate knowledge of the Industrial Commercial Ordinance, 1968.

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**EXAMINERS' COMMENTS
FALL (WINTER) 2009 EXAMINATIONS**

**BUSINESS ENGLISH
Stage – 1**

SECTION "A"

General Comments:

Performance of the examinees in general was far below expectation. The answer depicted lack of the adequate knowledge of English grammar and composition. Spelling mistakes, faulty construction of sentences, poor expression were the hallmark of the answers produced. In most cases the handwriting was illegible and difficult to understand. The examinees were required to write answer of every question from a new page. The instruction was ignored as usual.

Question No. 2

(a) Changing the sentences into indirect speech:

It required 'change' of given three simple sentences from direct to indirect form of narration. Many examinees still did not know the principles of changing a sentence in direct speech into indirect speech.

(b) Error analysis:

Simple errors of various nature in given eight sentences were to be sensed / detected and reported. Examinees exercised their own choice. Some resorted to simply mention detected error(s) only instead of re-writing the correct version.

Question No. 3

(a) Fill in the blanks with suitable words:

The question comprised of eight simple sentences but the examinees generally could not fill in the blanks with the correct words given in the question.

(b) Selection of correct opposite words:

Examinees performed and exercised their selection accurately, on the whole.

Question No. 4

(a) Meanings and sentences of idiomatic expressions:

Meaning excepting one or two idiomatic expressions were wrong. Sentences composed were also weak in structure. Resultantly, the sentences made thereof were also wrong.

(b) Differentiation and sentences of sound-alike words:

Although the given pair of words were very simple but, correct and meaningful sentences could not be composed by majority of the examinees.

SECTION "B"

Question No. 5

Comprehension Passage:

This interesting passage in simple language was meant for assessing comprehension skills of young examinees. The test was based on providing short, relevant and to the point answers of the questions that followed. Elements of relevance and brevity was also missing from these writings. The young learners of the subject are reminded that any meaningful composition of answers on given unforeseen passage require careful reading and complete understanding. It requires constant practice, reading and re-reading of given passage and acquiring clear idea about theme of the given text of exercise. Unless complete understanding of passage is not acquired, short, relevant and meaningful answers may not be reported. Adoption of any short cut methods would not lead them to success.

Question No. 6**Essay writing:**

The examinees, in most of the cases, with the exception of a very few, writings produced were very poor in matter, language, and display of conceived material, ignoring that a good essay is an ordered piece of discourse, its various parts need to be planned and written with due sense of their relation to the whole. They need to be reminded that an essay is graded as a whole, it is useful to analyse the various parts and the means by which the relation of these parts to one another are set forth. A distinction is to be made between a 'matter' and 'form', between 'ideas' or 'items' which make up the contents of the 'theme' and the 'way' in which these ideas are expressed and arranged in the completed essay. Messy writing, poor spellings of even common words and use of word short forms may be cited as common faults in these writings.

SECTION "C"**Question No. 7****Letter writing:**

(a) A letter in reply to a query received from an exporter was to be framed. Starting from expressing formal thanks / goodwill, the reply letter was to carry details about company profile, supply position, prices and payment made and hope for future good business relations. Writings produced for this part of question were mostly poor, lacking in relevance of conceived material, proper expression of thought and proper display. Very often tenses did not correspond with the task and poor syntax spoiled it further. Loose and imprecise use of words was another feature. Just as a speaker's facial expressions, gestures and voice project personality and attitude, so do the message in a letter. They should find time to take a serious note of it. Consulting standard books on letter writing would be beneficial.

(b) Mostly, the examinees did not handle the given exercise mindfully. Circular letter framed was deficient in material and proper display. Other weaknesses are cited as under:

- Length of framed sentences and vocabulary used was not matching with the task.
- Correct format was missing in many writings.
- Formal and appropriate language was also not taken care of.
- In a good many cases, writings were messy with frequent crossings.

In short, majority of writings did not meet the criteria, suitability of the information given and appropriate level of professional language style.

Question No. 8**Report on a field trip:**

Only a few examinees reported acceptable brief answers. The weakness in using professional formal language was distinctly noticed in field trip details and its constituent parts A, B and C. Brief report was to be given on following points:

- required theoretical aspects that were targeted by the trip,
- observations details, and
- learning experiences / outcomes of the trip.

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**EXAMINERS' COMMENTS
FALL (WINTER) 2009 EXAMINATIONS**

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

Question No. 2

(a) Usefulness of Management Accounting:

Examinees were not aware of the scope of management accounting and they agreed with the statement instead of rejecting it. Examinees failed to describe that management accounting aids in planning, controlling and decision making and hence used in all organizations.

(b) Associating the scenario with management accounting or financial accounting:

Few examinees wasted the time in reproducing the question. They should simply write MA or FA to indicate the relationship of each condition either with management accounting or financial accounting. However, their choices (management accounting or financial accounting) were almost correct.

(c) Preparation of cost of goods manufactured and cost of goods sold:

Examinees failed to calculate the cost of goods sold. As a result cost of goods manufactured, direct labour cost and factory overhead could not be calculated correctly. Examinees should prepare format of cost of goods sold putting the available figures at their proper places. In this way blanks could be filled up with the help of reverse calculations.

Question No. 3

(a) Measurement of labour efficiency:

The examinees generally could not explain that efficiency could be determined or measured on the bases of time and motion study, test runs and past performance of skilled workers.

(b) Labour cost control report:

Examinees were unable to calculate standard cost to compare it with the actual labour cost for determination of variances of each department. Those who calculated standard cost could not present their solutions in report (or understandable) form.

(c) Material controls:

Examinees generally failed to calculate total carrying cost, total order cost and optimum order point due to lack of knowledge on the topic.

Question No. 4

(a) Factory overhead rates:

In this question examinees demonstrated their incompetence regarding calculations and understanding the concepts of manufacturing cost and cost of goods manufactured. It was strange that they failed to understand the very simple requirements (sentences) and calculated those figures which were not asked e.g., examinees calculated the rate of direct labour to overhead instead of factory overhead rate to direct labour.

(b) Job order cost sheet:

Examinees failed to make distinction between factory cost and total cost as they computed profit margin on factory cost. Whereas they had to calculate profit margin after adding marketing and administrative expenses in factory cost to arrive at total cost.

Question No. 5

(a) Causes of unfavourable material purchase price variance:

Majority described how material purchase price variance is calculated instead of stating the causes of unfavourable material purchase price variance i.e., inaccurate standard prices, scarcity in supply of material, inflationary conditions and inefficiencies of purchasing department.

(b) Cost of production report (process costing):

Some examinees ignored adjustment of lost units in calculating transfer cost to next department and work-in-process while few examinees included lost units for calculating unit costs of material, labour and factory overhead added by the department. As a result remaining parts of the question were also incorrect. Moreover, majority did not prepare the cost of production report and calculated each figure independently which involved repetition of various figures. They should simply prepare the 'cost of production report' and could assign the numbers from (i) to (viii) to the appropriate figures as per the requirement of the question.

Question No. 6

(a) Break-even points and sales volumes at desired levels of income:

Absence of knowledge and concepts of break-even analysis were the reasons of incorrect answers. New break-even point at 10% price increase could not be calculated correctly. As a result effect of price increase on break-even point was derived incorrectly.

(b) Break-even analysis considering certain changes in revenue and expenses:

Examinees calculated total net income and did not point out increase in net income over existing income as required. Similarly, contribution margins were wrongly calculated under condition of advertising budget and sales changes because of misunderstanding the exact requirement or carelessness while reading the question. As a result they could not treat the advertising expenses as fixed cost. Similarly, they failed to calculate the new contribution margins considering changes in the sales price and units of sales.

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**EXAMINERS' COMMENTS
FALL (WINTER) 2009 EXAMINATIONS**

**MANAGEMENT AND MARKETING
Stage – 2**

SECTION 'A' "MANAGEMENT"

Question No. 2

(a) Stages in HRM Planning:

This part of the question was not understood by most of the examinees as they failed to draw Laurie Mullins Model. Many examinees drew incorrect model and many others explained the model, which was not a call of question. Almost all the examinees did not discuss the demand and supply of labour in the model. Instead of drawing the diagram they went on to discuss the various elements involved in the HRM planning.

(b) Identification of diverse array of rewards needed to motivate employees:

In this part of the question examinees were required to explain the array of rewards rather than the significant workplace issues. Some of the examinees also defined the Maslow and other theories of motivation which was not very pertinent to the requirement of the question. Examinees are required to explain that employees have different personal needs and goals that they are hoping to satisfy through their jobs. A diverse array of reward is needed to motivate employees satisfying such varied needs.

Question No. 3

(a) Responsibilities of a successful manager to achieve desired outcomes:

As the examinees were expected to discuss the functions of management along with explanation of manager's prime role with respect to given statements along with lines of the managers. Successful managers are someone who works with and through other people by coordinating their work to accomplish organizational goals.

(b) Four contingency variables for designing an appropriate organizational structure:

Examinees could not properly discuss the four contingency variables that they are strategy and structure, size and structure, technology and structure and environment uncertainty and structure.

SECTION 'B' "MARKETING"

Question No. 4

(a) Phenomena of product failure and strategy to be adopted to overcome this problem:

There are several reasons for failure of a new product like market size may have been overestimated, design of the product is not proper, incorrectly positioned in the market, higher pricing, or poor advertising etc., but examinees discussed the irrelevant matter. Similarly, they were unable to discuss that a company must understand its consumers, markets and competitors and develop product that deliver superior value to customers as strategy to overcome the problem of failure of product.

(b) Factors of demographic and economic environment affecting marketing decisions:

Demography is the study of human population in terms of size, density, location, age, gender, race, occupation etc., and the study is of major interest to marketers because it involves people, and people make up markets. Examinees should also note that the economic environment consists of factors that affect consumer purchasing power and spending patterns.

Question No. 5

(a) Importance of customer relations management (CRM) in the context of online marketing:

Almost all the examinees explained the online marketing rather customer relationship management which was not the requirement of the question. Many examinees did not do justice to the exciting e-marketing

environment we find ourselves today. In fact some of the examinees only talked about the CRM mechanism without making any reference to the Internet / e-marketing. Similarly examinees failed to explain that CRM describes the methodologies, software, and usually Internet capabilities that help an enterprise to manage customer relationships.

(b) Two major issues in marketing research – intrusion on customer privacy and misuse of research findings:

Its all the use of unfair database of customer personal information, which creates mistrust and the paid researchers by the companies fear to give the true results to the sponsor. Most examinees did not understand the call of the both parts of the question. So overall, there was poor performance. Some were also not sure about the term 'Intrusion'. Most marketing research benefits both the sponsoring company and its customers. However, the misuse of marketing research can also harm or annoy consumers. In intrusions on consumer privacy, some consumers actually enjoy being interviewed and giving their opinions whereas some strongly resent or even mistrust marketing research they worry that marketers are building huge database full of personal information about customers. In the issue of misuse of research findings, many studies appear to be little more than vehicles for pitching the sponsors products. The research survey appears to have been designed just to produce the intended effect and few advertiser openly rig their research design or blatantly misrepresent the findings.

(c) Short notes on (i) Brand strategies, (ii) Product Positioning, (iii) Public policy and ethical issues in direct marketing, and (iv) Competition-based pricing:

The examinees did not perform well in the third part of this question. **(i)** Brands area designed to enable customers to identify products or services which promise specific benefits. **(ii)** Product positioning involves deciding on the position within the market that the product is to occupy. Therefore, it is the process of designing an image and value so that the customer understand what the company or brand stand for in relation to its competitors. **(iii)** Direct marketers and their customers usually enjoy mutually rewarding relationships. However, a darker side emerges. The aggressive and sometimes shady tactics of a few marketers can bother or harm consumers, giving the entire industry a black eye. Competition-based pricing is setting prices based on the prices that competitors charge for similar products.

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**EXAMINERS' COMMENTS
FALL (WINTER) 2009 EXAMINATIONS**

**BUSINESS MATHEMATICS & STATISTICS
Stage – 2**

SECTION "A"

Question No. 2

(a) Gaussian Elimination Method:

Examinees were asked to solve a given set of equations by means of Gaussian Elimination Method. The majority seemed to have a good understanding of the topic. However, the following shortcomings were observed:

- They lacked good solving skills.
- Some of them tried to solve the above equations using some other methods e.g., by inverse method.

(b) Solution of Equation by Factorization:

Surprisingly a number of examinees could not solve it, though it was a very simple question. Some examinees tried to solve it by quadratic formula.

(c) Finding Equation of Straight line:

This part required the examinees to find the equation of a straight line passing through the point of intersection of two lines and perpendicular to another line. Examinees exhibited good knowledge and understanding of the topic. Nevertheless, following shortcomings were noticed:

- In this case, as well, solving skills required improvements.
- Most of the examinees tried to solve this part using their self generated formulas instead of applying the standard formula.
- Many examinees tried to solve it using graphical method, which was not required.

Question No. 3

(a) Derivative of Product of Two Functions:

Examinees were asked to find the derivative of product of two functions. Despite of being a simple part, examinees' performance was below average. Following shortcomings were discovered:

- Practicing skills, especially, the simplification of algebraic expression was weak.
- Basic differentiation rules need attention by the examinees.
- Many examinees failed to apply the correct formula to solve this part (i.e., $f'(x) = uv' + vu'$).
- Most of the examinees who knew the formula, were unable to simplify it correctly.

(b) Anti-derivatives and their Applications:

This part was based on anti-derivatives and their applications. Examinees were given advertising cost per day and the function of the rate at which profit generated from the promotion campaign (exclusive of advertising costs) decreased. Requirement was determination of (i) length of the campaign to achieve the objective of maximization of profit, (ii) total advertising expenditure during the campaign and (iii) expected net profit. Part (i) required the use of principle of $MR=MC$ to determine number of days needed to maximize profit. In part (ii) total advertising expense was to be obtained by integrating expense per day with the limit from 0 to 9. Whereas in part (iii), examinees were expected to use the same concept as used in (ii) above to find the total revenue. The difference of total revenue and total expense was the expected net profit. Responses were extremely poor to this part. Following common mistakes were discovered during marking of scripts:

- In majority of cases, the correct approach, understanding and skills were totally missing.
- Basic rules of integration were not known to them.

- A good number of examinees lacked the knowledge to find out the total revenue and total cost from respective marginal values given in the question and ultimately calculate the net profit.

(c) Effective Interest Rate:

Examinees were asked to calculate the effective interest rate from the given nominal interest rate if interest was to be compounded bi-monthly. It was a well attempted part. However:

- In a number of cases, examinees failed to determine the correct number of compounding periods per year.
- Many examinees tried to solve this part as if the interest was being compounded monthly instead of bi-monthly.

(d) Sequence and Series:

Requirement of this part was determination of the distance travelled by a ball, when it reached the top of the fifth bounce, if the ball was initially dropped from a height of 64 meters, provided that the ball always rebounded one-half the height it fell. It was a conceptual question but hardly a few examinees were able to do it correctly. Following was the most common mistake:

- Examinees tried to solve it by using their own methods instead of following the desired method and applying the proper formula.

SECTION "B"

Question No. 4

(a) Measures of Central Tendency:

In this part, examinees were required to find out two missing frequencies pertaining to the given income distribution having mode of 60. It was a technical and conceptual question requiring good understanding of the topic. Performance remained poor and following shortcomings were observed:

- In most cases, the understanding of frequency distribution was lacking.
- The approach of formulation and solving skills seemed totally missing.
- They used wrong formula in most cases and calculation was wrong as well in a large number of instances.

(b) Fisher's Ideal Index:

In this part, requirement was determination of Fisher's Ideal Index from the given data. It was very simple question just requiring the knowledge of the formula and calculation skills. It was attempted by a good number of examinees. Some observations are as follows:

- A number of examinees failed to identify current time and base time correctly.
- Some examinees even failed to apply correct formula.

Question No. 5

Sampling Distribution of Mean:

In this question, from a finite population of four values, random samples of size two with replacement, were to be drawn. Examinees were required to (a) construct sampling distribution of mean and (b) prove that sample mean is equal to population mean and sample standard deviation is equal to population standard deviation divided by square root of sample size. This was a well attempted question, however, following mistakes were noticed:

- A large number of examinees failed to construct the sampling distribution of sample mean.
- Many examinees even failed to draw the samples accurately. They need to understand the difference between drawing a sample with and without replacement.
- In part (b), many examinees were not conversant with the formulas to compute sample and population standard deviations.

SECTION "C"

Question No. 6

Network Analysis

From a given set of activities and their respective durations, examinees were required to (a) represent the project by means of a network diagram, (b) show the earliest and latest times for each activity and (c) determine the critical path and minimum completion time of the project. It was a conceptual question but average performance was noticed in this question. Examinees need to take care of the following areas:

- A good understanding of preceding and succeeding activities.
- Rules of drawing a network diagram. In particular, they need to learn the rules as to how to start and finish the diagram.
- Rules relating to calculating the earliest and latest starting time of an activity need to be understood.

Question No. 7

Simplex Method

This question asked examinees to solve the given linear programming model by using simplex method. Despite the fact that this topic has been a regular part the paper, performance remained below average. Following problem areas were brought to light:

- Examinees lacked calculation skills.
- They failed to define a standardized linear programming problem.
- Some examinees had no understanding of decision and slack variables.
- Majority failed to define non-negativity constraints appropriately.

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**EXAMINERS' COMMENTS
FALL (WINTER) 2009 EXAMINATIONS**

**INTRODUCTION TO INFORMATION TECHNOLOGY
Stage – 2**

General Comments:

Examinees had a very poor grasp of the English language and consequently were unable to express themselves properly. Most were unable to write a single coherent sentence and key terms had to be hunted for in the answers to make any sense. Almost all of the examinees misunderstood the questions and thus their answers were ramblings and incoherent thoughts. They simply wrote whatever they knew without even pausing to think what they wrote or what the question was about. They did not do the questions and their parts in a sequence. The parts and subparts of a question were scattered all over the answer booklet. Poor handwriting is another problem. Many of the handwritings were illegible. This was by far the worst performance by examinees ever. The results are a horrible reflection of their lack of interest and seriousness regarding the subject. It is very clear from their answers that either they do not attend the theory classes at all or do not pay attention during the class. Their knowledge about information technology is pitiful and their approach towards application is nonexistent.

SECTION 'A' "HARDWARE"

Question No. 2

(a) Judgement of powerfulness of CPU and its attributes:

Majority of the examinees included hardware and software components other than attributes that affect CPU power. Many examinees simply wrote about CPU components and its importance. They discussed various types of the computers like mainframe, microcomputers etc. Only the names of the attributes of CPU i.e., memory cycle time, storage capacity, number of data transfer channels, range of multiprogramming capability, real time processing capability were required but majority wasted their time in lengthy explanations.

(b) Intelligent, semi-intelligent, and dumb terminals:

Some examinees thought that these terms had to do with communication channels and artificial intelligence. Intelligent terminal denotes a terminal with some local processing facility. It is a device, though connected with a main computer system, can be operated in on-line or off-line mode. It is a PC with determined configuration that can perform some logical, editing, input-output or other functions. Semi-intelligent terminals are terminals provided with local buffer and limited processing power. Dumb terminal, often referred to as NPT or non-programmable terminal, is used as a limited function terminal, which is dependent upon the computer system in operation and does not have processing capability independently.

(c) Three bandwidths for communication channels:

This question caused a lot of confusion to the examinees some thought it referred to simplex, half and full duplex channels. There were many who wrote about communication mediums such coaxial, STP and UTP wires. Examinees were required to discuss three bands for communication channels i.e., narrow-band, voice-band, and broad-band or wide-band.

Question No. 3

(a) Automated office and its features and functions:

Virtually no examinee was able to correctly answer this question properly. Majority of the examinees did not have proper concept of automated office and software used for this purpose like word processing, email, voice mail etc. The components of the automated office and the major function that they serve are word processing, electronic mail, facsimile, teleconferencing, personal computing, LAN, micrographics, and reprographics.

(b) Two reasons of (i) Cache memory in a processor, (ii) Use of RS-232port, and (iii) Need of Hub in a Network:

Very few examinees were able to give reasons for the hardware components. Majority of the examinees were unsuccessful in defining cache memory and Hub. Processors incorporate their own internal memory called cache. The cache acts as temporary memory and boots processing power significantly. RS-232 port is a standard parallel port that is used to connect external input/ output devices like scanner or printer. A hub is a hardware device that provides a common wiring point in a LAN.

(c) Numerical problem to estimate average latency and data transfer rate:

Almost no one answered this part of the question correctly and they were unable to compute the required figures. In solving and answering numerical questions, units were not mentioned along with the answer e.g., bits/sec or byte/min etc.

(d) Difference between (i) Dynamic RAM and static RAM, (ii) Voice synthesizer system and voice recognition system, (iii) Synchronous and asynchronous data transmission, and (iv) Client-server architecture and peer-to-peer architecture:

Very few examinees correctly differentiated between three of the four pairs of terms. **(i)** Some of the examinees did not mention the very important feature of DRAM and SRAM, i.e., the 'refreshing activity'. Dynamic RAM is the most common type of main memory. It is dynamic because each memory cell loses its charge so it must be refreshed hundreds of times each second to prevent data from being lost. Static RAM, on the other hand, is a lot faster, larger and more expensive. It is static because it need not be continually refreshed. Because of its speed it is mainly used in cache memory. **(ii)** Some examinees could not properly explain the features of 'voice synthesizing'. Voice synthesizer is also known as voice-output device. It converts data in main storage to vocalised sounds understandable to humans. Voice Recognition System (VRS), presents the user with a hand-free voice interactive computer interface. In other words, user can discard conventional input devices such as keyboard or a mouse and access the computer system by simply talking to it. **(iii)** Most of them did not know the difference between synchronous and asynchronous data transmission and confused them with the amount of data transfer of corresponding on the method and mode. Under synchronous Transmission bits are transmitted at fixed rate. Synchronous transmission allows characters to be sent down the line without start-stop bits. In asynchronous transmission, each data is accompanied by stop (1) and start (0) bits that identify the beginning and ending of the word. **(iv)** Most of the examinees adequately differentiate between the 'client-server architecture and peer-to-peer architecture'. In Client-Server architecture, the network has certain machines and devices called servers that are specially dedicated to provide various services to the other computers called clients. In peer-to-peer architecture, there are not dedicated services. All computers are equal, and therefore, are termed as peer.

SECTION 'B' "SOFTWARE"

Question No. 4

(a) Explanation of (i) Compression software, (ii) Diagnostic software, (iii) Backup utilities, and (iv) Disk de-fragmentation software:

A very large majority of the examinees attempted this part of the question. However, some examinees were confused in giving proper answers. Data compression or source coding is the process of encoding information using fewer bits (or other information-bearing units) than an unencoded representation would use through use of specific encoding schemes. Compression is useful because it helps reduce the consumption of expensive resources, such as disk space or transmission bandwidth. Diagnostic software are disk checker, disk cleaner, scandisk, Chkdsk, and Fsk. Backup software is software designed to backup data for the purpose of having a second copy of an original source in case of damage to the original data source. A disk defragmenter is a computer program designed to increase access speed (and sometimes increase the amount of usable space) by rearranging files stored on a disk to occupy contiguous storage locations.

(b) Coding and various techniques for structuring codes, and measures adopted for prevention and detection of coding errors:

Very few understood the real meaning of the term 'coding' and misinterpreted as 'secret coding' in most of the cases although 'coding from algorithm to language program code' was asked for. Structuring codes was a good clue to the answer. It is always good to read the question carefully before answering in haste. Most of the examinees failed to explain prevention and detection of coding errors. The term 'coding' is used in writing of program instructions in any programming language and systematic assignment of symbols – numeric, alphanumeric or alphabetic – to the classified and subclassified data. Such codes become substitute for normal names or plain language description of items.

(c) Explanation of procedure-oriented languages and object-oriented languages:

Practically no examinee answered this question correctly. Almost all confused the term procedure-oriented languages with procedural languages. Many examinees considered object-oriented languages to be the opposite of procedure-oriented languages. Many examinees did not seem to be clear about object-oriented languages. Procedure-oriented languages are designed to facilitate the accurate description of procedures, algorithms, or routines belonging to a certain set of procedures. Procedure-oriented languages are classified as business languages, scientific languages, and multipurpose languages. Business languages are COBOL, and RPG etc. Scientific languages are FORTRAN, ALGOL, APL etc. In procedure-oriented languages the emphasis is on what is done. In object-oriented languages, the emphasis is on the object of the action, thus the object orientation. Object-oriented languages, e.g., Smalltalk, C++, Object Pascal, CLOS, Simula, Eiffel and Object-C are object-oriented languages because they support the class and inheritance concepts.

Question No. 5

(a) Three types and differences database models used in industry:

Except few examinees they filled the pages with irrelevant description like various information systems instead of describing three types of database models which are common in the industry. These are the Hierarchical Data Model, the Network Data Model and the Relational Data Mode.

(b) Computer aided design technique (CAD):

Many examinees were able to define CAD properly but no one was able to grasp what was meant by rules for graphic software design. Most thought it referred to features of graphic software having shallow knowledge of CAD. Computer aided design (CAD) is a technique in which man and machine are blended into a problem solving team, intimately coupling the best characteristics of each. The result of this combination works better than either man or machine would work alone and by using a multi-discipline approach it offers the advantage of integrated team-work.

(c) Language tools available in MS-WORD:

Most of the answers lacked the concept asked in the question. Examinees knew about MS-Word but unable to explain various language tools like AutoCorrect, AutoText, Spelling & Grammar etc., available in MS-Word.

(d) Full form of the acronyms:

Almost all of the examinees were not able to correctly state the full form of most of the acronyms. In this part, eight abbreviations were asked to be described. Only a few examinees could correctly describe more than four items.

SECTION 'C' "NETWORK & SECURITY"

Question No. 6

(a) Open Systems Interconnection (OSI) architecture, its importance for network communications, and seven layers:

Very few examinees were able to explain properly the importance of the OSI architecture. However, most were not able to define the seven layers correctly. Some mistakenly thought OSI meant some kind of

operating system. The Open Systems Interconnection Basic Reference Model (OSI Reference Model or OSI Model for short) is a layered, abstract description for communications and computer network protocol design, developed as part of the OSI initiative. It is also called the OSI seven layer model. The layers are application, Presentation, Session, Transport, Network, Data Link, and Physical.

(b) TCP / IP protocol and its applications:

All of the examinees were able to define TCP/IP but unaware about applications of TCP/IP. Those who identified the applications were unable to explain them. Computer managers and users in commercial organizations throughout the world have begun to implement TCP/IP as a way of solving the problems of networking between machines of different manufacture. TCP/IP provided all the facilities for two computer systems to exchange information (intercommunication), interpret it properly and present it in a format which can be understood by the local machine and its users (interoperation).

(c) Explanation of (i) Bluetooth, (ii) Router, and (iii) VPN:

Examinees were able to correctly describe bluetooth however, they mixed up routers and gateways. No examinee was able to describe or understand what was meant by VPN, many thought it was some kind of network topology like LAN and WAN. **(i)** Bluetooth is a short-range wireless technology that appears up to 1 Mbps within a distance of 10 meters. Similarly, it could perform wireless uploads and downloads between PCs and PDAs or between PCs and MP3 players. **(ii)** A router links two parts of the same LAN or two compatible LANs by looking at each message and directing it to a node on the other network, if appropriate. **(iii)** WANs are often implemented in the form of a virtual private network (VPN), a private network configured within a public network. VPNs go a step further by supporting communication to any point within the private network but not supporting communication outside.

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**EXAMINERS' COMMENTS
FALL (WINTER) 2009 EXAMINATIONS**

**FINANCIAL ACCOUNTING
Stage – 3**

Question No. 2

Joint Venture Accounts:

In this question, the candidates were required to prepare (a) Joint Venture Account, (b) Joint Bank Account and (c) Accounts of Co-venturers. Majority of the examinees succeeded to answer the question correctly. However, some candidates made following common mistakes:

- The sales commission to 'F' was to be calculated on total sales, but some candidates calculated the commission amount on credit sales and some other calculated the same on cash sales only.
- They did not calculate the distribution of joint venture profit among the co-venturers correctly.
- The net amount received against discounting of Bills Receivable (i.e., Rs1,200,000-Rs.4,000 = Rs.1,196,000) was to be posted to the debit of the Joint Bank Account and Rs.4,000 was to be posted as expense to the debit of joint venture account but they wrongly debited Rs.1,200,000 to the bank account.
- Distribution of balance in the Joint Bank Account was to be done according to actual balances in the respective co-venturers' accounts but it was distributed applying the profit and loss sharing ratio.
- Some examinees did not post the transactions in the accounts correctly in their respective debit or credit columns.

Question No. 3

Departmental Profit and Loss Account:

This question asked examinees to prepare departmental profit and loss account. A good number of candidates were able to answer this question, satisfactorily. However, some examinees made following common mistakes:

- Some examinees included the 'depreciation' and 'delivery expenses' in the 'cost of goods sold' without giving assumptions in this regard. Since these expenses were to be included in 'selling and administrative' expenses, the 'cost of goods sold' and for that matter the 'gross profit' were incorrectly calculated.
- Some candidates added the 'discount received' to the 'expenses' or 'purchases' instead of subtracting it from purchases. This also resulted in wrong calculation of 'gross profit' and 'net profit'.

Question No. 4

(a) Single Entry System of Accounting:

Candidates were asked to prepare Trading and Profit and Loss Account from incomplete records. Majority of the examinees solved this question correctly, however, some students made following common mistakes:

- They could not calculate correct credit sales and credit purchases by preparing Sundry Debtors and Sundry Creditors accounts respectively, which led them to calculate wrong 'gross profit'.
- They failed to mention the name of the individual / firm, titles of accounts and the period.
- They could not correctly calculate depreciation i.e., 10% on costs of buildings and furniture, and bad debts expense i.e., 5% on closing balance of accounts receivable and hence calculated incorrect net profit.

(b) Issue of Ordinary Shares:

Candidates were required to prepare journal entries for the issuance of ordinary shares to promoters for their services, vendor for purchase of machinery and general public against cash. Majority of the examinees successfully attempted this question, however, a few of them made following errors:

- They debited the promoters' personal accounts or bank account instead of preliminary expense account for the issuance of shares to the promoters.
- The cost of machinery was to be recorded considering the market value of the share as Rs.300,000 (20,000 shares @ Rs.15 each). Instead, they recorded the cost of machinery by applying the par value of the share as Rs.200,000 (20,000 shares @ Rs.10 each) and ignored the premium being part of the cost of the machinery.
- For issue of shares to the general public, the premium part was once again ignored. The receipt against share application was recorded as Rs.5,000,000 (500,000 shares @ Rs.10 each) instead of Rs.6,000,000 (500,000 shares @ Rs.12 each). As a result, all three journal entries i.e., for receipt of money with share application, for issuance of desired number of shares at a premium of Rs.2 each and for refund of amount received in excess of the issue were incorrectly made.

Question No. 5

Admission of New Partner:

Examinees were required to prepare journal entries for the admission of a new partner, recording of goodwill, revaluation of an office equipment and adjustment of partners' capital accounts as per their new profit and loss sharing ratio, along with necessary calculations. Performance of the candidates was very disappointing. Common mistakes were made as follows:

- Goodwill amount was to be calculated at three years' purchase of average profit of four years (2005-2008). Before doing so, examinees were expected to adjust the profits of 2006 to 2008, because in 2006, an overhauling expenditure of Rs.300,000 was treated as capital expenditure. Correct value of goodwill depended on reversal of this error. Instead, average of all four years' profits (without adjustment) was taken for three years to calculate the goodwill amount.
- Some candidates did not record the revaluation of office equipment properly i.e., instead of debiting the office equipment account the same was credited.
- The majority could not incorporate the correct adjustments in partners' capital accounts as per new profit and loss sharing ratio.
- Some candidates could not even calculate the new profit and loss sharing ratio correctly.

Question No. 6

Income Statement and Statement of Financial Position:

Requirement of the question was to prepare (a) Income Statement and (b) Statement of Financial Position in accordance with the requirement of 4th Schedule of the Companies Ordinance, 1984. Overall, performance of the candidates in responding to the question was below average. Following shortcomings were found:

- Most of the candidates could not calculate the directors' remuneration correctly, which was to be calculated on earning before tax (EBT) using the formula $(EBT \times 0.03)/1.03$. However, candidates calculated it as 3% on operating income and some calculated the same on earning before interest and tax (EBIT).
- Many candidates could not calculate the bad debt expense correctly, which could easily be calculated by determining the allowance for doubtful debts to be maintained ($2,500,000 \times .05 = 125,000$). Then subtracting existing balance of allowance for doubtful debts (Rs.100,000) from it, and adding bad debts written off during the year (Rs.50,000) to it.
- Majority of the candidates could not calculate earning before tax (EBT) correctly, which resulted in arriving at incorrect amount of income tax for the year.
- In the statement of financial position, the candidates failed to classify the items into non-current assets, current assets, shareholders' equity, long-term liability and current liabilities.

- Current portion of long-term secured bank loan was not shown under current liabilities.
- Freehold land was to be revalued from Rs.10 million to Rs.15 million but the same was not shown at revalued amount.
- Advance income tax was to be adjusted against the income tax liability for the year and the balance in the advance income tax account was to be shown under current assets. Instead, both the tax liability and advance income tax were wrongly shown under current liability and current assets respectively.

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**EXAMINERS' COMMENTS
FALL (WINTER) 2009 EXAMINATIONS**

**BUSINESS TAXATION
Stage – 3**

Question No. 2

(a) Filing of Return by Companies:

This part required examinees to advise management of a limited company as to (i) who was responsible for filing returns on behalf of the company alongwith conditions applicable to the returns, (ii) what procedure the company was to follow if extension in filing was desired and (iii) what penalties would be applicable in respect of failure in furnishing a return, non-payment of tax and concealment of income. Overall, performance of examinees remained satisfactory. Following points need attention from them, nevertheless:

- For sub-part (i), answers by some examinees were either too brief or too detailed instead of being precise and to the point.
- Some examinees in response to sub-part (ii), discussed irrelevant points instead of describing the procedures for extension in filing the return.
- For sub-part (iii), answers were based on old laws, whereas, they were expected to follow latest amended law.

(b) Legal Representative and his Liabilities:

In this part, a legal representative of a deceased person sought assistance as regards (i) meaning of 'legal representative', (ii) taxation of income earned by the deceased person before his death and tax liability of the legal representative thereto and (iii) legality of tax assessment proceeding pending against the deceased at the time of his death. Examinees performed satisfactorily. However, a few examinees opined that the said person was not legal representative of the deceased, which was contrary to the language of the question. Besides, question did not ask them to say any thing regarding the status of the person as legal representative, whereas, examinees described the legal representative in person.

Question No. 3

(a) Recovery of Bad Debts in Subsequent Years:

This part tested the knowledge of examinees in relation to treatment of bad debts recovered in subsequent years as per provisions of section 29 of Income Tax Ordinance, 2001. This part required only relevant parts of section 29 in respect of above matter. Some examinees reproduced all parts of the section.

(b) Conditions Applicable to Refund:

Requirement of this part was a discussion of sections 170 and 171 for claiming 'refund' under the Income Tax Ordinance, 2001. In addition, examinees were supposed to narrate who was entitled to a 'refund' and how it became due. This part was well attempted by them. However, some of them replied too briefly without fulfilling the requirement of the question.

(c) Qualification for Income Tax Practitioner:

For this part, candidates were expected to enumerate the prescribed qualification for registration as an income tax practitioner as provided under section 86 of the Income Tax Rules, 2002. It was comparatively an easy question, but surprisingly, the majority failed to respond properly. As a matter of fact, there are only very few qualifications that meet the requirement of registration as income tax practitioner, such as a degree in law, commerce, business management or business administration (with Income Tax Law and Accounting or Higher Auditing as subjects) etc. However, they were not well versed in this topic. Some examinees, instead of describing the above qualifications mentioned the names of persons who were required to get registered as tax payers, that was uncalled for.

(d) Duration of Registration as Income Tax Practitioner:

This was a simple question requiring students to mention the duration of registration for tax practitioner as per Rule 88 of the Income Tax Rules, 2002. In this part, as well, examinees were found wanting in the knowledge of the relevant Rule. Strangely enough, many of them mentioned 15 days or a few years as the duration of registration. On the contrary, registration is for life until the registered practitioner dies, surrenders the registration or the registration is terminated by the RCIT.

Question No. 4

Computation of Taxable Income of Business:

Examinees were provided with profit & loss account of a company and asked to compute the taxable income of the company for tax year 2010 from this account and some other relevant data such as (i) payment made to an unrecognized institution, (ii) salary paid to one director, (iii) provident fund being recognized one, (iv) a part of vehicle expense was not vouched and verifiable and (v) statutory depreciation was Rs.136,000 as against accounting depreciation of Rs.160,000. Examinees displayed good performance in this question. However, some common mistakes were noted as given below:

- Some examinees made adjustment in gross profit in place of net profit.
- Many examinees did not prepare notes. Not only do these notes help examiners to properly evaluate the performance of the examinees, but they also carry marks.
- Some examinees added accounting depreciation net of tax depreciation to net profit, which is not proper treatment. These two figures should have been added and subtracted separately at proper places.
- Some students wrongly added back salary paid to the director.
- Conceptual knowledge of examinees was found very weak. They succeeded in getting good marks because of stepwise marking.

Question No. 5

(a) Records to be kept by Registered Persons:

This part tested the knowledge of examinees regarding the above-mentioned matter under section 22 of the Sales Tax Act, 1990. This section provides a list of records that should be kept by a registered person making taxable supplies in respect of goods purchased, imported and supplies (including zero-rated and exempt supplies) made by him or his agent on his behalf. Overall, examinees performed satisfactorily, however, some of them replied summarily instead of reproducing the contents of the said section.

(b) Access to Premises, Stocks and Records:

Examinees were expected to explain the legal provisions under section 38 of the Sales Tax Act, 1990, which provided information about the rights and powers of the Sales Tax Officer in respect of access to any place where stocks or records were kept, inspection of goods, stocks, records etc., and custody of above-referred records and documents in original or copy thereof. Examinees were not well-equipped with the knowledge required to answer this part, which exposed their lack of interest in the Sales Tax Act. Those who were able to answer, should understand the importance of quoting the section / sub-section in their replies.

Question No. 6

(a) Customs Duty and Deferment of its Collection:

This part related to the Customs Act, 1969 and asked examinees to discuss (i) customs duty on goods dutiable and (ii) deferment of collection of duty. In sub-part (i) examinees were expected to mention the goods on which custom duty was levied such as goods imported into Pakistan etc., and what rates were applicable to such goods. Whereas, in sub-part (ii), examinees were supposed to discuss the power of the Board to defer the collection of customs duty in whole or in part, how this power was exercised and what surcharge was payable on deferred amount. Responses of the candidates were not as per the suggested answers. They need to give due attention to the Customs Act.

(b) Recovery of Arrears of Excise Duty:

This part related to the powers of the Federal Excise Officer for recovery of arrears of duty or any sum under the Federal Excise Act, 2005. Examinees were required to enumerate the instances in which a person would be served with a show-cause notice for payment of unpaid duty of excise, and different ways in which such amount could be recovered. Again, responses were not satisfactory. In most cases, they were found wanting in the desired knowledge of the Federal Excise Act, 2005.

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**EXAMINERS' COMMENTS
FALL (WINTER) 2009 EXAMINATIONS**

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

Question No. 2

(a) Three measures, management need to implement theory of constraints:

Majority of the examinees failed to identify the three measures the management of an organization needs to implement. It seems examinees could not understand the topic properly. Examinees discussed the theory in general instead of identifying the measures i.e., throughput contribution, investment and operating cost.

(b) Cost of quality report:

(i) Question was very simple but performance of majority of the examinees was not good. Majority of the examinees was unable to identify the different costs to classify them as prevention cost, appraisal cost and internal failure cost. This shows that examinees did not read and practice the topic properly.

(ii) Since the cost of quality report was not prepared properly as such the comments were also not correct.

Question No. 3

(i) Return on capital employed per unit:

Majority of the examinees failed to calculate capital employed. Although 20% return on capital employed was given in the question. Majority of the examinees calculated the ratio based on their judgement instead of calculating return on capital employed per unit at given ratio.

(ii) Fair price per unit:

Question was very simple. Cost per unit was given in the question. Since a calculation of required return on capital employed in the majority of the cases was not correct, fair price per unit was also not derived correctly.

(iii) Total sales in rupees:

Examinees calculated output units correctly, however, due to incorrect calculation of fair price per unit, total sales were not correct.

(iv) Uniform price per unit:

Question was simple. Majority of the examinees left this portion of the question. In order to calculate uniform price per unit, total sales of three companies were to be divided by units of output estimated for all three companies. Examinees have even not written formula (total sale amount ÷ total output units) of uniform price per unit. This shows examinees failed to understand the question due to lack of practice.

Question No. 4

(i) Calculation of operating income of master budget:

Question was very simple. Cost of goods sold figures were available in the question. Only variable administrative expenses were to be calculated to arrive at operating income. In some of the cases examinees did not take pain to calculate the gross profit by just netting off the sale and cost of sale given in the question.

(ii) Reconciliation of operating income of master budget with flexible budget:

Figures of operating income and production and sales level were provided in the question. Majority of the examinees were not clear about the concept of flexible budget. Only difference was to be explained by per unit contribution margin as per master budget multiplied by additional units of 20,000 (flexible budget sales level 180,000 units minus master budget sales level of 160,000 units).

(iii) Reconciliation of income (loss) based on standard direct costing system with standard absorption costing system:

Majority of the examinees wrongly calculated the difference by subtracting loss under standard direct costing system from Income under standard absorption costing system. It seems that majority of the examinees did not know the difference between standard direct costing system and standard absorption costing system. Only difference was fixed overhead allocated to inventory if absorption costing is used.

(iv) Variance analysis reconciling flexible budget income with loss under direct costing:

Except a few, examinees failed to calculate the difference between flexible budget operating income and loss under standard direct costing. Perhaps majority failed to read the question properly and wrongly calculated material quantity variance, direct labour efficiency variance, factory overhead controllable variance and administrative expenses variance. The core mistake was misapplication of variance formulae like using formula of quantity variance in place of price variance or using labour rate variance in place of labour efficiency variance. Their calculations for budget allowance were also wrong while calculating the factory overhead controllable variance and administrative expenses variance.

Question No. 5

(i) Raw material budget in units:

This question was successfully attempted by some examinees. Other examinees have made mistakes in adding and deducting the figures of purchased units and units used in production.

(ii) Finished goods budget in units:

This question was also successfully attempted by examinees. Some examinees have made mistakes in adding the production figure in each month's beginning inventory and deducting sales units from available units.

(iii) Projected income statement:

Majority of the examinees wrongly calculated cost of goods manufactured. Cost of raw material used in September and cost of finished goods for December were not correctly calculated due to preparation of incorrect budgets as required in (i) and (ii) above.

Question No. 6

(i) If the company has no alternate use for the facilities used to produce speedometer:

Question was very simple. It seems examinees did not understand the question properly. They were required only to calculate the difference between total purchase cost from external suppliers and incremental cost of purchasing from speedometer department. Perhaps due to lack of practice they were not able to identify whether the difference is advantage or (disadvantage) in annual operating income.

(ii) If the company has no alternate use for its facilities and the external suppliers drop the price to Rs.1,480 per speedometer:

In this question examinees also did not correctly calculate the total purchase cost from external supplier. It should be worked out by adjusting the price from Rs.1,600 to Rs.1,480.

(iii) If the company can use the facilities for another car assembly department, which will result annual cash operating savings of Rs.1,856,000:

Concept of opportunity cost was not clear to the examinees. Only a few examinees attempted this question. Mostly examinees made the mistake of not treating cash operating savings of Rs.1,856,000 as opportunity cost. They preferred to discuss the situation without the support and figures.

**EXAMINERS' COMMENTS
FALL (WINTER) 2009 EXAMINATIONS**

**PRESENTATION & COMMUNICATION SKILLS
Stage – 3**

General Comments:

The examinees committed spelling mistakes, wrong tenses and even long sentences were written.

Question No. 2

(a) Research process:

Most of the examinees were not able to answer this question satisfactorily. Research is a careful investigation, serious and systematic kind of enquiry was not specifically stated by any of the examinees. Methods in each case would be more or less the same: facts to be gathered, interpreted and conclusion drawn.

(b) Letter to a customer:

This question was regarding reply to a complaint for late delivery. In real and practical life examinees must be well conversant to reply to such queries. Offered compositions carried relevant material explanation for delay cited different reasons, non-supply of raw material in time, frequent power breakdowns, shifting of workplace / manufacturing sites, transport problems, law order situation / acts of terrorism / bomb blasts etc. One or many of cited factor caused delay in supply. To retain loyalty and goodwill, some examinees also offered special discount and compensation. Only a few offered apology in clear words expressing regret. Weak areas of composed answers were as under:

- Poor opening of reply letter and / or poor organization plan.
- Unfair display of conceived material and that too imprecise language.
- Element of courtesy was not distinctly added in the composed reply by a few.
- AIDA (attention, interest, desire, action) plan approach was rarely practiced.
- Crossing out and spelling faults were also distinctly noticed.

Question No. 3

(a) Four core cultural dimensions and how they influence communication process:

The opening sentence of this part of the question 'the culture of organizations defines shared values and behavioural expectations', was taken as definition of corporate culture by many examinees. They did not analyse corporate culture any further. There was also no information that culture differences may become main source of problems when people of different origin interact or communicate with each other. There was no mention of elements that constitute differences in culture. Weak areas of writings are identified as under:

- Lack of proper preparation for composing relevant and question-specific answer.
- Because of knowledge gap, most of the writings were not relevant.
- One has to be conscious of respecting different culture, values, workstyles and background which was not reported.
- It was not mentioned that to be a successful communicator one must have patience and a sincere desire for understanding others, no matter what business we are in.
- Planning for composition was weak.
- Language inaccuracies were many.
- Spelling faults were frequent.
- Display of material was poor.

(b) Seven standard parts of a business letter:

Most letters contain seven standard parts: heading, inside address, salutation, body, complimentary clause, signature block, and reference initials. Examinees mixed up the parts and even were confused to explain them.

Question No. 4**(a) A report regarding financial facts, background of the problem, causes and recommendations as Manager Finance:**

A number of examinees were not able to cover all the points like financial facts, background of problem, causes and recommendations. Loose and imprecise use of words was widely practiced. Organization, coherence and presentation of conceived details was poor. Examinees need to know that like any other form of writing, report writing should be interesting and relevant. The technique of good report is to bring that life to the surface by using concrete words and active-voice verbs. Effective report writing simply presents information in a clear, concise and interesting manner.

(b) Listening process, its five elements and guidelines for effective and improved listening:

The five elements of listening process are hearing, filtering, interpreting, responding, and remembering. It was noted that headings were different and the same were also mixed up. Expressions were also not free from faults.

Question No. 5**(a) Judgement of primary, secondary, and immediate audiences:**

The question desired to explain primary audience, secondary audience and immediate audience. Major number of examinees tried to distinguish but were in vain. The examinees must know different kind of audience and fully conversant to analyse the same. Neither any mention of audience profile was made by majority of examinees nor did they emphasise that planning and writing / designing of the intended message is closely related with audience profile itself. Meaningful reading of books of re-known authors on the subject is advised as it would enrich leaning.

(b) Difference between targeted and a general résumés:

Most of the examinees were able to distinguish targets résumé, general résumé and different formats of résumés. A targeted résumé is prepared for a specific job application whereas a general résumé is a description of qualifications that can be used for any job.

Question No. 6**(a) A letter to the Director Human Resource for applying to a job:**

Many examinees were not able to write the letter to Director (HR) covering background, interest, achievement and goals successfully. Unnecessary furnishing of family data, interests, achievements and goals in details was the major feature of writings composed, relevance was rarely observed. Writings appeared more of an autobiographic details rather than question oriented. Composers perhaps ignored that information required for introductory letter had to be relevant and to the point, as one who reads and evaluates job related letter is much more impressed by pertinent material economically worded. Weak areas are identified as under:

- Offered details being poor in quality and material, failed to catch attention and interest.
- The main objective of introductory letter should have been to create a bridge between the attention-getter and stated points of merits which offered writing failed, in most of the cases.
- Whenever such self-appraisal exercise is to be composed, take it to be a 'sales promotion' message preparation. Offered writings were not found to be pertinent.
- Use of AIDA plan was not practiced to interpret points related to job. Composers should have first identified the job and preparation of self-appraisal letter would then have been prepared.
- Question given appeared open. This provided greater scope for composition which was neither realised not made used properly and intelligently.

(b) Difference between 'synopsis' and 'executive summary' of a business report:

Examinees seem to be confused. More details should be learnt about the two components by referring to standard books on the subject. Due attention should also be given to skill of composition.

**EXAMINERS' COMMENTS
FALL (WINTER) 2009 EXAMINATIONS**

**ADVANCED FINANCIAL ACCOUNTING & ANALYSIS
Stage – 4**

Question No. 2

Consolidated Income Statement:

This question required examinees to prepare a consolidated income statement relating to a group of companies, which included a subsidiary and an associate. Although, examinees performed satisfactorily, they were found wanting in the following areas:

- Some examinees simply added up items of revenues and expenses of all three companies, whereas, they should have added these items of the parent and the subsidiary taking into consideration intra-group adjustments e.g., consolidated revenue could be arrived at by adding up revenues of parent and subsidiary and subtracting therefrom intra-group sales (Rs.135,000 + 65,000 – 9000 = Rs.191,000).
- Most glaring mistake was in respect of unrealised profit on unsold inventory relating to sale from parent to associate. They, invariably, computed it as $(1,100,000 \times 0.10) \div 1.10 = \text{Rs.}100,000$. However, it should have been 40% of Rs.100,000 because the parent had only 40% share in the associate.
- Some examinees were careless or ignorant in respect of title of the statement.
- A good number of examinees failed to correctly compute non-controlling interest in the net profit of the subsidiary, which should have been calculated as Rs.1,425 ($5,700 \times 0.25$).
- Share of profit from associate was wrongly calculated by a number of examinees. It could be easily found as Rs.3,680 ($9,200 \times 0.4$).

Question No. 3

Reconstruction of Companies:

In this question, statement of financial position of a company and main points of reconstruction scheme were provided and examinees were asked to prepare (a) Journal Entries, (b) Reconstruction Account and (c) Statement of Financial Position in relation to the above matter. Examinees' showing was quite good in this question, however, they should take care of the following points:

- Some examinees used same titles of accounts for new and old debentures e.g., they should have used 14% Debentures Account and 12% Debentures Account for new and old debentures respectively.
- Some of them opened Realisation Account, which was not relevant in this case.
- A number of examinees failed to post entries correctly to the reconstruction account. Had they prepared this account correctly there would be no surplus / deficit in this account. However, some of the accounts wrongly showed surplus, which was included in the statement of financial position.

Question No. 4

Preparation of Statement of Affairs for Creditors' Meeting:

This question pertained to a limited company that went into voluntary liquidation. Examinees were expected to prepare the above statement from given balances of assets and liabilities and other data as regards the realisation of different assets and preferential payables. Performance of examinees was not upto the mark in this question. They committed following errors:

- The majority could not adopt prescribed format of the statement. Examinees should know that it is a legal document and has its own format and terminologies, which should be followed instead of depending on general knowledge of accounting.
- Some examinees just prepared the statement of financial position, which was not required.

- They also failed to identify the assets specifically pledged, their realisable values, amounts due to secured creditors and resulting surplus amount.

Question No. 5

(a) Terms relating to IAS-12:

In this part, examinees were expected to define (i) Temporary differences, (ii) Taxable Temporary differences and (iii) Deductible Temporary differences. Response to this part left a lot to be desired:

- Some examinees tried to explain the whole underlying concept, with examples, as regards above terms without providing what was actually required i.e., definitions.
- Some examinees discussed the ways of calculating taxable / deductible temporary differences instead of defining them.

(b) Accounting for Construction Contracts:

In this part, data relating to two unfinished construction contracts was given at the end of the accounting period of a company. Examinees were asked to produce extracts from the income statement and the statement of financial position in respect of these contracts as per IAS-11. Performance of the examinees remained unsatisfactory:

- A number of examinees failed to correctly calculate the stage of completion of each contract. As per the requirement of the question, it was to be calculated as a percentage of the value of the work completed to the agreed contract price. They, wrongly, computed it as a percentage of cost to date to estimated total cost.

Question No. 6

(a) Terms relating to IAS-32:

This part required examinees to provide definitions of financial instrument, financial asset and financial liability as given in IAS-32. Examinees responded satisfactorily to this part. However, some answers were irrelevant:

- A number of examinees provided incomplete definitions or tried to explain the concept with their self-invented definitions rather than those from the said IAS.
- Some of them gave examples of the above terms only rather than defining them.

(b) Operating and Finance Leases:

This part presented a scenario in which a limited company leased a plant, which required four annual payments in advance of Rs.100,000 each. Cash price of the plant was Rs.350,000 and it had a useful life of four years with no residual value. Examinees were expected to prepare extracts of income statement and statement of financial position relating to aforesaid matter assuming that it was (i) an operating lease or (ii) a finance lease using an implicit interest rate of 10% p.a. Examinees' responses were below average. Some glaring errors of examinees were as follows:

- For operating lease, some students included entire payment of Rs.100,000 as an expense in the income statement. Since, the lease commenced on January 1, and company's year ended on June 30, Rs.50,000 should have been shown as an expense in the income statement and remaining Rs.50,000 as prepayment in the statement of financial position.
- Some examinees showed entire payment as payable despite the fact that the payment was made in advance.
- For finance lease, examinees faced problems in calculating interest expense and depreciation charges. The former could be computed by applying implicit interest rate of 10% on outstanding balance of Rs.250,000 for six months preceding the end of the accounting year. Depreciation could be computed as $\text{Rs.}350,000/4 \times 6/12$.

**EXAMINERS' COMMENTS
FALL (WINTER) 2009 EXAMINATIONS**

**INTEGRATED MANAGEMENT
Stage – 4**

General Comments:

The overall performance of examinees was very poor. The available solutions gave an impression that either there was lack of reading on part of examinees or lack of comprehension. It was apparent that examinees scored good marks where questions were based on learning. But where the question was a bit tricky examinees were unable to provide correct answers.

Question No. 2

(a) Four reasons how goals are important to planning process:

Examinees generally were not well prepared for this part of the question and hence did not secure good marks. Goals are important for at least four reasons namely (i) goals provide a sense of direction, (ii) goals focus our efforts, (iii) goals guide our plans and decisions, and (iv) goals help us evaluate our progress.

(b) Strategic management process:

The expressions were average however presentations of process flow chart were not upto the mark. In many cases the examinees failed to adequately discuss this strategic process and only draw the flow chart. Strategic management provides a disciplined way for managers to make sense of the environment in which their organization operates, and then to act accordingly. In broad terms, two phases are involved in strategic management process i.e., strategic planning, and strategy implementation.

(c) Hierarchy of strategic and operational plans:

This question simply required examinees to provide the answer with the help of a simple chart showing the strategic plans → tactical plans → operational plans and the corresponding top → middle → operational (junior) levels of management. Organizations are typically managed according to two types of plans i.e., strategic plans which are designed by high-ranking managers and define the broad goals for the organization and operational plans containing details for carrying out, or implementing those strategic plans in day-to-day activities.

(d) Difference between strategic and operational plans:

The differences between strategic and operational plans are very obvious and were dealt with accordingly in the answer sheets. Strategic plans are designed to meet the organization's broad goals, while operational plans show how strategic plans will be implemented in day-to-day endeavours. Strategic and operational plans differ in three major ways namely time horizon, scope, and degree of detail.

(e) Role of Boston Consulting Group (BCG) matrix in designing the corporate portfolio:

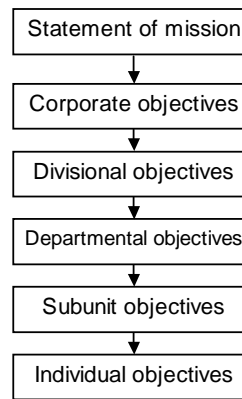
It was visibly clear that majority of examinees had not consulted the reading material and scored low marks. In giving the answer of BCG matrix, examinees provided wrong explanation and lost marks. Many examinees had no idea about the topic whereas other just limited themselves to drawing the matrix diagram. The BCG approach to analyzing a corporate portfolio of business focuses on three aspects of each particular business unit: its sales, the growth of its market, and whether it absorbs or produces cash in its operations that supply cash.

Question No. 3

(a) Hierarchy of objectives based on breadth of influence:

Majority of the examinees could not answer properly to this question. Hierarchies of objectives exist in almost all organizations. One hierarchy based upon the breadth of influence of the objectives is illustrated below:

Hierarchy of objectives based on breadth of influence



(b) Potential corporate key results areas:

In this question majority of examinees had no clue of potential corporate key results areas. Examinees talked about assets, customers, sales, expenses but did not provide the reburied answer that was based on following factors:

- Financial
- Customer relation
- Business processes
- Learning and growth

Question No. 4

(a) Importance of project management in linking the corporate strategy to operational strategy:

Nobody was able to identify that it was project-based question. Project Management plays a pivotal role in transforming Corporate Plans (decided by the senior most Management) into reality through operational strategies (executed at lower level within organization). Now none of the strategic activities in the corporation can be translated in to the real milestone unless it is adopted in accordance with the project cycle management. Operation management is the action derived from the corporate strategy and strategically milestone cannot be derived unless project management is behind it. Strategic plans are implemented primarily through projects e.g., a new product, a new information system, a new plant for a new product.

(b) Common thing in given headlines:

Almost all of the examinees did not have a clue to part (b) of the question. It required a very simple and straightforward answer but was surprisingly missed out by many examinees. All the captioned heading depict that these were the projects carried out.

(c) Project and its characteristics:

Examinees were successful to explain that a project is a complex of non routine, one-time effort limited by time, budget, resource, and specifications. Differentiating characteristics of projects from routine and repetitive daily work are: defined life span, well-defined objective, involvement people from several disciplines, project life cycle, specific time, cost, and performance requirements.

(d) Project life cycle and its elements of components in stages of life cycle:

Examinees were able to define the project life cycle but no examinee provided the elements of components in stages of life cycle. Project life cycle depict end to end lock of the project comprising many activities before the project is closed. Project life cycle comprise of definition of the project, planning, execution, and delivery.

(e) Project scope checklist, and its components:

Examinees failed to give checklist of project scope statement. Project scope statement is checklist of the activities which includes scope planning, scope definition, work breakdown structure (WBS), scope verification and scope control.

Question No. 5

(a) Major components of risk management process:

Examinees literally had no answer of this part of the question. Major components of risk management process are: identifying sources of risk, risk analysis and assessment approaches, responding to risks, contingency planning, schedule risks, cost risks, technical risks, contingency reserves.

(b) WBS:

Differences between the WBS and Project Network Techniques was very well tackled by some of the examinees who showed good understanding of both WBS and Network Analysis / critical path analysis methodology and could clearly differentiate between the two. Examinees who could not clearly differentiate main facets of these two techniques, should not that WBS is a deliverable-oriented hierarchical decomposition of the work to be executed by the project team, to accomplish the project objectives and create the required deliverables. Whereas the project network is the tool used for planning, scheduling, and monitoring project progress.

Question No. 6

(a) Decision making process for designing an organizational design:

Examinees generally did not properly elaborate that organizational design is the decision-making process by which managers choose an organizational structure appropriate to the strategy for the organization and the environment in which members of the organization carry out that strategy.

(b) Three structures of the organizations in details:

Examinees were required to clearly describe the three types of organizational structures i.e., the Functional, Product / market or the matrix form. Many examinees failed to support their answers with organization charts, which was the requirements of the question.

(c) Difference between authority and power, five sources of power:

The performance of the examinees was average to this question. Power is the ability to exert influence on other people. Power can be present in any relationship. In organizations, managers exert power. The sources of power are: reward power, coercive power, legitimate power, expert power, referent power.

Question No. 7

(a) Mission statements of organizations:

Majority of examinees were not able to identify correct mission statements and lost marks. Most of the examinees got confused on selecting the right mission statement. They need to clear their concepts as what the mission statement should convey to the reader. Provide bridge design services, provide waste plant design services are the mission statement as it carries the direction. Where the other items are not the mission statements as they are in general.

(b) Five forces of competition and their effects on average industry profitability:

Excellent answers were available in this part of the question and examinees scored very good marks. Five forces of competition are rivalry, power of suppliers, power of buyers, threat of new entrants, and threat of substitutes.

**EXAMINERS' COMMENTS
FALL (WINTER) 2009 EXAMINATIONS**

**CORPORATE LAWS & SECRETARIAL PRACTICES
Stage – 4**

SECTION 'A'

Question No. 2

(a) Memorandum and Articles of Association:

Examinees were asked to describe five distinctions between these two documents. Most of them succeeded in presenting their answers in comparative form clearly highlighting the points of distinctions. However:

- some of them unnecessarily described the contents of the two documents.
- many examinees replied in narration rather than tabular form to facilitate comparison.
- some broke one point of distinction to make it appear as two points.

(b) Objects Clause in Memorandum of Association:

In this part, a scenario relating to a company was given, which was intending to review its Objects Clause in the Memorandum of Association. Examinees were required to prepare a report, as Finance Director, to the Board explaining (i) whether the company's objects clause facilitated the change of business activity, (ii) how the Board should proceed change over as per the Companies Ordinance, 1984 and (iii) what matters should be considered by the Securities and Exchange Commission of Pakistan (SECP) before confirming the alteration in the Memorandum. While marking the scripts following shortcomings were observed:

- Excepting a few examinees, layout of the report was not appropriate.
- Some examinees ignored the actual objective under consideration and instead advised not to do the business of computers at all.
- Examinees could not differentiate between the Commission and the Registrar. They considered them belong to two different organizations / departments.
- Many examinees ignored the requirement of approval by the SECP.
- Some examinees mentioned passing of special resolution in the annual general meeting while it could be passed in extra ordinary general meeting as well.
- Many examinees ignored the requirement of sufficient notice to debentureholders and other stakeholders.

Question No. 3

(a) Management by Administrator:

In case of mismanagement of the affairs of a limited company, examinees were required to describe the bases on which creditors of a company could make representation to the Commission for appointment of an administrator. This part elicited poor responses from examinees. They displayed following shortcomings:

- Some examinees confused administrator with liquidator.
- Hardly a few examinees knew the grounds on which an administrator could be appointed as per section 295 of the Companies Ordinance, 1984.

(b) Transfer and Transmission of Shares:

In this part, candidates were expected to elucidate the differences between transfer and transmission of shares of a company. Examinees exhibited poor knowledge of the topic. Following are some of the observations:

- According to some examinees transfer means transfer from one area to another or from one company to another.

- Some examinees restricted the scope of transmission only in the event of death of a shareholder and ignored the situations of insolvency and lunacy.
- Some of them could not present their answers in comparative format. Consequently, they were not able to establish points of distinction clearly.

SECTION 'B'

Question No. 4

(a) Investigation and proceedings by SECP:

Examinees were expected to (i) elaborate whether the commission could 'suo motu' conduct investigation of an offence under the Securities and Exchange Commission of Pakistan Act, 1997, (ii) elucidate the powers of the investigation officer to enter any place or building on his own and (iii) mention the extent of force that could be used by the investigating officer to enter any place or building. Performance of examinees remained poor:

- They lacked expression power, writing skills and knowledge of the topic.
- They failed to mention different types of powers of the investigating officer such as powers to enter any place or building, to inspect and make copies of or take extracts from any book, minutes etc., and to search for, seize, take possession of and detain any such documents.
- Those who were able to write about powers of the investigating officer, ignored the fact that this power could be used only after written order of the Commission signed by two Commissioners.

(b) Maintenance of Books of Accounts by Members:

This part of the question required a description of books of accounts to be maintained by a member of stock exchange, in compliance with the Securities and Exchange Rules, 1971. Answers to this part suggested that examinees were not well-prepared for this question. Following deficiencies were observed in their replies:

- They depended on their general knowledge of the topic and mentioned books like general ledger, cash book and sales / purchase ledger but could not include all the books as mentioned in the said Rules.
- They failed to describe non-accounting books like minute books of meetings etc.

(c) Non-Banking Finance Companies (NBFC) Rules, 2003:

This part tested the knowledge of examinees as regards (i) Non-Banking Finance Companies (NBFC), (ii) Closed-ended scheme and (iii) Open-ended scheme as per the above Rules. Excepting a few examinees, the majority responded poorly to this part:

- They could not define NBFC properly that it was licensed by the Commission and could engage in such businesses as discount house, investment advisor and leasing company etc.
- For sub-part (ii) and (iii), they seemed aliens to these topics. Examinees should read the above Rules to get acquainted with the open-ended and closed-ended schemes.

SECTION 'C'

Question No. 5

Establishment of a New Company:

This question asked examinees, as company secretary, to advise the chief executive officer / promoters of the company on establishment of a new company regarding such matters as (a) minimum number of persons required to form a company, (b) minimum number of directors fixed by law and (c) the appointment of first directors and their term of office. This was a well-attempted question. Nevertheless, following shortcomings were brought to light:

- Examinees were unable to distinguish between private and public companies or listed or non-listed companies.

- Some did not know that every single-member company should have at least one director and any other private company should have at least two directors. Similarly listed and non-listed public companies should have at least seven and three directors respectively.
- Many examinees wrongly assumed that first directors are appointed through normal process. Some even suggested that they are elected in statutory meeting. As a matter of fact, first directors are nominated by the subscribers to the Memorandum and hold their office until the election of directors in first annual general meeting.

Question No. 6

(a) Specific Provisions regarding Minutes of Meetings:

In response to this part, examinees were supposed to state the specific provisions as required by the Companies Ordinance, 1984 for keeping minutes of proceeding of general meeting and meeting of directors. Answer to this part is available in section 173 of the Ordinance. However, they were not well versed in this area. Following shortcomings were noticed:

- Examinees replied in general without concentrating on specific requirement of the question, which exposed their poor knowledge of the topic.
- They were not clear about the distinction between minutes of Board of Directors and General Meeting.

(b) Drafting Extracts of Minutes:

This part presented the records of draft notes on the ordinary business transacted in a general meeting relating to (i) consideration and adoption of annual audited accounts, and balance sheet of the company and auditors' and directors' reports thereon, (ii) declaration of dividend @ 10% and (ii) appointment and fixation of remuneration for auditors. Examinees were required to draft extracts of minutes for above transactions. Responses to this part were a poor reflection on their lack of knowledge and awareness of proper corporate practice. Following were some common weaknesses of the examinees:

- Proper presentation of minutes was missing.
- In many cases resolution part was not found.
- Glaring omissions were committed in respect of quorum, confirmation of previous minutes, auditors' fee, signing authority on accounts etc.
- Many examinees just reproduced the agenda instead of discussing various items and passing the required resolution.

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**EXAMINERS' COMMENTS
FALL (WINTER) 2009 EXAMINATIONS**

**FINANCIAL REPORTING
Stage – 5**

Question No. 2

Statement of Cash Flows:

In this question, examinees were required to prepare statement of cash flows using indirect method as per the requirements of IAS-7 Statement of Cash Flows. Overall, performance of the examinees was not satisfactory. Following common mistakes were observed in the scripts:

- While calculating the 'cash flows from operating activities', some examinees did not subtract the income on investments from or add back the financial charges to the 'net profit before tax'.
- Some examinees failed to calculate the changes in working capital, especially relating to 'trade and other payables'. This could be achieved by eliminating the amounts of 'due to associated undertakings' and 'unclaimed dividend' from 'trade and other payables' figures of 2008 and 2009. Difference between resultant amounts would be the change in 'trade and other payables'.
- Most of the examinees were not able to calculate payment of taxes correctly because they failed to include the amounts of deferred taxation, taxation (net) and taxation charged to income statement in their calculations.
- While calculating cash flows from investing activities, some examinees could not correctly calculate the cash outflows for the purchase of property, plant and equipment (PPE). This could be computed by adding closing balance of PPE, current year's depreciation and book value of the non-current asset sold. From this aggregate, opening balance of PPE was to be deducted to arrive at the cash payment for addition of tangible non-current asset.
- While calculating cash flows from financing activities, a number of examinees did not classify cash flows for repayment of 'liabilities against assets subject to finance lease', under this head. Some classified the same under cash flows from operating activities altogether. Some classified the current portion of liabilities under 'cash flow from operating activities' and long-term portion was shown under 'cash flows from financing activities'.
- A good number of examinees failed to calculate opening and closing balances of 'cash and cash equivalents', especially, because of their failure to include 'short-term investments' in the 'cash and cash equivalents'.
- Many examinees did not prepare sufficient workings to support related figures.

Question No. 3

Consolidated Statement of Financial Position:

This question asked examinees to prepare 'consolidated statement of financial position'. Most of the examinees did not solve the question properly. Following common mistakes were observed:

- Examinees could not calculate the 'goodwill' amount correctly. They wrongly included share premium of 'B' Limited while calculating the share of net assets of 'B' Limited in the calculation of 'goodwill', although at the time of acquisition, 'B' Limited did not have share premium account.
- Only a few examinees were able to correctly calculate the consolidated amounts of 'trade debtors', 'inventory' and 'advances and other receivable'. They just added respective balances of three companies without making any adjustments. For instances, in case of inventory, no adjustment was made for unrealised profit.
- Likewise, most of the examinees could not calculate consolidated amounts of 'share premium', 'retained earnings' and 'minority interest', correctly. Consolidated share premium account could be computed by adding share premium account of the parent and 70% share of post acquisition share premium of 'B' Ltd.

- Similarly, excepting a few examinees, they could not calculate the liability towards 'defined benefit pension scheme'. It could be computed by taking the difference of present value of obligation and fair value of plan assets at June 30, 2009 (Rs.6.5 million – Rs.6.0 million).

Question No. 4

(a) Classification and Reporting of Investments:

- (i) This sub-part provided a list of investments by a limited company alongwith details pertaining to date of purchase, quantity purchased, market price etc., of the investments. Data was also made available regarding the intention with which each investment was purchased. Examinees were asked to classify the given investments in the light of above information and as per IAS-39. The majority could not attempt this part satisfactorily. They were found deficient in the following areas:
- They lacked knowledge about different classes of investments as given in IAS-39 i.e., financial asset at fair value through profit and loss, held to maturity investments, loans and receivables and available-for-sale financial assets. Correct classification of the investments depended on the understanding of their definitions as per IAS-39.
 - Some of them were able to classify the investments but failed to give reasons to support their claims. This could be achieved if they had carefully read the motive of the company in purchasing each of the investment and related it to the respective definition.
- (ii) This sub-part was an extension of sub-part (i) and required examinees to state the amounts at which the investments would be carried in the statement of financial position at the year-end. Besides, they were also asked to calculate the impact of these investments in the statement of comprehensive income or statement of changes in equity for the relevant period. Only a few examinees could come upto the expectation:
- They failed to identify the correct amounts of different investments to be included at year-end in the statement of financial position. Investments in Alpha Limited and Gamma Limited being 'financial assets at fair value through profit and loss' should have been shown at their respective market values in the statement of financial position. Investments in Beta Limited and Theta Limited were 'available for sale' and 'loans and receivable' investments, they should have been shown at their market value and amortised cost respectively.
 - Amounts reflected in the 'statement of comprehensive income' and 'statement of changes in equity' were wrong in most cases. In case of first three investments, costs and market values of the investment were to be compared and their differences should have been reflected in the above mentioned statements. For investment in Theta Limited, effective interest rate was to be applied on cost to find out the desired amount.

(b) Reporting of Investment / Owner-Occupied Properties:

Examinees were required to prepare extracts of the group 'income statement' and 'statement of financial position' for the years to June 30, 2008 and 2009 showing the investment properties as per IAS-40 and owner-occupied properties as per IAS-16. Following common errors were witnessed:

- The properties 'A' and 'B', being investment properties, were to be dealt with using 'fair value model' as per IAS-40. However, examinees calculated depreciation on the same and charged to the 'income statement'. They wrongly showed the properties 'A' and 'B' at depreciated values instead of at fair values in the 'statement of financial position'.
- In case of owner-occupied property 'C', they calculated incorrect figures of depreciation to be included in the income statement and for that matter, depreciated amounts shown in the statement of financial position were also wrong. Depreciation on this property could be computed as Rs.2,730 (136,500/50) for each year and charged to the income statements of 2008 and 2009. In the statement of financial position,

an amount equal to cost minus accumulated depreciation was to be included for each year i.e., Rs.133,770 and Rs.131,040 for 2008 and 2009 respectively.

PROJECT / CASE STUDY

Examinees were required to write a report carrying out ratio analysis for their Board of Directors that were interested in purchasing 'A' Ltd. Almost all the examinees grasped the requirements of the case study and performed well. A few examinees also used pie charts, bar charts, pictograms and other visual aids to make their reports more meaningful, which is a good sign for their professionalism. A few examinees also carried out horizontal analysis, vertical analysis and common size analysis of 'A' Ltd., over the period of three years. However, a few observations are as under:

- A large number of examinees did not follow the proper format of the report.
- Many examinees calculated the financial ratios but did not correctly interpret them for taking any decision. Moreover, a few examinees were not even able to correctly calculate the financial ratios.
- A few examinees just explained the various ratios and their importance without calculating and interpreting them.
- Examinees were required to calculate the financial ratios covering the profitability, activity, liquidity and solvency aspects of 'A' Ltd., for reaching the decision of buying 'A' Ltd. However, many examinees just calculated the few financial ratios and categorized each of them as favourable or unfavourable without commenting on the liquidity or solvency position of 'A' Ltd.
- Examinees were required to write a comprehensive report to take the decision of purchasing 'A' Ltd., but many examinees either calculated a few ratios without writing any report or produced a very brief report hardly covering all financial aspects of 'A' Ltd.
- A few examinees carried out ratio analysis of 2008 and 2009 or for 2009 only instead of three years.
- There was hardly any examinee that recommended further investigation for raising the bank overdraft, any change in accounting and dividend policies. Moreover, no examinee recommended finding of reasons of 5% increase in sale but 3.5% decrease in profit margin over the period of three years. In the same way, no examinee showed any concern or need for further breakdown of sales, cost of sale, and stock in trade.

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EXAMINERS' COMMENTS
FALL (WINTER) 2009 EXAMINATIONS
MANAGEMENT ACCOUNTING – DECISIONS MAKING
Stage – 5

Question No. 2

(a) Economists and accountants break-even charts:

Due to lack of knowledge and expression power, examinees could not describe the economists' chart which reflected that revenues are curvilinear because of economy of scale and increasing total cost. Similarly, explanation of accountants' break-even chart that sale price, total fixed and variable costs per unit are constant within relevant range was not provided by examinees.

(b) Multi-product CVP analysis:

In this part of the question, straightforward calculation of loss sustained was required but some examinees could not produce right answer. Similarly, the amount of sale of each product required to eliminate loss was simple to calculate but examinees made wrong and unnecessary calculations. Alternatively, they could calculate weighted average contribution to sales ratio to arrive at required contribution, which was equal to the fixed cost.

Question No. 3

Revision of cost estimates:

It was observed that examinees had no idea of relevant/ opportunity costs and unfortunately majority failed to provide correct answer. The lack of knowledge is apparent from their adding the fixed cost i.e. employees' cost, planning and design engineering cost in the cost of job, which was not required to be incurred for the job. Examinees were also not clear in giving reasons for variation in cost elements.

Question No. 4

Pricing of a new product:

This question was on marginal costing. Examinees were required to determine profit or loss on the basis of two different sales prices. However, they were confused and could not calculate profit both on minimum and maximum sales levels. They committed mistakes due to failure in determining the relevant fixed cost at both sales levels. Examinees also tried to calculate margin of safety without calculating the break-even point, which also reflected their lack of knowledge of the topic.

Question No. 5

Effect of inflation on investment decision:

This is a basic question of capital budgeting but various mistakes were committed by examinees as enumerated below:

- Adjustment of inflation could not be made in each element of cost i.e. material, labour and overhead.
- Those who made adjustment for inflation took single year impact instead of cumulative impact.
- Some examinees took inflation effect from year two.
- Similarly, depreciation was adjusted in cash flows.
- Many examinees had ignored the inflationary factor for labour cost which shows their lack of comprehension or reading the question carelessly.

Question No. 6

Sensitivity analysis:

In this question, examinees were required to calculate internal rate of return (IRR) under different conditions independently. Majority of the examinees calculated IRR considering all changes in one go. Some examinees were able to suggest only one or two vulnerable areas like fall in prices, increase in variable cost and increase in investment, which affected the IRR of the project. Similarly, majority could not suggest the way to improve sensitivity analysis. Again, examinees calculated the wrong contribution using incorrect fixed cost.

**EXAMINERS' COMMENTS
FALL (WINTER) 2009 EXAMINATIONS**

**RISK MANAGEMENT AND AUDIT
Stage-5**

Question No. 2

(a) Risk management of vault:

Majority of the examinees failed to describe correctly measurable dimensions of risk. Examinees failed to comprehend the requirements of the question and were unable to answer in line with the question. Correlation with banking operations pertaining to vault were not explained. Consequences of risk with reference to timing of the risk and duration were completely missing. Although few tried to explain the direct probability estimates of measurement of risk but required examples to support the methodology of risk measurement were not given rather attempted it in vague terms. Often, the measurement of risk is accomplished by measuring a number of factors related to risk, such as complexity, liquidity of the assets, strength of internal control etc.

(b) Assessment of risk and techniques to mitigate:

Three types of risk factors i.e., subjective, objective and calculated commonly in use were poorly explained. Examples required for each risk factor were not clearly stated or were completely omitted. Pattern or profile of risk measurements was completely missing. Group processes technique was not known to the examinees. However, process of dealing with assessed risk and mitigation of risk to certain extent was attempted by few examinees that include avoiding, controlling and sharing the risk.

Question No. 3

(a) Timing and forms of auditor's communication:

This part of the question was not properly attempted by the majority. The most common mistakes related to the Forms of communications and Timing of communications. Matters that should be communicated by the auditor to those charged with the governance were not explained. Confidentiality requirements and their impact were also missing.

(b) Need of working papers:

Examinees explained the reasons for preparing audit working papers adequately.

(c) Constituent items of working papers:

Examinees failed to explain the factors affecting the form and contents of working papers. However majority of the examinees explained the various contents of current and permanent working papers file in distinguished manner, although not required by the question. The probable items are: nature of engagement, form of auditor's report, nature, size and complexity of the business, internal control, audit methodology and technology.

Question No. 4

(a) Risk based and vouching based audit approaches:

Risk based audit approach and vouching based audit approach were explained in ambiguous manner. Answers were not of professional standards as they lack depth and clarity of thought and technically not sound. Under risk based approach majority explained various forms of audit risks rather than mentioning inherent, control and detection of risks. Examinees also failed to explain when vouching based audit approach is useful and what it covers.

(b) Normal and high audit risks:

The explanation of normal audit risk and higher than normal risk was not upto the mark. Majority failed to highlight the role of mix of non-executive directors and vigilant audit committee and key role played by the engaged board in the governance and oversight of the management under normal audit risk.

(c) Effective control weaknesses:

By and large incorrect answers were given, irrelevant audit steps designed and weaknesses were discussed like no check by the cashier on scrap collected and paid for, scrap weight and current market price of the scrap etc., were noticeable. Other errors committed were:

- Failure to point out weaknesses in the system relating to the possibility of collusion of the gatekeeper with the scarp merchant was not noted and explained by the examinees.
- Completeness, accuracy and validity assertions were not explained with reference to the situation given in the question.
- Further substantive tests required to be conducted in the given situation included sample calculation, verification of the sample of the prices paid with the trade sources, etc., were not written by the examinees.

Question No. 5

(a) Typical matters in developing an audit plan:

Typical matters of overall audit plan were explained by very few examinees in length. Among the vital typical matters are consideration of client's business background, outlining plan of audit, changes that may affect the business, meeting senior management of the client, judging the competence of internal audit staff, consulting members of audit team etc.

(b) Matters to be considered in relation to the given company:

Some of the key missing points related to planning the audit were the agreement with the management for timing of the audit procedures to be applied, review of the stock-taking in detail, determination of the audit staff competence level to be used on the audit and tameable for the principal phases of the audit. Whereas examinees covered rest of the matters such as reviewing previous year's audit file, significant changes, management accounts, forecast and budget.

Question No. 6

(a) Matters to be considered while commenting on cost accounting system:

Comments on cost accounting system were satisfactorily given by very few examinees. Most of the examinees failed to address the issues relating to the joint cost ascertainment and process of assessment and standard cost and adjustment of variances. Whereas points such as manufacturing process, control aspects, and MIS and its usefulness were taken into account by the examinees.

(b) Items to be included in wages & salaries and overheads:

Items to be included in the wages and salaries were explained in mixed manner as total wages and salaries paid for all categories of employees were not separately stated. Salaries and perquisites of directors and chief executive and comparison with previous two years along with reasons for variances were commonly missing items in this part of the question. Overheads were generally explained instead of specifically listing down the list of overheads. The examinees also omitted reasons for significant variances in financial charges.

(c) Reconciliation of cost and financial accounts:

The explanation of reconciliation with the financial accounting records was not adequately covered. The cost auditor has to go beyond the cost of production and cost of sales to examine such items which only appear in the financial accounts and not in the cost accounting records for reconciliation purposes such as doubtful debts, profit or loss on the disposal of assets, provision for doubtful debts, exchange gain or losses etc., were completely not touched upon.

**EXAMINERS' COMMENTS
FALL (WINTER) 2009 EXAMINATIONS**

**STRATEGIC FINANCIAL MANAGEMENT
Stage-6**

Question No. 2

(a) Incremental profit and return on (new) investment (ROI):

Overall performance was good. However, a few observations are as under:

- As per data given in the question, 50 air conditioning systems were being produced every year. In new proposal 20 more units were required to be produced and sold. However, many examinees incorrectly increased 20% of 50 units in new proposal instead of 20 units.
- Many examinees did not calculate the incremental profit by comparing the net profit of existing and proposed units sold.
- A large number of examinees did not calculate the ROI by taking the incremental profit and additional investment (for comparison with company's cost of capital). Rather, most of the examinees calculated the ROI based on existing 50 units sold and ROI on 70 units sold after taking into account the sale of additional 20 units.

(b) Operating leverage and break even analysis:

An extremely poor performance was observed. The examinees were required to divide the fixed cost by total cost (fixed cost and variable cost) to arrive at the existing and proposed operating leverage. However, almost all the examinees were not able to calculate the operating leverage correctly. A large number of examinees wrongly stated that the proposed change in the process of production would decrease the operating leverage. A few examinees did not calculate the existing break even point and there were other examinees who did not have any fair idea how to calculate the breakeven points in units or in rupees.

(c) Business risk in new situation:

Although almost all the examinees attempted this part of the question and correctly stated that the new proposal would expose more business risk than the old one. However, some failed to explain specifically that change in **break even points** and **high percentage of fixed costs** would cause the new situation more risky.

Question No. 3

(a) Credit management:

Majority of the examinees attempted this part of the question. However, extremely poor performance was observed. It was evident that examinees did not grasp the requirement of the question and they were lacking the competence level to answer this part of the question. A few observations are as under:

- It was clearly stated in the question that Welcome Ski Resort asked for credit terms of one year and Quality Sports Company's cost of carrying the receivable at stated value of Rs.138 million is 15% per annum. Therefore, the examinees were required to calculate the present value of Rs.138 million receivable to be paid at the end of one year ($\text{Rs.138 million}/1.15=\text{Rs.120 million}$). However, almost all the examinees took Rs.138 million as selling price of installation of a chairlift system.
- A large number of examinees incorrectly calculated the interest cost @ 15% on accounts receivable of Rs.138 million (sales amount) instead of Rs.120 million. Beside, 20% bankruptcy chance of customer or bad debts were also incorrectly calculated on Rs.138 million instead of Rs.120 million (bad debts are calculated on receivables).

(b) Inventory management:

An average performance was observed although it was comparatively straightforward question on inventory. Though, most of the examinees correctly calculated the contribution margin of various proposals of

investment in inventory. However, most of them were not able to fully grasp the requirement of question and committed following mistakes:

- A large number of examinees incorrectly calculated the inventory value under various options. They divided the total cost (fixed as well as variable cost) by inventory turn over. Although they were supposed to divide the variable cost by inventory turn over. Resultantly, most of the examinees did not calculate the correct figure of carrying cost of inventory, net profit before tax and taxation etc., under various options.
- A large number of examinees calculated the 16% required rate of return on 'investment in inventory' and incorrectly deducted it as financing cost from the profit. Although, they were supposed to calculate the return on incremental investment of each proposed option against current inventory policy and choose the option having maximum return on incremental investment.
- A few examinees did not deduct the carrying cost from operating profit before calculating the 35% taxation.
- Generally examinees did not recommend policy 'A' having highest return on incremental investment. They just mentioned that Novelty Limited should change the current inventory policy.

(c) Short term bank loan:

Overall good performance was observed in this part of the question. Except a few, almost all the examinees were able to calculate the correct figure of bank financing required to eliminate the past due accounts payable and correctly refused to grant loan to Rehber Company. However, comparatively less number of examinees provided the reasons like excessive inventory, excessive financed with debt, poor liquidity situation of the company for not granting the loan in support of their answer.

Question No. 4

(a) Cash flow estimation (calculation):

Most of the examinees performed well and secured good marks. They attained the competency level as well as grasped the requirement of the question. However, a few observations are as follows:

- While calculating the net cost of the machine for capital budgeting propose, many examinees did not include the increase in working capital of Rs.82,500.
- Many examinees did not correctly calculate the depreciation on the machine on the reducing balance method. They either did not include the cost of modification of machine or wrongly included the increase in working capital in the depreciable amount of machine.
- A few examinees incorrectly deducted the salvage value of the machine from the cost of machine to calculate the depreciation on the machine.
- There were very less number of examinees who were able to correctly calculate the correct figure of terminal year cash flow. They either did not include the release of working capital or did not deduct the "tax on gain on disposal of machine" from the sale proceeds of the machine. Many examinees did not compute the tax gain correctly as under:

Computation of tax gain:	Rs.	
Sale proceeds	1,400,000	
Tax WDV	1,317,121	
Tax gain	82,879	
Tax on gain on disposal	35%	29,008

(b) Capital budgeting with and without consideration of inflation:

An average performance was observed. Some observations are listed below:

- In case of infinite life of the project without inflation, a substantial number of examinees were not able to find out the correct figure of cash flow of the project amounting to Rs.2,145,000 simply dividing the cash

flow after tax cost of capital (Rs.321,750/0.15). Most of the examinees just calculated the contribution margin or cash flow after tax.

- In case of infinite life of the project with inflation @ 6%, most of the examinees were not able to correctly calculate the real cost of capital taking into account the inflation @ 6%. They were required to just simply calculate the PV of Rs.3,789,500 with Gordon Model as under:

$$\text{Rs.}321,750(1.06)/0.15 - 0.06$$

NPV of Rs.1,539,500 could be calculated deducting the cash outflow.

- In case of increase in variable cost with inflation, there was hardly any examinee who could point out that inflation would cause the replacement cost to jump when plant wore out and it must be replaced. Resultantly, a sharp price increase would be necessary to cover the new higher depreciation charges.

Question No. 5

(a) Gain made by ordinary shareholders and weighted average cost of capital (WACC):

The overall performance of the examinees remained poor. It was quite evident that the required competence level was not attained. Mistakes committed by examinees are as under:

- It was clearly mentioned in the question that cost of capital would increase to 22% due to issuance of term certificates for the new project. However, a large number of examinees, while calculating the value of shares after the acceptance of the project, incorrectly divided “new dividend” of Rs.3,000,000 (original dividend Rs.2,400,000 plus Rs.600,000 from new project) by 20% cost of capital instead of 22%.
- Most of the examinees, while calculating the WACC after acceptance of the new project, also incorrectly took market value of equity as Rs.12,000,000 (before acceptance of the new project) instead of Rs.13,636,364.

(b) Value of equity shares and gain made by shareholders where cost of equity rises to 24%:

The overall performance was below average. A few observations are as under:

- While calculating the gain made by shareholders if cost of equity raises to 24%, a large number of examinees either did not take the correct figure of new dividend of Rs.3,000,000 or did not divide it by 24%. Resultantly, they could not prove that new WACC is 20% if the MM (Modiglian and Miller) hypotheses (ignoring tax) holds true.
- A few examinees incorrectly tried to calculate the NPV of the new project by applying the “Gordon model with growth”. They were simply required to calculate the PV of the new project by dividing the annual cash flow from new project amounting to Rs.2,100,000 by 20% WACC.

Question No. 6

(a) Present market price per share:

Most of the examinees correctly calculated the expected growth (till 8th year) in earning per share (EPS), dividend per share (DPS) and present value (PV) of DPS discounted @ 14%. However, large number of examinees were not able to calculate correctly EPS of Rs.117.47 at the end of year 8 considering the 6% growth rate in year 9 onward and price/earning ratio of 8.5 times (Rs.13.04 x 1.06 x 8.5 times). Moreover, there were very less number of examinees who correctly calculated the present market price per share amounting to Rs.53.25 by adding the PV of EPS at the end of year 8 discounted @ 14% and PV of DPS for year 1 to 8 (117.47 x 0.35 plus 12.07). A few examinees incorrectly applied the growth model in order to find the present market price per share.

(b) Dividend policy and external financing:

A few examinees did not correctly calculate the external financing required and DPS under various options. Moreover, a few examinees were not able to correctly answer that aggregate dividends are maximized in case of 50% payout dividend policy and external financing is minimized in case of residual dividend policy.

**EXAMINERS' COMMENTS
FALL (WINTER) 2009 EXAMINATIONS**

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

Question No. 2

(a) Steps involved in decision-making process:

Examinees were unable to properly discuss steps involved in decision-making process with the help of process flow diagram. Some examinees discussed irrelevant details, which is wastage of time. Decision-making is represented as a problem-solving process preceded by a separate problem-finding process. Decision-making processes can be divided into four phases: intelligence, design, choice, and implementation.

(b) Importance of social context and nonverbal communication for communication technologies:

Examinees' concepts regarding need and importance of social context was not impressive. Very few examinees compare correctly the role of nonverbal communication and social context in the field of business communication. Social context is the situation and relationships within which communication takes place. Much of what is communicated in face-to-face situations is communicated through nonverbal communication, such as facial expressions, eye contact, gestures, and body language.

Question No. 3

(a) High-level, fourth-generation, object-oriented, and web-oriented programming languages:

Most of the examinees have no concepts regarding main features of above languages. High-level languages (or third-generation languages) use instructions, which are called statements, that use brief statements or arithmetic expressions. The term fourth-generation language describes a variety of programming languages that are more nonprocedural and conversational than prior languages. Object-orientated programming (OOP) languages like Visual Basic, C++, and Java have become major tools of software development. In object-orientated systems, objects tell other objects to perform actions on themselves. HTML, XML, and Java are three programming languages that are important tools for building multimedia web pages, websites, and web-based applications.

(b) Elements of a work-system framework:

Majority of examinees did not properly explain elements of work system framework i.e., customers, products and services, business process, participants, information, technology, context, infrastructure and could not get good marks. A work system is a system in which human participants and/or machines perform a business process using information technology and other resources to produce products and/or services for internal or external customers. A work system framework is a set of ideas that helps to organize thoughts about a particular type of situation.

Question No. 4

(a) Information systems management practices for an IS department:

Overall performance was unsatisfactory. Information systems management practices reflect the implementation of policies and procedures developed for various IS related management activities. Management activities to review the policy / procedure formulations and their effectiveness within the IS department would include practices such as personnel management, sourcing and IT change management. The components of personnel management are hiring, employee handbook, promotion policies, training, scheduling and time reporting, employee performance evaluations, required vacations, and termination policies. In explaining 'source' majority of examinees' concepts was not clear and explained irrelevant details. The components of sourcing practices are insourced, outsourced, hybrid, onsite, offsite, and offshore.

Change management is managing IT changes for the organization, where a defined and documented process exists to identify and apply technology improvements at the infrastructure and application(s) level that are beneficial to the organization and involving all levels of the organization impacted by the changes.

(b) Typical physical access controls:

Some examinees discussed logical access controls methods rather than physical access control. Physical access controls are bolting door locks, combination door locks (chipper locks), electronic door locks, biometric door locks, manual logging, electronic logging, identification badges, video cameras, security guards, controlled visitor access, and alarm system.

Question No. 5

(a) Security of client-server environment:

Examinees' concepts of client-server environment and security were below average. Most examinees have no idea about client-server architecture. Few examinees discussed correctly the control techniques and security measures in client-server environments. A client-server system typically contains numerous access points such as security access, network monitoring, data encryption techniques (symmetric or asymmetric encryption), authentication and the use of application-level access programs.

(b) Control Self-Assessment (CSA) as a management technique:

The auditor's role in CSAs should be considered enhanced when audit department embark on a CSA program. Concepts regarding CSA were below average and it is one of the most weakest area of examinees. Most of the examinees were unable to properly discuss CSA and its benefits and disadvantages. CSA can be defined as a management technique that assures stakeholder, customers and other parties that the internal control system of the business is reliable. When these programs are established, auditors become internal control professionals and assessment facilitators.

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EXAMINERS' COMMENTS
FALL (WINTER) 2009 EXAMINATIONS
MANAGEMENT ACCOUNTING – BUSINESS STRATEGY
Stage-6

Question No. 2

(a) Financial and non-financial benefits derived from strategic management process:

The examinees were required to comment on the statement by emphasizing the major aim of strategic management process i.e., to achieve the understanding of the commitment from all the managers and employees and to be more proactive than reactive in shaping their own future direction. However, most of the examinees produced irrelevant and unconvincing arguments in support of their answers. Moreover, examinees could not enumerate financial and non-financial benefits derived from strategic management process such as improvement in turnover, profitability, reduction in staff turnover, better project management allowing prioritization and exploitation of opportunities.

(b) Components of mission statement:

The performance of examinees in this part of the question was good. The majority was successful in explaining the importance of mission statement and also in describing the components of formal mission statement.

(c) Mission statement of an IT company:

A few examinees could not understand the requirement of the question. Instead of writing the mission statement of a computer/IT company based on nine components, they again listed down the nine components of mission statement as asked in part (b) above. Some examinees produced too short mission statements based on just two or three components.

Question No. 3

(a) Need of board of directors:

This was very straightforward question requiring examinees to state the need (reason) of board of directors. However, examinees failed to mention that investors (shareholders and creditors) contributes without taking responsibility of operations and management uses its expertise without taking responsibility of investment and board of directors makes these parties work on common ground.

(b) Role of board of directors in strategic management:

There was hardly any examinee who correctly explained the role of board of directors in strategic management i.e., monitoring: to evaluate and influence the management's proposals and decisions and to initiate and determine strategic options to its management. Almost all the examinees incorrectly focused on the stages of strategic management process.

(c) Responsibilities of board of directors:

Instead of mentioning the responsibilities of board of directors, many examinees produced the benefits of strategic management. Again a few examinees considered strategy formulation, strategy implementation and strategy evaluation as responsibilities of board of directors. There were very less number of examinees that mentioned the responsibilities under the heading of "control and oversight over management", "adherence and compliances", "consideration of stakeholder's interest" and "advancement of stockholders rights".

(d) Corporate governance and social responsibilities:

Almost all the examinees failed to mention the segments of social responsibilities i.e., economic, legal, ethical, and discretionary. Good governance ensures fulfilment of these responsibilities in the balanced manner.

Question No. 4

(a) Relevance of the resource based view (RBV) to strategic management:

The examinees did not perform well in explaining the RBV and its relevance that the mix, type, amount and nature of firm's internal resources should be considered first and foremost in devising strategies that can lead to sustainable competitive advantage.

(b) Empirical indicators:

Overall poor performance was observed. The empirical indicators used to evaluate the key resources of a firm. Hardly few examinees knew, three questions (or qualities) regarding analysis of key resources i.e., rare, hard to imitate, and not easily substitutable, described as empirical indicators. There were many examinees who mentioned the “empirical indicators” in part (a) of this question where the relevance of resource-based view (RBV) of the organization to strategic management was required.

(c) Value chain:

Most of the examinees produced irrelevant and illogical answers. Some took a clue from the question asked, many examinees wrongly considered that value chain analysis was something which increased the value of the goods and services being produced while value chain analysis aims to identify where low cost advantages or disadvantages exist.

(d) Benchmarking as effective tool to determine organization’s competitive advantage:

An extremely poor performance was observed. There was hardly any examinee who justified the benchmarking as an effective tool in his/her answer. None of the examinee listed the steps involved in “benchmarking” process i.e., identifying the area or process to be examined, selecting accessible set of competitors/ best companies, calculating the differences, determining the reasons of differences and implementing the tactical programmes to make up performance gaps.

Question No. 5

(a) Strategic management should be visible or hidden:

The examinees performed comparatively well. Some examinees produced irrelevant answers like definition of strategy evaluation, basis of strategy evaluation, pitfall of strategy evaluation, characteristics of strategy evaluation and steps involved in strategy evaluation. Although, they were required to focus on “more visible or hidden strategic management as a process in order to make an evaluation of strategy more meaningful”.

(b) Balanced scorecard:

It was quite visible that the examinees just have a vague idea of Balanced Scorecard (BSC) and they seemed to be unprepared about topic. A large number of examinees did not either mention that BSC analysis required the firms to seek three answers or what aspects of an organization are examined by BSC like customers, managers, operations, social responsibility, financial and business ethics.

Question No. 6

(a) Checklist containing relevant and important questions to evaluate financial strategies:

Many examinees produced lengthy and irrelevant answers. For example, instead of just mentioning that firm’s financial strong and weak areas are to be looked into as indicated by financial ratio analysis, they produced a long list of financial ratios.

(b) Identification of industry on the bases of given ratios:

It was clearly stated in the question to identify the type of the industry i.e., merchandising, pharmaceuticals, and utilities, where companies A, B and C were operating. In spite of that, some of the examinees did not grasp the requirement of the question and focused on financial strength and weaknesses of these three companies considering the financial ratios and concluded that which one was best among them. Moreover, a few examinees were not able to identify the correct industry in which a particular company was operating.

(c) Brief report comparing two companies in respect of efficient use of assets, producing profit and employing financial leverage:

Most of the examinees, while comparing the Kampa and Arbor, did not follow the format of a report. Moreover, there was hardly any examinee who pointed out Kampa’s higher total asset turnover ratio might be the result of assets purchased years earlier instead of current values of the assets. In the same perspective, Arbor’s increased profit margins might be due to less maintenance cost of the comparatively new assets. Moreover, majority did not mention that Kampa had successfully employed financial leverage in 2006 as its return on total assets was 8.9% compared to the 7% interest rate.