



**Question No. 2**

**(a) Preparation of Suspense Account:**

In this part, examinees were asked to prepare suspense account from a given set of transactions. Majority of the examinees attempted this question and their overall performance remained below average. Following mistakes were observed:

- Few examinees ignored to rectify the mistake with respect to receipt of Rs.5,000 from the owner as an additional investment, which was wrongly credited to suspense account. Whereas, some examinees wrongly posted the correcting/ rectifying entry to the credit side of suspense account, which should have been posted to the debit side of suspense account.
- Some of the examinees were not able to rectify the transaction relating to receipt of Rs.1,000 from a customer, which was wrongly entered in cash account as Rs.10,000. Some examinees debited the suspense account with whole amount of Rs.10,000 instead of debiting it with Rs.9,000 (Rs.10,000 – Rs.1,000).
- Photocopy expense account was wrongly extracted to trial balance as Rs.7,500 instead of Rs.750. Few examinees could not correctly post the photocopy expenses on debit side of suspense account with Rs.6,750 (Rs.7,500 – Rs.750) rather they posted it on credit side.
- Some of the examinees passed journal entries instead of making suspense account.

**(b) (i) Preparation of Insurance, Salaries Payable and Interest Receivable Accounts:**

In this part, certain data regarding opening and closing balances of salaries payable, prepaid insurance, interest receivable and current year payments/ receipts, was given. Examinees were expected to prepare above ledger accounts and calculate current year expense or income amounts to be recorded in the statement of profit or loss. Following mistakes were seen:

- It was observed that a few examinees posted opening and closing balances on the wrong sides of the ledger accounts.
- Some examinees prepared salaries account instead of making salaries payable account.
- Some of the examinees unnecessarily prepare salaries expense and insurance accounts in addition to salaries payable and prepaid insurance accounts, which were not required.
- A few examinees passed journal entries instead of making required accounts.

**(ii) Preparation of Extract of Statement of Profit or Loss:**

In this sub part of the question, examinees were asked to prepare extract of statement of profit or loss based on the figures calculated in sub-part **(b) (i)**. The overall performance in this question was very poor. Following observations were made:

- It seemed that examinees had no idea about which items were to be recorded in the extract of statement of profit or loss. Examinees were supposed to pick balancing amounts from relevant ledger accounts i.e., prepaid insurance, salaries payable and interest receivable and include them in profit or loss account for the year.

### Question No. 3

#### Financial Statements:

Examinees were asked to prepare (a) Statement of Profit or Loss and (b) Statement of Financial Position.

This question was attempted by most of the examinees and their performance was quite satisfactory. Nevertheless, they committed the following errors/ lapses:

- As per the requirement, statement of profit or loss and statement of financial position were to be prepared in report form but some examinees prepared them in account form. Surprisingly, some of the examinees prepared ten-column worksheet, which was against the requirement.
- The amount of carriage outwards was wrongly deducted from sales by a few examinees, which was part of marketing expenses.
- Some examinees did not adjust salary expense and rent expense given in the trial balance with the accrued salaries and rent.
- Some examinees wrongly deducted opening balance of accumulated depreciation, Rs.50,000 (instead of Rs.52,300 which included current depreciation as well) from the cost of non-current assets to arrive at the ending carrying value of the assets.
- Many examinees prepared adjusting journal entries and ledger accounts as well in support of statement of profit or loss to waste their precious time.
- Some of the examinees did not realise that amounts given in the trial balance were in 'thousands', and adjustment amounts were in 'rupees' only. They treated both alike and, hence, could not produce correct answer.
- Many examinees deducted Rs.60,000 (the figure of allowance for doubtful debts given in the trial balance) from the amount of accounts receivable to arrive at the net accounts receivable to be shown in the statement of financial position. In fact, Rs.150,000 (3% of the closing balance of accounts receivable of Rs.5,000,000) should have been deducted.

### Question No. 4

#### (a) Recovery of Bad Debts:

Examinees were expected to give necessary journal entries for recovery of a previously written off bad debt. Performance in this part remained below average. Following mistakes were noted:

- Some of the examinees credited bad debt expense account, allowance for bad debt account, or profit or loss account, instead of crediting bad debts recovered account to the debit of cash/ bank account.
- A good number of examinees passed the original entry for writing off the accounts receivable, which was already made in previous year and now it was to be reversed.
- A few examinees directly passed the journal entry for cash received from debtor instead of first reinstating the debtor's account. Furthermore, examinees also committed mistakes while passing this entry. Few examinees debited allowance for bad debts account instead of debiting cash account and crediting bad debts recovered account.

#### (b) (i) Calculation of Gross Profit Rate:

In this sub-part, examinees were provided with the data of net sales, net purchases, freight-in, opening inventory and closing inventory. From the given data, gross profit rate was to be computed. Average performance was seen from examinees. Following shortcomings were noticed:

- A reasonable number of examinees just calculated gross profit and did not calculate gross profit rate.
- While calculating gross profit, a few examinees deducted freight-in from purchases instead of adding it.

- A few of the examinees tried to calculate gross profit rate directly without first calculating the cost of goods sold and gross profit.
- It was observed with concern that some of the examinees even did not know how to compute cost of goods sold.
- A few examinees were not conversant with the correct formula to calculate gross profit rate i.e.,  $(\text{gross profit} \div \text{net sales}) \times 100$ .

**(ii) Inventory Lost by Fire:**

Examinees were asked to determine the amount of estimated total closing inventory and inventory lost by fire by using the gross profit rate as computed in sub-part **(b) (i)** above. Very poor responses were seen from examinees. A reasonable number of examinees did not attempt this part at all. Following common errors were noticed:

- It seemed that examinees had no idea about applying the gross profit rate for calculating the estimated total inventory. It was observed that those examinees who attempted this part, only made cost of goods sold segment.
- A good number of examinees could not correctly calculate the inventory lost by fire, as they could not find the correct figure of total ending inventory for the relevant month (i.e. Rs.25,600). Then inventory lost by fire could be calculated as  $(\text{Rs.}25,600 \times 80\% = \text{Rs.}20,480)$ .
- Few of the examinees were able to calculate figure of total ending inventory, but they mistakenly treated it as inventory lost by fire.
- Some examinees took average of opening inventory and closing inventory and considered 80% of this average figure as the inventory lost by fire.

**(c) Going Concern Concept:**

Requirement of this part was (i) explanation of 'going concern' concept and (ii) discussion of three circumstances where this concept would not be justified. Responses of the examinees were not satisfactory. It was noticed that those examinees who attempted sub-part (i), had no clear idea about a very fundamental accounting concept and they just elaborated it without the core concept and logical argument. As far as sub-part (ii) was concerned, examinees were not able to give logical and correct circumstances where disclosure of going concern assumption was not justified.

**Question No. 5**

**(a) Classification of Assets as Tangible and Intangible Assets:**

This was attempted by a large number of examinees and most of them supplied correct answers. However, some of them depended upon guesswork and committed following mistakes:

- Examinees were not generally clear about licenses & franchises, brand names & publishing titles and designs. Hence, some of them treated the above items as tangible non-current assets instead of intangible non-current assets.
- A few of them tried to explain the uses of various assets rather than classifying them.

**(b) Disposal of Non-Current Asset:**

Examinees were given certain data i.e., cost of machine, rate of depreciation under straight-line method, sale proceeds of machine etc. From this data, examinees were expected to (i) calculate book value at disposal, (ii) calculate gain or loss on disposal and (iii) prepare machine disposal account. Performance of the examinees remained average. Following weaknesses were seen in their responses:

- A reasonable number of examinees calculated proportionate depreciation expenses in the years of purchase and disposal, although, it was clearly stated in the question that the company charges full year's depreciation in the year of purchase and no depreciation in the year of disposal. This error led to wrong calculations of book value and gain or loss.
- A good number of examinees calculated depreciation expense for only one year instead of three years, which again resulted in wrong book value and gain or loss.
- A few of the examinees calculated the book value by 'diminishing balance' method instead of 'straight-line' method.
- Some examinees made journal entries for the transactions, which were not required.
- Few examinees took the difference between cost price and sale proceeds as the book value.
- Some examinees posted sale proceeds on debit side instead of posting it on credit side. Similarly, few of them posted 'gain' on disposal on credit side instead of posting it on debit side of machine disposal account.

**(c) Preparation of the Statement of Cash Flows:**

This part of the question was attempted by most of the examinees. A large number of examinees supplied correct answers. In spite of that, following shortcomings were observed:

- Some examinees did not write proper heading i.e., company name, name of the statement and accounting period.
- A good number of examinees just wrote the values of the various accounts in the statement of cash flows, which were given in the statement of financial position of year 2014. Instead, they should have taken changes between the values of various accounts of statements of financial position of 2013 and 2014.
- A reasonable number of examinees took difference in net profits before tax for the year 2013 and 2014 to start the solution instead of taking net profit before tax for the year 2014.
- Few examinees treated increases in share capital and long-term loans as investing activities instead of treating the same as financing activities.
- A few examinees considered accounts payable and accrued expenses as cash flows from financing activities instead of incorporating them under the heading of working capital changes.
- Some of the examinees also wrongly treated retained earnings as cash flow.



**General comments:**

The overall performance of the examinees remained below average in this examination. It seemed that examinees were not well prepared for this examination. Majority of the answers contain irrelevant details which showed that they have written their answers on the basis of general knowledge or guess work without reading the related books.

**Question No.2**

**(a) Principles & Benefits of Corporate Governance, Organization of Economic Co-operation and Development (OECD):**

Most of the examinees are not even aware of the concept of corporate governance so the principles & benefits are far away to be answered by them. Majority of examinees could not write correct answers. It seemed that examinees did not read Organization of Economic Co-operation and Development (OECD) as such they made common knowledge of corporate governance. However, this question was attempted by almost all the examinees. The requirement only demands to jot down the principles and benefits of corporate governance. Corporate governance is concerned with improving the way organizations are governed and run.

The benefits of corporate governance include the following:

- Risk reduction
- Leadership improvement
- Performance enhancement
- Improving access to capital markets
- Enhancing stakeholder support by showing transparency, accountability and social responsibility.

The OECD (Organization of Economic Co-operation and Development) identifies following five principles of corporate governance:

- (i) The rights of shareholders
- (ii) The equitable treatment of shareholders
- (iii) The role of stakeholders
- (iv) Disclosure and transparency
- (v) The responsibility of the board

**(b) Long Run Cost Curve:**

Very few examinees could answer this part of the question correctly. However, some gave correct theoretical answers but made wrong diagrams. Some examinees did not attempt this part along with above part. Majority of the examinees failed to understand the requirement and found themselves no way near to solve it.

A graph, which clearly mentions the curve which touches the minimum level and then starts increasing with the further explanation, can easily illustrate the concept of long run cost curve.

Long run is the long enough time for a firm to be in a position to vary quantities of all inputs. In the long run there is no fixed cost as in the long period fixed factors of production also become variable. A firm can easily build up any size of land and scale of production. Long run is the addition of the short run so the behaviour of the long run average cost curve is the same as of short run cost curve.

Short run average cost curve decreases first due to increasing returns, it touches minimum level and then starts increasing due to diminishing returns. As the long run is the addition of the short periods so the long run average cost curves first diminishes, touches minimum and then starts increasing.

### Question No.3

#### (a) Standard Measures Required for Short Run Performance:

A reasonable number of examinees attempted and wrote correct answers. But the rest could not understand the question and as such they made common knowledge or other irrelevant matter. However, majority of examinees attempted the question and some of the examinees have provided the good response to this question. Two standard measures of short-run performance are:

- (1) The rate of return on capital employed, (2) Earnings per share

#### (b) Assumptions and Factors Affecting the Law of Demand:

It was attempted by majority of examinees and most of them wrote correct answers. But the rest could not understand the question and as such they made irrelevant matter.

Law of demand holds under the following assumptions:

- Homogenous units
- Income of the consumers
- Taste and fashion
- No new substitutes are discovered
- Prices of the substitutes
- No change in the expectations
- Climatic or weather conditions

### Question No.4

#### (a) Profit Maximization for a Firm Under Perfect Competition:

Majority of examinees attempted and tried to answer but again made wrong diagram, as such they explained wrongly. Examinees have fair enough knowledge but could not focus on what was exactly required in this question.

A graph, which clearly mentions the highlighted portion of super normal profit along with the further explanation, can easily illustrate the profit maximization for a firm under perfect competition.

In short run under perfect competition a firm can earn super normal profits because firm can only change variable factor of production so if price increases due to increase in demand, firms can increase supply up to some extent as the new firms cannot enter into industry, therefore, firms in the industry can earn super normal profits.

#### (b) Concept of Consumer Surplus and Producer Surplus:

Majority of the examinees have answered this question but except for few, mostly have failed to provide the correct concept of consumer surplus and producer surplus.

In ordinary sense consumer surplus is the difference between a price the consumer is willing to pay for a commodity and the actual price paid. In other words consumer surplus is a measure of excessive utility or benefits or welfare received by the consumer over and above the consumer pays. Producer surplus is the difference between the price the producer is willing to accept and the price actually received.

### Question No.5

#### (a) Objectives of Fiscal Policy:

A good number of examinees attempted and wrote correct answers. It seemed that examinees have knowledge about this and wrote abundantly on the topic as it is current affairs economics of the country. However, some examines did not attempt this question.

The requirement only demands to jot down the objectives of Fiscal Policy which are:

1. Economic growth and economic development
2. Fair distribution of income
3. Full employment / reducing unemployment
4. Economic stability
5. To discourage the production of unnecessary goods
6. To correct the disequilibrium in the balance of payment
7. Value of money
8. Suitable consumption level

**(b) Characteristics of Developed Money Market:**

A good number of examinees attempted and wrote correct answers. It seemed that examinees have knowledge about this and wrote abundantly on the topic on the basis of general knowledge as it is being learned daily in the media. The developed money market is a well organized market. Some main features of developed money market are:

- Central bank
- Organized banking system
- Specialized sub markets
- Integrated interest rate structure
- Adequate financial resources
- Remittance facilities

**Question No.6**

**(a) Profitability of Devaluation:**

A good number of examinees attempted this question and wrote correct answer. This topic is a common in economics of a country and having understanding by majority of examinees. However, some examines did not attempt this question. The requirement only demands the analysis skills of examinees to answer the profitability of devaluation after reviewing the concept of devaluation. Devaluation is lowering of the value of home currency in terms of foreign. The process of devaluation is profitable for those countries:

- (a) Which are having zero foreign debit or minimum foreign debt balance.
- (b) Exportable surpluses which may be needed because of fall in export price and increased demand in international market.
- (c) Fall in demand for imports due to rise in prices of imports as a result of devaluation.
- (d) Devaluation is profitable when new markets for exports can be explored and exportable surpluses are available to the increased demand.

**(b) Approaches to calculate GDP:**

Only a few examinees could answer this part correctly. A majority of the examinees computed wrongly. Perhaps examinees have not fair or enough knowledge of the correct formulae of three required approaches of GDP. However, some examinees did not attempt this question. Although this area of the subject is the key to the Economics, but from the scripts it seemed that examinees did not study this important area.



**General comments:**

The majority of the scripts were of un-satisfactory standard evidencing unreasonable level of preparation and technical knowledge so the performance in this paper was far below the expectations. It appeared that the examinees did not devote adequate time and efforts in their preparations for the examinations. Preparations were based on a limited number of selective topics, inability to comprehend and develop understanding of the core concepts of the various topics and their applications are responsible for less than satisfactory performance. It is also observed in many instances that examinees do not make sufficient efforts to understand fully the essential requirements of the questions which prevent them from scoring good marks. Limited vocabulary and poorly constructed sentences which do not express one's ideas with clarity were apparent in many cases.

**Question No. 2**

**(a) Elements for Effective Written Communication:**

Majority misunderstood the content of the question and discussed either the factors of communication process or explained the business writing principles followed in effective business communication which was not required. Rather than writing elements for effective communication, many examinees wrote 7C's of business communication. The examinees could not secure good marks in this part of the question.

The examinees must be advised to read and understand the proper content of the question and then develop a specific plan to write answer as the time for each question is calculated and if more time is given to one question in writing the irrelevant details it will prevent them from planning or answering another important question of the paper. The elements of effective written communication are identifying the purpose of the message, analysing the audience, selecting the ideas, collecting the data etc. The answers lacked perfection and did not elucidate the various steps completely.

**(b) Interpersonal Communication Barriers:**

It was a theoretical question. Examinees were expected to identify the communication barriers found in interpersonal communication. Those examinees who answered incorrect explained the five faults that affect listening efficiency in response of the question. In this part they were required to write 'interpersonal communication barriers' which are filtering, emotions, language, national culture, information overloaded etc. instead of these, they explained noise in detail with its different types i.e. psychological noise, physical noise etc.

**Question No.3**

**(a) The Process of Listening:**

This section of the question required the examinees to discuss:

- a. The process of listening
- b. General Faults of listening

This question was a straight one but examinees adopted non-specific views and wrote answers which reflected as if a layman is writing rather than examinees who have studied the topic and then prepared for exam. Their answers showed many repetitions and overlapping. A well-crafted concise and focused answer was only given by a small group of examinees. The examinees are advised to focus on the content of the questions properly rather than dragging every crammed thing in their answers un-necessarily.



Most of them did not know the correct order of listening stages which are hearing, focusing, deciphering, accepting and storing. This question was of 10 marks so proper explanation should have been written which they were unable to write. The examinee must have covered the following points for writing faults of listening which was also asked in the question:

- Prejudice against the speaker
- External distractions
- Hasty conclusions
- Annoying words
- Prejudgement
- Self-centeredness
- Selective listening etc.

**(b) Reading Strategies:**

It was a theoretical question. Examinees were supposed to explain the strategies for reading a case properly and do's and don'ts for case analysis. Majority of the examinees lacked knowledge of this concept and their answers were based on guesswork. Most examinees couldn't solve do's or don'ts for case analysis. Many did not try to attempt this question which was of 9 marks. Previewing, scanning and skimming were mixed together in this question. This reflected upon examinee's poor reading and understanding of the topic on case analysis and study.

**Question No.4**

**(a) Recommendation Letter:**

A recommendation letter is required to be written for an employee to outside an organization, communicating his/her qualities and recommending suitability for the organization. Majority of the examinees misunderstood the situation and tried to do this question in hurry. They failed to discuss the necessary and relevant details. Those examinees who answered incorrect wrote to a former employee offering to rejoin the organization considering their past commendable performance. The examinees demonstrated not only poor communication skills but also writing skills. Although letter writing is a regular feature of this paper, it appears that the examinees do not devote sufficient efforts to acquire knowledge of the proper formats of business letters. Often the addresses of the sender and the recipient are not placed at the appropriate places. Limited vocabulary, inappropriate choice of words and inconsistent tenses are observed in many instances.

**(b) Order Letter:**

This question required examinees to write a letter to the company for placing an order of bed sheets, towels, blankets and reminding both parties of agreed terms and conditions in order to assess business communication and writing skills. Those examinees who answered incorrectly wrote as a company offering to provide bed sheets of imported qualities upon given terms and conditions. The examinees reflected not only poor communication skills but also writing skills.

Most business letters contain seven standard parts i.e. heading, inside address, salutation, body, complimentary close, signature block and reference initials which they could not write properly. They did not know how to write addresses correctly with designations. They were not familiar with plans of good news or bad news. Proper paragraphing was not done. They mixed up all. Some did not know the order should be given to whom. The overall content details were also unsatisfactory.

### Question No.5

**(a) Types of Seminars:**

This question was theoretical in nature and required examinees to define seminar and its types. Those examinees who answered incorrect wrote incomprehensible content showing lack of understanding of the topic and poor writing skills. This topic is not common so majority of the examinees did not attempt it. Even those who did attempt performed poorly. Some mentioned incorrect types of seminars. A seminar is a lecture or presentation delivered to an audience on a particular topic or set of topics that are educational in nature. The types of seminars are mini seminar, major seminar, national seminar and international seminar. The examinees are advised to study grammar base structure and go through it very carefully to achieve perfection.

**(b) Apology Letter:**

The answers were unsatisfactory. Examinees could not use proper format for it and also the given explanations or reasons were not impressive. They even did not know correct indirect plan for it which was very important. In some cases they did not mention the senders name with designation and salutations etc. Grammatically their writings appeared to be weak. Although the message in letter was comprehensible but due to poor sentence formation the overall impression of writing was substandard and poor. In the letter verbatim reproduction of the words from the question was also observed in too many letters. Dedicated efforts to improve writing skills would not only help examinees to score good marks but also enable them to make a positive impact in their professional lives.

### Question No.6

**REPORT WRITING:**

This question required examinees to write an investigative report on the causes of declining results of the college for given years. Those examinees who answered incorrect, wrote the report without any format. They did not summarize the given table and results and wrote incomplete report without conclusion or body. What they missed out was writing all the points required for writing different sections separately e.g. they didn't know what should be written in introduction of the short report and giving the summary or recommendations were also needed to be mentioned in the end. They should also know the difference between writing a memorandum report and a letter report according to the question requirement which they usually didn't know.



**Question No. 2**

**(a) Role of Management Accountant in Developing Strategy:**

This part of the question required explaining role of a Management Accountant in developing a strategy but examinees explained only the functions of the Cost Accountant i.e., helping the management in reducing, controlling and monitoring costs. Most of the examinees were unable to distinguish between the role of Cost Accountant and the Management Accountant. Cost Accountant provides only cost information for managerial use whereas Management Accountant provides all types of accounting information related to cost and financial accounting.

**(b) Cost calculation with High Low Method:**

The requirement of the question was to calculate the total cost of 700 units and it was also clearly mentioned in the question that if production exceeds 500 units then variable cost will be reduced by 10%. This point clearly indicated that per unit variable cost of product should be calculated by taking differential of amounts and units at output level of 400 units and 200 units respectively i.e.,  $\left( \frac{14,000-12,000}{400-200} = 10 \right)$  but examinees mistakenly took differential of amounts and units at output level of 600 units and 200 units respectively which led to incorrect answers.

**Question No. 3**

**(a) Definitions of Lead Time and Buffer Inventory:**

This was a simple question of defining the lead time and buffer inventory. Most of the examinees were aware with the definitions and defined it correctly and secured good marks. However, some of the examinees wrote vague definitions of buffer inventory.

**(b) Calculation of Economic Order Quantity (EOQ), Re-order Level, Minimum and Maximum Level:**

In this question examinees were asked to calculate EOQ, Re-order Level, Minimum and Maximum Inventory Levels. Almost all the examinees attempted this part. In the question the holding cost per unit was available in terms of currency not in percentage and examinees needed to just put it in the formula. Most of the examinees multiplied it with per unit cost and put the value in the formula which was wrong. This practice would have been correct if holding cost would have been given in terms of percentage of per unit cost of the product. Some examinees were not sure with the lead time (minimum, normal or maximum) or which daily consumption (minimum, normal or maximum) would be used in formula.

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

##### **Income statement under Absorption and Marginal Costing:**

The requirement in this question was to prepare Income Statement under Absorption Costing and Marginal Costing Methods. Majority of the examinees correctly differentiated between two concepts but some of them took the cost of goods sold as  $(9,700 \times 22 = 213,400)$  and again took the effect of opening and closing inventories in both methods for the calculation of cost of goods sold which is a wrong approach. Moreover, it was mentioned in the question that selling and general expenses are variable which means that the actual cost for both the methods would be calculated on actual units sold instead of actual units produced. Furthermore, in marginal costing, examinees did not deduct variable selling expenses while calculating contribution margin and showed it with fixed expenses in the calculation of net profit which was incorrect.

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

##### **(a) Abnormal Loss and Treatment in Process Costing:**

In this part examinees were simply required to define the abnormal loss and its treatment. Examinees defined the abnormal loss correctly but as far as its treatment is concerned very few of them were able to elucidate it correctly that abnormal loss should be written off to the profit and loss so that they do not affect the valuation of expected units of output.

##### **(b) Statement of Equivalent Units by Weighted Average Method:**

In this part statement of equivalent production units and preparation of Process Account were required by using weighted average method. As per formula when computing equivalent units using the weighted average method in which the beginning inventory is ignored. Finished and transferred units were hundred percent complete. In material, the calculation was correct because closing inventories were 100% complete but as far as conversion is concerned, candidates committed mistakes of taking the effect of closing units, which were 50% complete. In addition, majority of the examinees failed to prepare the process account correctly.

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

##### **(a) Circumstances Under Which Standard Costing Techniques May Effectively Be Used:**

In this part of the question circumstances were needed to be identified by the examinees under which standard costing techniques may effectively be used. Almost all the examinees attempted this part of the question but instead of explaining circumstances under which standard costing may be used they elucidated the benefits of standard costing which was wrong.

##### **(b) Calculation of Variances:**

Examinees were asked to calculate different variances and majority of the examinees attempted this part of the question correctly. However, few of them wrongly calculated standard hours allowed while calculating labour efficiency variance. Some of them were unaware of the overhead spending variance and overhead efficiency variance formulas. Some candidates remained futile to recognise the variances as favourable/ unfavourable.



**Question No. 2**

**(a) Simplification of an algebraic expression:**

In this part of the question examinees were required to solve an algebraic expression. Majority of the examinees could not solve it correctly. Few examinees have misconception about LCM. Few examinees made sign mistakes whereas few of them equate it rather than simplifying as was required. Examinees need more practice to understand the difference between simplification and equation.

**(b) x and y-intercepts:**

The requirement in this part of the question was to determine x and y-intercept for a quadratic equation. The examinees must know that 'x-intercept' is a situation where 'y'=0 and 'y-intercept' is a situation where 'x'=0. Furthermore, examinees only solved the equation and wrote solution set {-1, 4} instead of writing x and y-intercepts.

**(c) Net present value (NPV):**

This was a very simple question which required determining the viability of the project on the basis of Net Present Value (NPV) calculation. Few examinees calculated cash flows from year 1 instead of year 0. Some of them wrongly demonstrated present value (PV) as net present value (NPV) which resulted in incorrect answer.

**Question No. 3**

**(a) Revenue maximization:**

Examinees were required to find level of output at which profit is maximum using profit maximization approach. Few examinees did not know the difference between marginal profit and total profit function. Many of them were lacking in the basic concepts of differentiation. Most of the examinees wrote incorrect equation of the profit i.e., total revenue less total cost. Some of them remained abortive to mention  $TC = AC \times q$ , the resultant of which would be  $150000 + 100q + .003q^2$ .

**(b) Depreciation:**

In this part of the question examinees were asked to work out the rate of depreciation by reducing balance method and the book value of the asset at the end of 5 years. Majority of the examinees could not calculate correct rate of depreciation by reducing balance method due to the application of incorrect formula. Candidates also could not calculate book value of the equipment. Some of the examinees applied wrong percentage as well.

**Question No. 4**

**(a) Mean deviation from mean:**

In this part, the examinees were required to calculate mean deviation from mean. Most of the examinees performed well in this part of the question. However, few examinees computed  $\frac{\sum f(x-\bar{x})}{\sum f}$  instead of  $\frac{\sum f|x-\bar{x}|}{\sum f}$  which resulted in incorrect mean deviation.

**(b) Mode:**

In this part of the question examinees were asked to work out the mode for the given data. Majority of the examinees performed well in this question. However, few examinees did not calculate class boundary and used class intervals. Some of them could not determine correct mode class of the data, hence, used wrong figures for 'h' or 'fm'. Few of them committed basic calculation mistakes i.e., added two values before solving the bracket rather than solving bracket first and then add the first value with the resultant.

**Question No. 5**

**(a) Linear model:**

A linear model for forecasting quantity demanded was required to be developed. Majority of the examinees solved it correctly. However, few of them fell short to apply the correct formula to solve the application. Moreover, few examinees applied time series (least square) equation instead of regression line. Furthermore, some of them committed computation mistakes which lead to incorrect answers.

**(b) Primary and secondary data:**

Examinees were required to define the primary and secondary data along with two examples each. Majority of the examinees were able to define primary and secondary data correctly but they could not give relevant examples. Some of them provided only one example rather than two as were required. In some cases, vague definitions were also observed.

**Question No. 6**

**(a) Confidence interval:**

Examinees were required to construct a 95% confidence interval for 8 students. Most of the examinees were unable to compute the standard deviation. Few examinees used incorrect 't' value, though the value was given in the question paper. Some of them committed calculation mistakes whereas some used wrong formula.

**(b) Probability:**

This question tested the basic knowledge of the probability regarding mutually exclusive and not mutually exclusive events. Most of the examinees even not knew the correct formula. Furthermore, some of them could not calculate  $1 - 1/5 = 4/5$  and  $1 - 2/3 = 1/3$ .

**(c) Consumer price index (CPI):**

Examinees were required to compute the real income i.e., dividing annual income by CPI. Few examinees solved this by Fisher, Laspeyre and Paache's index number. Some of them wrongly multiplied the annual income from given CPI to get incorrect real income.



**Question No. 2**

**(a) Steps involved in the process of legislation through Parliament under 1973 Constitution:**

Examinees were asked to elaborate the steps involved in the process of legislation through parliament under 1973 constitution. Most of the examinees were not aware that the bill can be proposed from either house of parliament instead they were of the view that It can be proposed from lower house and then after passing from National Assembly it will presented in Upper House. Moreover, very few of the examinees correctly described the point that if a bill is pending in National Assembly or a bill passed by National Assembly is pending in Senate, at the time of dissolution of National Assembly, the bill is considered as lapsed. But at the time of dissolution of National Assembly, if the bill was pending in Senate and not passed by National Assembly it shall not be considered as lapsed.

**(b) Rights of a buyer to accept or reject goods under Section 37 of Sales of Goods Act, 1930:**

Examinees were required to elucidate rights of a buyer to accept or reject goods under section 37 of Sales of Goods Act, 1930. Most of the examinees were able to attempt this question correctly. However, some of them have incorrectly mentioned the right of the buyer to claim for damages also.

**Question No. 3**

**(a) (i) Advantages and Disadvantages of Precedent:**

Candidates were asked to explicate the advantages and disadvantages of precedent. This part of the question was poorly attempted by many examinees. They gave very general answers and relate precedent to the wrong judgment. Many students described Precedent and its kinds rather than discussing the advantages i.e., systematic reform, Legal equality etc. and disadvantages i.e., Precedents may be outdated but must be followed, Precedent require an act of parliament to change etc.

**(ii) Fraudulent Act with respect to Section 17 of the Contract Act, 1872:**

Requirement of this part was to specify the fraudulent act with respect to section 17 of the Contract Act, 1872. Many examinees stated examples instead of actually referring the fraudulent act, like making of a promise without any intention of performing it etc. Few examinees simply stated that telling a lie also comes in the ambit of fraud which is not correct unless intention to render some damage or to deceive was involved.

**(b) Price Determination under Sale of Goods Act, 1930:**

Candidates were asked to elucidate price determination under section 9 of sale of goods act, 1930. Most of the examinees attempted this part of the question well. However, few of them provided general answers whereas some explained the cost and profit elements of the price which was not correct.

**Question No. 4**

**(a) (i) Disadvantages of Partnership:**

Examinees were required to elucidate disadvantages of partnership. The overall performance of the examinees was good in this part of the question. Few examinees wrote the advantages of partnership in haste rather than disadvantages. Some examinees wrote either the disadvantages of private limited companies or sole proprietorship which was not the requirement of the question.

**(ii) Situation regarding Partnership Act, 1932:**

Candidates were required to elaborate a statement regarding the situation in the light of provision of the Partnership Act, 1932. Most of the examinees provided the right answer. However, few of them were in favor of that partner 'D' can get the remuneration against his extra efforts for the business.

**(b) (i) Essentials of Promissory Note under Negotiable instrument Act, 1881:**

Requirement of this question was to state the essential of promissory note under negotiable instrument act, 1881. Majority of the examinees were unable to provide all the essentials of promissory note. However, some of them provided three or four correct essentials and others gave the general view.

**(ii) Situations for the identification of Inland and Foreign instrument:**

Examinees were required to identify the inland and foreign instrument along with the reasoning. Majority of the candidates identified the situation correctly, however, some of them remained abortive in stating why it is inland or foreign instrument.

**Question No. 5**

**(a) Powers of National Industrial Relations Commission:**

Requirement of the question was to explain the powers of National Industrial Relations Commission in the light of provisions of the Industrial Relations Act, 2012. Very few examinees provided the right answers in this part of the question. Most of them elucidated the powers and formation of Collective Bargaining Agent (CBA) instead of powers of National Industrial Relations Commission as required. Many of them described the functions of National Industrial Relations Commission rather than its powers.

**(b) Definitions under Workmen's Compensation Act, 1923:**

**(i) Dependent:**

Candidates were required to define dependent. Most of the examinees remained abortive in providing all the categories of dependent. Some of them wrote only two or three categories of dependent, hence, lost marks.

**(ii) Managing Agent:**

Definition of the Managing Agent was asked in this part of the question. Most of the examinees missed that the Managing agent works on behalf of the person who appointed him.

**(iii) Partial Disablement:**

Definition of the partial disablement was required in this part of the question. Majority of examinees attempted this part of the question very well. However, few of them were unable to relate the earning capacity with partial disablement.

**Question No. 6**

**(a) (i) SAFA Code of Ethics:**

Examinees were required to list five fundamental principles of SAFA Code of Ethics with which its members are expected to comply. This part of the question was very well attempted by majority of the examinees. However, few of them were unable to explain the SAFA code of ethics and explained the types of threat to the professional accountant which was not required.

**(ii) Consequences of Unethical Behavior:**

Candidates were required to identify the possible consequences of unethical behavior in the cases of an individual and professional body. Majority of the examinees attempted this part of the question poorly. Most of them remained abortive to understand the consequences of unethical behavior and explicated the types of unethical behavior.



**(b) Factors to be taken into consideration for a procurement agency**

Examinees were asked the factors to be taken into consideration for a procurement agency while engaging in pre-qualification according to the public procurement regulatory authority rules (PPRA). Very few examinees were able to attempt this part of the question adequately. Most of the examinees described the process of bidding instead of stating the key factors.

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**Question No. 2**

In this question, examinees were required to prepare the following:

- a) Statement of Profit or Loss
- b) Statement of Changes in Equity
- c) Statement of Financial Position, and
- d) Notes showing necessary computations for discontinued operations of dairy business

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

**(a) Statement of Profit or Loss**

- A good number of examinees could not calculate the correct amount of cost of sales as majority of the examinees could not correctly calculate the amount of depreciation and impairment loss on machinery, which was to be charged to cost of sales.
- Majority of the examinees ignored to incorporate the reorganization cost of Rs.90,000 of poultry business in the profit or loss statement.
- The majority merged the relevant figures of revenue and expenses of the two businesses in the profit or loss statement (like statement of consolidated profit or loss). They should have prepared separate statement of profit or loss of the dairy business, which was discontinued. Then the resultant loss should have been included as one liner figure in the statement of profit or loss of the continuing business i.e., poultry business.
- Full year's depreciation was calculated on machine 'X' instead of 9 months'. Hence its book value could not be correctly calculated.
- To compute the net realizable value (NRV) of machine 'X', cost to sell was added to market value instead of deducting the former from the latter.
- Due to these two preceding mistakes, impairment on machine 'X' could not be correctly computed.

**(b) Statement of changes in Equity**

In this part of the question, majority of the examinees did not perform well due to wrong calculation of loss for the period. Most of them started with correct opening figures of share capital and retained earnings, but due to wrongly computed amount of loss for the year, correct closing amounts of retained earnings and total equity could not be incorporated in the statement.

**(c) Statement of Financial Position (SFP)**

- A good number of examinees could not calculate the correct book values of plant & machinery and vehicles, mainly due to wrong calculation of current depreciation amounts. Some examinees wrongly used declining balance method instead of straight-line method.
- A good number of examinees showed machine 'X' at book value in the SFP rather than showing it at NRV. The majority included machine 'X' in non-current assets instead of including it in current assets.

**(d) Notes showing necessary computation for discontinued operations of dairy business**

The Majority of the examinees did not attempt this part of the question as they have no idea about the topic and those who attempted could not perform well as they completely ignored redundancy cost related to dairy business while calculating the relevant note.

### Question No. 3

In this question, examinees were required to prepare statement of cash flows, along with reconciliation of cash and cash equivalents, using 'Indirect Method' as per IAS-7. The question was very well attempted by the majority of the examinees. However, following mistakes as given under each activity, were noted in the scripts:

#### (a) Cash Flows from Operating Activities

- Interest income was added to net profit before tax instead of subtracting it from the latter.
- Some of the examinees did not make adjustment for the provisions for legal claims (i.e., Rs. 500,000). Some of them wrongly subtracted it from net profit before tax.
- Some of the examinees ignored to add back the impairment amount of Rs.2,000,000 on old machine, which was clearly given in the question. A few of them wrongly included impairment amount in depreciation amount.
- Some examinees showed bank balance and overdraft under working capital charges instead of showing them in reconciliation of 'cash and cash equivalents'.

#### (b) Cash Flows from Investing Activities

- While calculating cash flows from investing activities, a few examinees did not take into account the sale proceeds of staff bus, Rs.1,200,000.
- Interest income was not treated as investing activity.
- A large number of examinees were not able to incorporate the amount of cash outflow for purchase of plant and machinery i.e., Rs.20,000,000, which was also given in the question.

#### (c) Cash Flows from Financing Activities

- A large number of examinees totally overlooked the repayment of long-term borrowings amounting to Rs.2,000,000.
- Some of the examinees attempted the question without separating the activities into operating, investing and financing activities, which was the essence of the question.

### Question No. 4

#### (a) Disadvantages of Harmonization of Accounting Standards

In this part of the question, examinees were required to list down the disadvantages of harmonization of accounting standards. Majority of the examinees attempted this part of question but failed to explain the same and resorted to their general knowledge and hence produced irrelevant answers. The answer left a lot to be desired and exposed examinees' lack of interest towards theoretical part of the syllabus. Examinees' lack of communication skills in English is another alarming factor, which prevent them from properly expressing what they want to. Some examinees wrongly described advantages of Harmonization against the requirement of question.

#### (b) Valuation of Inventory using First in First Out (FIFO) Method

Examinees were required to calculate the value of inventory using First-in-First-out (FIFO) Method. Even though, the requirement of the question was very easy and modest but the performance of the examinees was very poor. Following shortcomings came under observations:

- Majority of the examinees included the income tax @ 6% and sales tax @ 18% in the cost of inventory, although, it was clearly mentioned in the question that income tax and sales tax were refundable/adjustable.
- Some of the students surprisingly calculated the invoice value of 5,000 units received on January 15, 2015 @ Rs.10 per unit instead of Rs.90 per unit.
- Surprisingly some examinees subtracted amounts of customs duty, carriage inwards and clearing charges etc., from the invoice value of inventory, which were to be added.

## Question No. 5

### (a) Permanent and Temporary Differences

In this part of the question, examinees were required to explain the terms 'permanent' and 'temporary' differences by giving one example of each difference. Majority of the examinees attempted this part of the question but provided incomplete answers or tried to explain with their self-invented answers. Some examinees unnecessarily tried to define accounting and taxable profits and wasted their previous time. Those who properly defined these differences, failed to give proper examples. The answers also exposed examinees' expression skills in English.

### (b) Convertible and Non-convertible Bonds

A company had issued above mentioned bonds at the beginning of its accounting year. Examinees were required to calculate (i) the amounts to be recorded as financial liability and equity at the time of issuance of bonds and (ii) the amounts to be recorded in the statement of profit or loss and statement of financial position for the years 2013 to 2016. Some examinees even avoided attempting this question and those who attempted showed lack of knowledge and study of the subject. Consequently, the performance of the examinees was very poor. Following common mistakes were noted:

- Examinees calculated the compound interest plus face value of the bonds as liability component and calculated the equity component by converting the bonds into shares at the given conversion ratios.
- The majority of the examinees was not conversant with the basic calculations as to how to separate the liability and equity components of the convertible bond amount.
- Majority of the examinees prepared journal entry for issue of bonds by debiting cash account and crediting bonds payable. They were ignorant of the fact that for a listed public limited company, such transaction cannot be for cash.
- Examinees have no clear concept of bonds and shares. They treated bonds payable as shares.
- Many examinees were not familiar with how to calculate present values of interest and principal amounts from the given table of present value factors. They unsuccessfully tried to make use of a 'formula' for this purpose and most of them arrived at wrong value of the financial liability.



**Question No. 2**

**(a) Principles of delegating authority and advantages of effective delegation:**

Examinees were required to describe the principles of delegating authority and advantages of effective delegation. The first part of the question i.e., main principles of delegation of authority explained appreciably well. Regarding advantages of effective delegation to both managers and subordinates, examinees provided vague answers. Actually they were required to mention that the workloads of managers and supervisors are condensed resulting in reduction in stress; managers are left free to carry out non-routine tasks while passing on more routine activities to subordinates; The subordinate's work experience is enriched with subsequent increase in job satisfaction leading on to better work etc.

**(b) Blake and Mouton's research and designed the managerial grid:**

This question required to explain the managerial grid as designed by Blake and Mouton. A good number of examinees were able to explicate the managerial grid consisting of two dimensions i.e., “**Concern for People**” and “**Concern for Production**”. However, some of the examinees were confused in drawing the graph and labelling on x-axis and y-axis. Some of them could not explain the details regarding task oriented management style (9,1), country club management style (1,9), impoverished management style (1,1), the middle road management style (5,5) and the team management style (9,9). Few candidates wrote irrelevant different theories which were not required.

**Question No. 3**

**(a) Characteristics of culture of an excellent organisation and possible drawbacks of strong culture:**

In this question, the examinees were required to answer the characteristics of culture of an excellent organization as identified by Peters and Waterman and to discuss the possible drawbacks of a strong organizational culture. Most of the examinees did not describe it with reference to Peters and Waterman. Few candidates answered the first part of the question correctly but missed the second part. Examinees were expected to answer core values as identified by Peters and Waterman of excellent organizations which includes productivity through people, action bias, simple form, lean staff, stick to the knitting etc. Most of the examinees could not correctly elucidate the drawbacks of strong culture i.e., strong cultures are difficult to change and it may stress inappropriate values etc.

**(b) Key drivers of globalization and risks may occur in global business investment:**

Candidates were asked to identify key drivers of globalization and the risks may occur in global business investment. Few examinees identified the key drivers of globalization and the risks that may occur in global business investment correctly covering almost all points. However, many examinees answered the question partially. The examinees were remained abortive to identify all the key drivers of globalization like technological innovation, advances in transportation, meeting the requirement of lifestyles and tastes etc. Majority of them were unable to mention political risk and country risk i.e., a change in government can sometimes result in dramatic changes for a business. Political risk could have a direct effect on a business and the social and economic infrastructure respectively.

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

**(a) Benchmarking is beneficial to an organization and key points in benchmarking process flow:**

This question required to explain how benchmarking is beneficial to an organization and to identify key points in benchmarking process flow. Regarding first part, most of the examinees had no knowledge about the subject matter; however, process flow was answered correctly by majority of the examinees. The candidates remained futile to mention that the goal of benchmarking is to identify various benchmarks which are standard of excellence against which to measure and compare. It serves as a tool against which organizational performance is monitored and measured etc. Few candidates were unaware of benchmarking process flow and wrote vague explanations. They could not select process to be benchmarked, Collect, analyze and evaluate information, identify best practice etc.

**(b) Types of quality related costs:**

Examinees were asked to explain types of quality related costs. Majority of the candidates answered correctly. However, some of the candidates mentioned fixed and variable costs as quality related costs and some elucidated pricing strategies such as cost plus pricing, skimming pricing, market penetration pricing etc. Furthermore, some examinees also incorrectly mentioned raw material cost, labour cost, overhead and maintenance cost to improve the quality of cost. Actually these costs include prevention costs, appraisal costs, internal failure costs and external failure costs.

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

**Reasons for creating HR Plan and stages of HR planning:**

Examinees were required to identify reasons for creating HR Plan and to describe stages of HR planning. A good number of examinees were able to identify the reasons for creating HR plan and described the stages of Human Resource Planning reasonably correct. However, few examinees described different stages of HR planning incorrectly. The stages of human resource planning (HRP) include strategic analysis, internal analysis; identify the gap between supply and demand etc.

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

**(a) Characteristics of services and their marketing implications:**

Candidates were asked to identify and explicate the characteristics of services and their marketing implications. This part of the question was well attempted by most of the examinees with correct description of all characteristics of services and their marketing implications. Some of them could not mention all the characteristics of services i.e., intangibility, inseparability, heterogeneity, perishability and ownership correctly.

**(b) Variable/ Bases for segmenting consumer markets:**

Most of the examinees mentioned bases of segmentation as geographic, demographic, psychographic and behavioural correctly. However, they could not explain it accurately. Geographic segmentation includes regions/ country, city/ metro size, and density/ climate. Demographic segmentation consists of age, gender, family size, lifecycle, income, occupation, education, religion and nationality. Psychographic segmentation comprises social class, lifestyle, and personality etc.



**General Comments:**

The overall performance of the examinees in this examination remained poor. The vast majority of examinees were not properly prepared on the subject. A large number of examinees completely misunderstood some questions and consequently gave wrong answers. Instead of giving specific and relevant answers, they wrote about their general knowledge on the topic or some irrelevant concepts that had nothing to do with the asked questions. Only a small number of examinees could get just passing marks with exception of very few who got good marks in this examination.

Lack of proper preparation in the following areas was observed during assessment:

potential risks of own (substandard) software development methodology, Applications of CAATs, Agile principles that support project teams in implementing Agile project management method, benefits and limitations of outsourcing IT support services, concept of data redundancy and integrity. On the whole, from a professional examination's point of view, most of the answers were not adequate and were even substandard with meager and shallow knowledge of the topics.

**Question No. 2**

**(a) Four Potential Risks and Suggested Controls:**

Majority of examinees committed mistakes in answering and mentioned inappropriate answers. Instead of focusing on factual potential risks of nonstandard software development methodology, majority of the examinees described petty concerns. The suggested controls / procedures were ultimately according to the wrongly identified potential risks.

The correct potential risks shall consist of inadequate management, deviation with the business objectives, cost overrun in developing and maintaining computer systems, excessive delay in developing and maintaining systems, de-motivated employees and inadequate resources to develop and / or maintain computer systems. All suggested controls / procedures shall be according to these potential risks.

**(b) Audit Risks:**

Instead of describing the four basic audit risks, majority of the examinees either mentioned other irrelevant risks with incorrect details or gave completely inappropriate information that did not, in any case, relate to the audit risks. The categories of audit risks are:

- 1) Inherent risk
- 2) Control risk
- 3) Detection risk
- 4) Overall audit risk

**Question No.3**

**(a) Applications of Computer Assisted Audit Techniques (CAATs) and Advantages and Disadvantages of CAATs:**

Hardly very few of the examinees gave the complete, correct and concrete answers. Instead of mentioning categorized applications of the CAATs with specific and focused capabilities, most of the examinees described the general uses of CAATs. Majority of the answers regarding advantages and disadvantages of CAATs were incomplete and were of poor quality with leaving some important advantages and disadvantages.

The correct applications of CAATs that must be included in the list are test data generators, expert systems, software library packages, integrated test facilities, snapshots, system control audit review file and specialized

audit software.

Advantages of CAATs are greater productivity through reduced audit cycle, simplified project documentation due to automation, reduction in cost, improved audit quality, reduced audit delivery time and audit risks, and availability of exceptional reporting and statistical sampling. Disadvantages including cumbersome due to extensive training requirements, usage depends upon creativity, experience and understanding of audit area. For some organizations CAATs customizing is a difficult process such as applications running across multiple platforms and extracting the transaction data requires high skills.

**(b) Basic Elements that should be Verified by IS Auditor While Reviewing Business Continuity Plan (BCP):**

A remarkable number of examinees did not describe some important activities that must be included in the BCP. Instead some unnecessary activities on their parts were included in the list. The correct answer must have included the following:

Obtain a current copy of the BCP manual, evaluate the effectiveness of documented procedures for business continuity effort, review the identification and planned support for critical applications including PC-based or end-user developed systems, determine if all applications have been reviewed for their level of tolerance, in the event of disaster determine if all critical applications have been identified, determine if the hot site has the correct version of all system software and that are compatible. Review the list of business personnel, emergency hot site contacts, emergency vendor contacts etc., verify the phone numbers and contacts by actually calling a sample of people and confirm that they possess a current copy of the business continuity manual, interview them for an understanding of their assigned responsibilities in a disaster situation, evaluate the procedure for updating the manual, evaluate all written procedures for thoroughness, appropriateness, accuracy and understanding, determine if all teams have written procedures to follow in the event of disaster.

**Question No.4**

**(a) Agile Project Management Method with Agile Principles:**

A vast majority of the examinees either misunderstood the question or they knew nothing about the Agile principles. Instead of mentioning the specific elements of Agile project management method, examinees either described the elements of general project management or provided completely irrelevant information. The overall performance in this part remained very poor.

The agile project management focuses on continuous improvements, scope flexibility, team input and delivering essential products. The methodologies include scrum, extreme programming (XP) and lean. The 12 Agile principles are i) highest priority is to satisfy the customer through early and continuous delivery of valuable software ii) Welcome changing requirements, even late in development. iii) Deliver working software frequently iv) Business people and developers must work together daily throughout the project. v) Build projects around motivated individuals. vi) Face to face conversation to and within a development team. vii) Working software is the primary measure of progress. viii) Agile processes promote sustainable development. ix) Continuous attention to technical excellence and good design enhances agility. x) Simplicity is essential xi) the best architect, requirement and designs emerges from self organizing teams. xii) All regular intervals, the team reflect on how to become more effective, then tunes and adjusts its behaviour accordingly.

**(b) Benefits and Limitations that Support Outsourcing Proposal for IT Support Services:**

A vast majority of examinees did not provide the specific, concrete and to-the-point benefits and limitations. The overall performance in this part of question remained average.

Prime benefits of outsourcing are i) it reduces the cost of wastage to the organization. ii) it can help transfer risk to another party. iii) it helps organizations manage the peaks and troughs of working cycle. iv) it will lead to a



fixed fee, thus helping cash-flow management. v) it will help to reduce operating costs.

Limitations of outsourcing are: i) the cost involve in changing to an outsourced provider. ii) the loss of control of a business process/ function. iii) the potential for conflict with the service provider. The quality of service may not match expectations. iv) the inflexibility of contracts with service provider.

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

**(a) Significant Strengths of a Database with Respect to its Usage: i) Reduced Data Redundancy ii) Improved Data Integrity iii) Allows Data Sharing iv) Reduced Development Time:**

It has been noted that a remarkable number of examinees did not have the proper concept of data redundancy and data integrity. However, a majority of the examinees gave more or less correct answers to part iii) and iv) that is allows data sharing and reduced development time.

i) Reduced data redundancy: A centralized database stores all related data in one location, which greatly reduces duplication of data ii) Improved data integrity: When users modify data in the database, they make changes to one file instead of multiple files thus reducing the chances of inconsistencies. iii) Allows data sharing: Each application in a file processing environment often has its own set of files. The data in a database environment, by contrast, belongs to and is shared by the individuals in entire organization with assigned authorities for access. iv) Reduced development time. It is often easier and faster to develop programs that use the database approach. Many DBMSs also provide several tools to assist in developing programs which further reduces the development time.

**(b) B2B Model, its Key Characteristics and Advantages and Disadvantages:**

A remarkable number of examinees found to have proper concept of B2B model of e-commerce. However, some answers contained irrelevant details, leaving some important aspects of B2B, especially when describing the advantages and disadvantages, the quality of answers was not up to the standards.

Business to Business (B2B) is a model of e-commerce where businesses conduct amongst various business partners over the internet.

Advantages: It is absolutely essential that both trading partners be highly conscious of security. Since B2B transactions are most often generated and transmitted straight from the source without having to be reentered or recoded at the destination, there is a huge saving in terms of timeliness of the transaction being completed. The transaction information is more accurate and reliable as compared to manual system.

Disadvantages: Business partners have to invest heavily to ensure that the similar standardization exists amongst partner's organization. Virus attacks, hackers and other such threats often overshadow the success of B2B transactions. B2B commerce can fail, often at the expense of huge losses, for lack of standardization. There is a challenge for smaller and less techno-driven businesses to enter into the business of e-commerce.



**Question No. 2**

**(a) Purposes of Preparing Budget:**

Examinees were required to elaborate the purpose of preparing budget. Only few examinees discussed the purposes of budget as per requirement of question while others produced irrelevant and general answers. Moreover, following mistakes were identified:

- Many examinees listed down the purposes of preparing budget but did not elaborate them.
- Some examinees tried to elaborate only one purpose “planning” in different words like planning of sales, planning of profits, planning of expenditures instead of explaining various purposes of preparing budget.
- None of the examinee answered the purpose of preparing budget in proper sequence like planning, control, co-ordination, communication, motivation, evaluation and authorization.

**(b) Budgeted Income Statement:**

Examinees were asked to prepare the budgeted income statement. Majority of the examinees attempted this part but poor performance was observed in this question. However, following shortcomings were observed:

- Most of the examinees only considered the expected increase in units and neglected the rise in selling prices of local sales.
- Instead of considering increase in both units and cost for determining cost of goods sold, some examinees only considered 4% increase in units and ignored 8% increase in cost of goods sold.
- Few examinees calculated the selling and distribution costs proportion based on increase in selling price instead of using proportion to the number of units locally sold.
- Examinees raised the marketing and advertising cost by Rs.135 million instead of raising cost up to Rs.135 million. Maintenance cost was also treated in the same way.

**Question No. 3**

**(a) Budgeted and Actual Contribution:**

This part of the question required examinees to calculate budgeted and actual contribution. However, average performance was observed in this part. Following mistakes were committed by examinees:

- Some of the examinees wrongly determined the budgeted contribution by multiplying the actual boxes with standard contribution margin per box instead of multiplying it by budgeted activity level.
- Few examinees calculated the contribution margin per box only and considered it as total budgeted contribution.

**(b) Reconciliation Statement:**

Majority of the examinees were not capable to prepare the reconciliation statement because they could not calculate required variances properly.

**(c) Computation of Variances:**

Computation of various costs and sales variances were required to calculate. Almost all the examinees attempted this part but only few examinees were capable to determine the correct variances. However, following shortcomings were noticed:

- Most of the examinees could not define the formula of sales volume contribution variance. Many examinees used sale price per box instead of using standard contribution.
- Some examinees were not able to calculate the correct standard rate per hour for labor rate variance and standard hours allowed for actual units in labor efficiency variance.
- Many examinees failed to calculate the correct standard rate in variable overhead rate variance and standard hours for actual units in variable overhead efficiency variance.

#### Question No. 4

##### (a) Net Present Value:

Examinees were asked to calculate Net Present Value (NPV) of both machines separately by applying discount factors at given rate. Most of the examinees attempted this part correctly however, following common mistakes were observed:

- Few examinees mixed up the cash inflows and outflows of both machines.
- Some examinees assumed tax and depreciation allowance for calculating cash inflows of each year while tax and depreciation were not given in the question.
- Few examinees used wrong discount factors causing wrong net present values.

##### (b) Internal Rate of Return (IRR):

It was required to calculate IRR for both machines at given rate. Most of the examinees correctly calculated the IRR for machine 'A' but failed to calculate the IRR for machine 'B' as they could not calculate a negative NPV to insert in the IRR formula.

##### (c) Payback Period:

Calculation of payback period for both machines was the requirement of this part but most of the examinees were failed to calculate payback period as they did not know the correct formula i.e.,

$$\text{Payback Period} = \frac{\text{cash outflow}}{\text{cash inflow in different years}} .$$

##### (d) Profitability Index (PI):

Last requirement of this question was to calculate profitability index for machines. Most of the examinees were unable to apply the correct formula for calculating the profitability index which is as follows:

$$\text{PI} = \frac{\text{Pv of cash inflows}}{\text{initial outflow}} .$$

Examinees used the net present value (NPV) of cash inflows instead of present value (PV) of cash inflows.

#### Question No. 5

##### (a) Multiple Product Break-even Sales:

Overall poor performance was observed in this question as examinees could not understand the requirement of the question. They were asked to calculate multiple product breakeven sales but very few examinees were able to write the answer correctly and committed conceptual mistakes. Moreover, following common errors were found:

- Many examinees were failed to calculate the average contribution margin. Most of them calculated the contribution margin and break-even sales separately for two products.
- Many examinees could not calculate the change in the sales mix and therefore, failed to evaluate the impact

of this change on break-even points of two products.

- Some examinees took the difference between the fixed cost and required contribution to determine the required sales revenue while few examinees divided fixed cost by required contribution to determine required sales.
- Few examinees did not calculate the break-even sales, resultantly they were unable to calculate the margin of safety.
- Few examinees divided budgeted sales by break-even sales to determine the margin of safety instead of taking difference of both values.

**(b) Advantages and Disadvantages of Back Flush Costing:**

Examinees were asked to elaborate the advantages and disadvantages of back flush costing. Almost all the examinees attempted this part but most of them could not properly write the advantages and disadvantages of back flush costing and made following mistakes:

- Many examinees provided irrelevant and general answers.
- Few examinees defined back flush costing instead of enumerating its advantages and disadvantages.

**Question No. 6**

**(a) Economic Order Quantity (EOQ):**

Examinees were required to calculate economic order quantity (EOQ) in lots but most of the examinees calculated the economic order quantity in units instead of lots. Many of them converted the demand on yearly basis and applied the wrong carrying cost as well as order cost. Following other misconceptions were as under:

- (i) Examinees were required to calculate the EOQ after reducing the carrying cost and its impact on optimal order size. Many examinees failed to apply correct formula of economic order quantity i.e.,

$$EOQ = \sqrt{\frac{2(\text{Ordering cost})(\text{Monthly Demand})}{\text{Carrying cost}}}$$

- (ii) They put carrying cost instead of order cost in formula and order cost instead of carrying cost while calculating EOQ.
- (iii) It was required to calculate the EOQ after reducing the order cost by Rs.20 and its impact on optimal order size. Most of the examinees committed the same mistakes i.e. wrong application of carrying cost and order cost.
- (iv) Almost all the examinees attempted this part of the question but only few could properly answer the two major limitations inherent to practical implications of EOQ model. Most of the examinees wrote general and irrelevant answers.

**(b) Computation of Opportunity Cost:**

It was required to compute opportunity cost and provide comments to opt a new production plan. Examinees poorly performed in this part of the question which shows lack of study on the topic. Moreover, following common errors were identified:

- Most of the examinees were failed to apply the correct inventory turnover.
- Some examinees multiplied the cost of goods sold value with required rate of return given in the question.
- Few examinees tried to reach average receivable by multiplying annual savings with inventory turnover and dividing it by 365 days.



**Question No. 2**

**(a) (i) Intangibles:**

Examinees were asked to define intangibles in the light of Section 24 of the Income Tax Ordinance 2001 but most of the examinees explained the term 'intangibles' generally. The following shortcomings were observed:

- Many examinees defined the term 'intangible' incompletely and mentioned only five or six examples of intangibles.
- Most of the examinees were failed in describing the period of more than one year in which benefits may be received from the intangibles.

**(ii) Computation of Allowable Deduction if Assets not used for Whole Year:**

Majority of the examinees were not able to provide the correct formula for allowable deduction if an intangible asset is not used for the whole tax year in deriving income from business chargeable to tax. Following mistakes were committed by the examinees:

- Many examinees used formula for full amortization i.e., "A/B" instead of formula for fraction of year "AXB/C".
- Some examinees wrote that "full year will be charged" for amortization while it is apportioned for a number of days for which intangible was used in a tax year.
- Few examinees mentioned that allowable deduction will be computed by using "straight line method".

**(b) No Gain or Loss Conditions on Assets Disposal:**

It was a simple question required to specify the conditions where no gain or loss will account for on disposal of all the assets. Most of the examinees attempted this part generally and following common misconceptions were found:

- Majority of the examinees wrote wrongly that "by gift, by inheritance or in case of death" no gain or loss will be accounted for on disposal of assets.
- Most of the examinees missed basic conditions where no gain or loss accounted for on disposal of all the asset to resident company i.e., consideration received for disposal is in the form of shares, the transferor must beneficially own all of the issued share capital of the transferee after disposal and liabilities shall not exceed the transferor's cost of the asset at the time of disposal etc.
- Some examinees wrongly answered the condition that company must be exempted from tax instead of writing that the company must not be exempted from tax in the year of disposal.

**Question No. 3**

**(a) (i) Adjustment of Losses of Subsidiaries:**

This question was comprised of scenario in which examinees were asked to mention time period for continued ownership of the share capital for adjustment of losses surrendered against its income under the head "income from business" and approval authority for such losses. Most of the examinees attempted this part of question correctly, however, some of them committed following errors:

- Few examinees incorrectly stated that the approval of Commissioner In-Land Revenue, Commissioner of Income Tax or Federal Board of Revenue (FBR) is required by a subsidiary instead of Board of

Directors.

- Some of the examinees incorrectly replied the number of years like 3, 6 and 10 years instead of writing 5 years for continued ownership of share capital of subsidiary for adjustment of losses surrendered by subsidiary.

**(ii) Percentage of Ownership:**

Examinees were asked to mention the percentage of ownership of share capital mandatory for holding company for adjustment of losses surrendered by its subsidiary. Examinees mentioned incorrect percentage of ownership of share capital by holding company and described “50% or more”, “75%” or other percentages etc. instead of 55%.

**(iii) Losses Adjustment Period by a Subsidiary:**

It was asked to specify the number of tax years for which a company can surrender its tax losses and the treatment of unadjusted losses after the specified period. Almost all the examinees attempted this part, however, following shortcomings were identified:

- Instead of writing that unadjusted loss of subsidiary company after the specified period shall be carried forward by the subsidiary in the normal manner, majority of the examinees wrote “loss will not be adjusted”, “will be adjusted against other income of the holding company” or “will be carried forward” or “will be transferred to the subsidiary company” etc.
- Some examinees replied incorrect tax years like 6 years, 5 years and 2 years etc., instead of 3 years.

**(iv) Surrendered Losses:**

Examinees were required to mention the type of losses which cannot be surrendered by a subsidiary in favor of holding company and other subsidiary in the group. Majority of the examinees did not attempt this part correctly. Examinee treated capital losses as speculation losses.

**(b) Authorized Representative of a Non-Resident:**

Overall poor performance was observed in this part of the question. Examinees were expected to specify certain persons who can act as an ‘authorized representative’ of non-resident taxpayers under section 172 of the Income Tax Ordinance, 2001. Almost all the examinees attempted this part but answered generally. However, their common mistakes were as under:

- Majority of the examinees mentioned spouse, permanent establishment, ICMA Pakistan and ICAP as authorized representative of a non-resident.
- Some examinees listed down two or three persons as authorized representative of non-resident instead of specifying at least five persons.

**Question No. 4**

**Taxable Income and Tax Liability:**

Almost all the examinees attempted this question and performed well. They were required to calculate the taxable income and tax liability of a salaried person for the tax year 2015 and provide relevant necessary notes. Examinees made following common errors:

- Majority of the examinees failed to mention the working notes properly.
- Majority of the examinees included re-imburement of medical expenses in the taxable income.
- Most of the examinees could not differentiate the tax treatment of both the cars provided by the company for business as well as for family use. Examinees used single rate (5% or 10%) of cost of both the cars to be included in taxable income whereas car used exclusively for business purpose is not taxable.

- Many examinees treated the profit from profit and loss sharing account in normal tax regime instead of treating it as under Final Tax Regime (FTR).
- Majority of the examinees did not calculate tax credit on health insurance policy on average rate. However, they deducted the whole amount of premium as admissible deduction from the income.
- Some of the examinees incorrectly deducted donations from the taxable income.

**Question No. 5**

**(a) (i) Circumstances under which Debit and Credit Notes are issued:**

Examinees had no idea about the topic as they were asked to identify the circumstances under which the debit and credit notes are required to be issued in respect of supply made by a registered person. Majority of the examinees wrote the description of debit and credit notes instead of providing the circumstances.

**(ii) Modes and Manners of Payment of Sales Tax:**

Average performance was observed in this part. The examinees were simply required to specify the manner and modes in which sales tax due on imported or taxable supplies shall be paid. Examinees could not provide relevant answer and committed following common mistakes:

- Most of the examinees stated the rate of sales tax with no reference to manners and modes in which sales tax due on imported or taxable supplies shall be paid.
- Some of the examinees were confused and mixed up the manners and modes of sales tax due on imported goods or taxable supplies with filing of sales tax return.

**(b) (i) Shortfall in Payment of Sales Tax:**

Examinees were required to explain that how the company can avoid and reduce imposition of penalty in case of any short payment of sales tax under section 33 of the Sales Tax Act, 1990. Most of the examinees attempted this part but could not provide complete correct answer. The following misconceptions were noticed:

- Majority of the examinees wrote various rates and amounts of penalty in case of shortfall in payment of sales tax.
- Some of the examinees suggested filing of petition before Commissioner to avoid and reduce imposition of penalty under section 33 of the Sales Tax Act, 1990.

**(ii) Default Surcharge:**

Most of the examinees provided incomplete answer as they could not understand that they were asked to identify the situations under which a company may be held liable to pay default surcharge in addition to the sales tax due on it. Some common mistakes were observed as under:

- Majority of the examinees simply answered "Yes default surcharge will be imposed" instead of elaborating the case in details.
- Some examinees wrongly wrote that the company may be held liable to pay default surcharge in addition to the sales tax due if the necessary documents and receipts are not provided within a prescribed time, if commissioner refused to reduce or avoid penalties/ surcharge or if a person repeatedly make the same mistake in the sales tax return etc.
- Few examinees wrote that the company may be held liable to pay default surcharge if wrong information provided in sales tax return.

**(iii) Revised Sales Tax Return:**

Examinees were asked to elaborate the provision of the Sales Tax Act, 1990 for a registered person to file a revised sales tax return. All the examinees attempted this part, however, following errors were noticed:

- Most of the examinees had an idea about the purposes/ conditions where revised sales tax return is filed but that had no knowledge about its time limit and approving authority i.e., Commissioner Inland Revenue, hence provided incomplete answers.
- Few examinees wrongly wrote “approval of Federal Government or Board of Directors” is required for filing of revised sales tax return.
- Some examinees did not provide any time limit or provided wrong time limit like 30 days, 60 days or 90 days etc. for filing of revised sales tax return, whereas the correct time limit for filing of revised sales tax return is 120 days of filing of sales tax return.

**Question No. 6**

**(a) Calculation of Sales Tax Liability:**

It was asked to compute the net sales tax liability for the month of January 2015 in the light of the provisions of the Sales Tax Act, 1990. All the examinees attempted this part of the question but majority could not compute the correct sales tax liability due to the following common mistakes:

- Majority of the examinees did not calculate the output tax @ 17% and further tax @ 1% on taxable supplies made to non-registered commercial/ industrial customers.
- Some examinees calculated the output tax on exports @ 17% instead of 0%, while few of them charged output tax @ 16% on export.
- Majority of the examinees calculated the input tax on imports of taxable goods inclusive of Federal Excise Duty (FED) @ 20% instead of 17%.
- Some of the examinees did not claim the input tax on electricity, gas and telephone bills.
- Majority of the examinees ignored apportionment of taxable and exempt supplies for claiming input tax.
- Some of the examinees incorrectly included sales of exempted goods and exports in calculating output tax.
- Most of the examinees could not calculate admissible credit as per section 8B of Sales Tax Act, 1990 (Lower of 90% of output tax or total input tax).

**(b) (i) Definition – Wholesale Dealer:**

Examinees were asked to define the term “wholesale dealer” as per section (2) of the Federal Excise Act, 2005. Majority of the examinees attempted this question but remained unable to give the correct definition of wholesale dealer in this context. The answers provided were based on general understanding. Only few examinees were able to refer the role of whole sale dealer as agent and broker.

**(ii) Definition – Distributor:**

It was required to define the term “distributor” as per section (2) of the Federal Excise Act, 2005. Majority of the examinees attempted this question correctly. However, few of them provided definitions based on general understanding with no relevance to the Federal Excise Act, 2005.

**(c) Custom Duties:**

Examinees were asked to describe the goods on which normal custom duties shall be levied at the rates prescribed in the First Schedule of the Customs Act, 1969. Majority of the examinees provided incomplete answers to this question while some of them provided list of various goods which was not the requirement of the question.





**Question No. 2**

**(a) (i) Directors' Election:**

Examinees were required to mention the required number of members who have at least 20% voting power to challenge the election of directors within 30 days. Few examinees attempted this question very well. Following shortcomings were observed:

- Most of the examinees did not know the voting power required for challenging the election. Many examinees described the required voting power as 10%, 12.5% or 25%.
- Examinees wrongly described the required number of days as 15 or 60 etc., within which application for election will be made.
- Some examinees mentioned that election of directors is not challengeable but could not give proper reasons or specify the legal provisions while some of them omitted to reply whether election can be challenged or not.
- Few examinees wrote that appeal can only be made to Securities and Exchange Commission of Pakistan (SECP) instead of the court.
- Few examinees provided irrelevant discussions included procedure for election of directors.

**(ii) Reason for declaring Election of Directors Invalid:**

It was a simple question which was attempted by almost all of the examinees. The examinees were required to describe that in case of material irregularity in elections and any incidental matter thereto the election can be invalidate by the court. Few examinees were able to mention the said provisions, however, following common mistakes were observed:

- Most of the examinees did not discuss the reasons or grounds on which court can invalidate the elections.
- Some of the examinees discussed the role of Securities and Exchange Commission of Pakistan (SECP) rather than the court.
- Some of the examinees provided irrelevant discussions included various kinds of lapses that can happen in the election.
- Few of the examinees just described disqualification of directors and penalties and fine imposed on directors.

**(b) Status and Responsibilities of Retiring Directors:**

Status and responsibilities of retiring directors in case of election could not take place on the due date was asked in this part from examinees. This question was well attempted by majority of examinees while common mistakes observed were as follows:

- Many examinees provided incomplete details. However, most of the examinees had an idea that retiring directors would continue to perform as director until their successors are appointed but could not specify their responsibilities in this event.
- Examinees were not aware of the requirement to inform registrar and the time period of informing registrar about impediment in holding timely election.
- Some examinees wrongly discussed that retiring director can arrange extra ordinary general meeting by issuing notice, arrange a fresh and fair election within specified days and inform the registrar for guidance for arrangement of fresh election etc.

### Question No. 3

#### (a) (i) Time Limit for filing of Annual Return (List of Members):

The examinees were required to mention time limit for filing annual return (list of members) by listed and any other companies in case of holding of Annual General Meeting (AGM) and non-holding of AGM. Majority of examinees could not understand the specific requirement of the question and following common misconceptions were found:

- Instead of mentioning time limit for filing of annual return (list or members) i.e., 30 or 45 days, majority of the examinees mentioned days for holding of Annual General Meeting (AGM) i.e., 4 months and 18 months of incorporation of the company.
- Since most of the examinees cannot differentiate between holding and non-holding of AGM, hence failed to provide the complete requirements of time limit for filing of annual return in case of non-holding of AGM.
- Some examinees were not aware of the correct time limits i.e., 30 or 45 days for filing of annual return and wrongly described 15, 60 or 90 days in this regard.
- Few examinees interchanged the time limit for filing of annual return of listed and other companies.

#### (ii) Extension in Time Limit for filing of Annual return (List of Members):

It was simple question and required to state legal provisions for extension of time limit for filing of annual return of the listed and other companies. This question was attempted by all of the examinees but following mistakes were identified:

- Most of the examinees were not aware of the extension in time limit for filing of annual return in a given situation and mixed up it with the extension of time for holding AGM.
- Some examinees wrongly mentioned that other companies can also be granted such extension.
- Almost all examinees wrongly mentioned that 30 days can be extended by Securities and Exchange Commission of Pakistan (SECP) instead of 15 days by registrar.

#### (b) Justification of Company Secretary regarding Non- Filing of Annual Return (list of members):

This question comprised of small scenario in which justification of the company secretary regarding non filing of annual return in the light of legal provisions of the Companies Ordinance, 1984 was asked. Following common errors were found:

- Most of examinees just mentioned the justification of secretary was 'wrong' or 'right' without providing supportive explanation.
- Some examinees had a misconception that company secretary justification is valid as annual return cannot be filed in case of non-holding of AGM.

#### (c) Advice to Federal Government by Securities and Exchange Policy Board in Consultation with SECP:

This question was poorly attempted by almost all examinees, however, few examinees provided requisite details. Examinees were required to mention the matters for which the Securities and Exchange Policy Board can advise the Federal Government which includes regulation of insurance and security industry, protection of investors and rules regarding self regulation of stock exchanges. Examinees had following misconceptions:

- Many examinees had a view that Securities and Exchange Policy Board may advise to Federal Government for interest rate, inflation rate, foreign exchange rates, fines and penalties and appointment of different officers of SECP etc.
- Instead of discussing that SECP Board may advise to Federal Government in respect of certain matters, examinees mentioned that SECP Board may advise to companies at the time of incorporation of company and preparation of its memorandum of articles and association of articles.
- Examinees wrongly attributed various unrelated matters to the SECP Board in respect of which the Federal Government may be advised such as administering the company affairs, running monetary policy, proposing for budgets and controlling law and order situations etc.

#### Question No. 4

##### (a) (i) Appointment and Qualification Of Auditors:

Examinees were required to mention that if firm or any of its partner or spouse or minor child of partner holds shares in client's company or any of its associated company then firm becomes ineligible to be appointed as auditor of that company. This question was well attempted by most of the examinees, however, few common mistakes observed were as follows:

- Most of the examinees did not understand the question and provided unnecessary and irrelevant details regarding the qualification of auditors while some of them provided incomplete answers.
- Many examinees mentioned that the firm can be appointed as internal auditor rather than external auditor.
- Some examinees were not aware of the legal provisions in the matter and some of them wrongly believed that there is no hindrance in the appointment.
- Few of the examinees who mentioned the relevant legal provisions restricted their discussions to holding of shares by a partner of the firm in the company (as given in the situation) rather than any further details of the relevant provision.
- Irrelevant discussions included logic for independence of auditors and their general qualifications etc.

##### (ii) Action to be Taken to Continue Audit-Client Relationship:

This question was asked about the actions to be taken by the auditors and firm if they wish to continue with auditor-client relationship in case where partners of audit firm hold shares of its client. However, following shortcomings were found:

- Most of the examinees described duties and responsibilities of auditors.
- Many examinees had a view that company should appoint any other firm rather than firm specified in the question.
- Some examinees had a view that auditors must work efficiently to continue audit-client relationship auditors instead of writing that auditors should disclose the interest to the listed company within 14 days of appointment and disinvest such shares with 90 days of such appointment.
- Examinees who identified the ineligibility of auditors suggested for selling out the shares but many of them could not identify the obligation of disclosure to the company and the time available for the sale or disposal of shares.

##### (b) Remuneration of Directors under the Code of Corporate Governance:

The performance of examinees in this question was below satisfactory level. Hardly any examinee was able to provide complete and accurate provisions regarding the requirement of remuneration of directors under the Code of Corporate Governance. Following mistakes were noticed:

- Majority of the examinees answered the question on general knowledge basis.
- Some examinees had a view that remuneration of directors is set by the Federal Government.
- Few examinees described duties and responsibilities of directors which was not required.
- Some examinees wrongly discussed the matters regarding the directors' fee or travelling expenses for attending directors' meetings.

##### (c) Appointment of Company Secretary by Single Member:

It was a simple question which required provision regarding appointment of company secretary by single member company. Examinees were also required to mention requisite days of appointment of company secretary as well as period of notification. The question was well attempted by the examinees, however, following errors were identified:

- Many examinees had misconception that no secretary could be appointed.
- Most of the examinees wrongly stated the requisite days as 30 days, 60 days, 3 months etc., for appointment of secretary and notification to registrar instead of 15 days and 14 days respectively.
- Some examinees mentioned proper time limit for appointment of secretary but could not relate it with the days of incorporation and arising of casual vacancy.
- Examinees discussed irrelevant points such as secretary's qualifications, appointment in case of casual vacancy, tenure of secretary and their peculiar need in case of listed, non-listed and other companies etc. instead of single member company.

### Question No. 5

#### (a) (i) Documents and Information to be Furnished by Special Purpose Vehicle:

This part was related to specify documents and information to be furnished along with a copy of annual report by an entity registered as "Special Purpose Vehicle". Some common shortcomings were as follows:

- No examinee was able to provide complete information and documents to be furnished by the entity registered as Special Purpose Vehicle (SPV).
- Unnecessary details and documents were mentioned by examinees like bank challan, affidavit, and other documents that are required to be furnished at the time of incorporation of company.
- Most of the examinees generally confined themselves to those documents which constitute annual report.
- Some examinees provided definition of Special Purpose Vehicle (SPV) while few of them had misconception that the topic is related to motor vehicles and listed down the documents regarding lease, mortgage charges, fixed assets (vehicles) registers and depreciation etc.

#### (ii) Time Period and Authority for filing Documents and Information by Special Purpose Vehicle:

Majority of the examinees were failed to mention the time period which is 3 months from closing of accounting period and SECP as authority to whom documents and information is to be furnished by an entity registered as SPV along with copy of annual report. However, majority of examinees were unable to reply properly and committed following common mistakes:

- Most of examinees stated registrar as authority instead of Securities and Exchange Commission of Pakistan (SECP).
- Almost all of the examinees didn't know the time period of filing.
- Some examinees discussed submission of documents 'by whom' instead of 'to whom'.

#### (b) Issue of Right Shares at Premium:

The conditions regarding issuance of right shares at premium as per Companies (Issuance of Capital) Rules, 1996 were required to be described in this part. Following common misconceptions were found:

- Majority of the examinees answered the question on general knowledge basis rather than discussing the underlying provision of law. Only few examinees were able to discuss complete requirement of said Rules.
- Some of the examinees described the provision of said rules related to issue of shares at premium instead of issue of right shares at premium.
- Few examinees discussed the procedure of meeting, requirement of 21 days notice and special resolution.
- Some examinees discussed uses of share premium account.
- Very few examinees discussed about certification of free reserve by company auditors and its submission to SECP and stock exchange concerned.

### Question No. 6

#### (a) Certificate Of Deposit:

It was a simple question consisting of definition of the term 'certificate of deposit' which was attempted by almost all examinees. However, only some examinees were able to define correctly while rest of them committed following errors:

- Majority of the examinees had view that 'certificate of deposit' is a receipt issued by a bank as an evidence of deposit while some of them had misconception that it is issued by the Federal Government or the State Bank of Pakistan.
- Few examinees described 'certificate of deposit' as an evidence of depositing shares/securities.
- Some examinees had misconception that it is an instrument for an investment in equity of Non- Banking Finance Companies (NBFCs) or a kind of security deposit for loans.

**(b) Conditions for Accepting Deposit from Investor by Non-Banking Financial Company:**

None of the examinees was able to discuss the underlying provisions of Non Banking Finance Companies and Notified Entities Regulations, 2008. Examinees tried to answer on general knowledge basis rather than enumerating conditions which a non-banking financial company is required to comply with while accepting deposits from an investor, following variety of wrong replies had been obtained from examinees:

- Majority of the examinees discussed the requirement of incorporation of Non-Banking Finance Companies (NBFCs) instead of enumerating conditions which an NBFC is required to comply with while accepting deposit from investor.
- Most of the examinees discussed services provided by NBFCs.
- Some examinees discussed interest rate, term of investment and return on investment as requisite conditions.
- Some of the examinees discussed irrelevant points such as personal qualities of an investor, dealing and description of business instead of the legal requirement.

**Question No. 7**

**(a) Special Resolution for Increase in Authorized Capital:**

Almost all the examinees attempted this question but none of the examinees was able to draft proper resolution for increasing the authorized capital. Following shortcomings were observed:

- Examinees unnecessarily discussed the procedures and reasons for changing the authorized capital instead of drafting special resolution.
- Majority of the examinees did not provide complete information while drafting resolution.
- Instead of drafting proper resolution passed in the meeting, some of the examinees drafted letters, notices, extract of minutes, news reporting or proposal for approval of resolution etc.

**(b) Information of Company Secretary:**

Despite the good performance, few examinees were not able to list down complete particulars that should be stated in prospectus regarding company secretary. Following misconceptions were noticed:

- Examinees discussed secretary's qualification and functions instead of mentioning information that should be included in the prospectus regarding company secretary.
- Few examinees wrongly defined prospectus and particulars of prospectus.
- Some examinees defined duties and responsibilities of company secretary.
- Some examinees had views that no information about company secretary should be mentioned in prospectus.

**(c) Information submitted by Central Depository Company:**

The examinees were required to specify the information to be submitted by the Central Depository Company (CDC) to Securities and Exchange Commission of Pakistan along with its annual report and accounts. However, following mistakes were identified:

- No examinee was able to provide complete information required to be submitted by the Central Depository Company (CDC).
- Unnecessary details were mentioned by examinees like articles of association, memorandum of association and directors' report etc.
- Examinees mentioned lots of incorrect information which is related to CDC's routine functions but not related to submissions of information with annual report/accounts to SECP.



**Question No. 1**

**Consolidated Financial Statements:**

In this question, the candidates were required to prepare Consolidated Statements of Profit or Loss and Other Comprehensive Income and Financial Position. Overall performance of the examinees was satisfactory with the exception of following common mistakes as given under each statement:

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

- (i) A few examinees did not calculate correct effective interest of the parent company in the sub-subsiary ( $60\% = 80\% \times 75\%$ ).
- (ii) A few candidates could not calculate the correct amount of consolidated sales mainly due to wrong or no adjustment of intra-group sales (Rs.750,000) made by Wise Ltd., to Genius Ltd., and (Rs.930,000) made by Clever Ltd., to Wise Ltd. They also failed to reverse the sales (Rs.2,000,000) for which future economic benefits were not probable to flow to the seller.
- (iii) Likewise, a good number of examinees did not calculate the correct consolidated cost of sales (Rs.28,443) as they did not make correct adjustments for intra-group sales (Rs.750,000 and Rs.930,000) and unrealized profits on unsold stock (Rs.38,000 and Rs.20,000).
- (iv) Most of the candidates either did not account for the correct defined benefit plan cost (Rs.6,400,000) or skipped this amount altogether. A few candidates included the net interest cost of defined benefit plan in the finance cost, which is not correct treatment.
- (v) Similarly, a good number of candidates did not include the re-measurement gain on defined benefit plan, in other comprehensive income. Some examinees wrongly treated it as other operating income. Hence, the majority could not compute total comprehensive income.
- (vi) Majority of the examinees were not able to calculate non-controlling interest in the post acquisition earnings of the subsidiaries (Rs.5,711,000) mainly due to the fact that they either did not account for the un-realized profits on intra-group sales or NCI share of goodwill impairment correctly. Hence, they could not correctly compute profits attributable to the owner of the parent and NCI.

**(b) Consolidated Statement of Financial Position:**

- (i) Most of the candidates did not make adjustment for upward revaluation of property, plant and equipment (PPE). Majority of the candidates just added PPE figures of the three companies to arrive at wrong consolidated figure of PPE.
- (ii) Similarly, a good number of examinees did not calculate the correct amount of goodwill of sub-subsiary due to wrong calculation of parent share of cost of investment ( $\text{Rs.}4,000,000 = 5,000,000 \times 80\%$ ). Most of them wrongly took investment figure as Rs.5,000,000. Consequently they also could not calculate correct amount of goodwill impairment and year-end balance of goodwill (net of impairment).
- (iii) Likewise, most of the candidates did not calculate the correct amount of current assets, since they failed to adjust it for the allowance for doubtful debts (Rs.500,000) and reversal of sales (Rs.2,000,000).
- (iv) Most of the candidates did not mention re-measurement of gain (Rs.3,500,000) on defined benefit plan under 'other components of equity'.
- (v) Majority of the examinees did not calculate the correct amount of consolidated retained earnings (Rs.41,938) mainly due to wrong calculation of parent share of impairment of goodwill and un-realized profits in un-sold stock of the inter-company sales. They also failed to make adjustment for the defined benefit plan expense (Rs.6,400,000) and reversal of sales (Rs.2,000,000).
- (vi) Some candidates did not mention the correct net liability of defined benefit plan in the consolidated statement of financial position (the difference between closing balances of present value of plan obligation and fair value of plan assets) as Rs.4.9 million because above two balances were not correctly determined by them as Rs.47.6 million and Rs.42.7 million, respectively.

## Question No. 2

### (a) Ratio Analysis:

This question required candidates to calculate profitability, liquidity and investment ratios and to comment on them. Majority of the candidates attempted this question very well with the exception of the following mistakes:

- Some candidates could not calculate correct ratios of return on capital employed and net assets turnover.
- While computing accounts receivable collection period and accounts payable period, examinees computed 'turnover ratios' rather than the relevant 'periods'.
- Most of the examinees arrived at correct figures but they did not know whether these figures were to be expressed in 'percentages', 'times' or 'ratios'. For example, net asset turnover was expressed in '%' instead of 'times'.
- Some examinees did not write formulas correctly e.g., formula of return on capital employed (ROCE) was wrongly written in reverse order as:

$$\text{ROCE} = \frac{\text{capital} + \text{long-term borrowings}}{\text{profit before financial charges}}$$

- While computing accounts receivable collection period, some examinees erroneously multiplied  $\left(\frac{\text{average net accounts receivable}}{\text{net credit sales}}\right)$  with 100 instead of 365.

### (b) Comments on the Ratios:

A good number of candidates commented on the ratios as calculated above but most of them answered with irrelevant and inappropriate comments e.g., while commenting on gross and net margins, they just mentioned that both of these ratios have decreased due to an increase in cost of sales and operating expenses. However, they missed the point that sales had almost doubled, which might be due to reduction in price, effecting reduction in profit margins as well. Examinees also failed to observe that the business was becoming heavily dependent on credits from suppliers and bank overdraft, which was an alarming sign for the business.

### (c) Rights Issue and Earnings per Share (EPS):

A large number of candidates attempted this part of the question but only a few could answer the entire question correctly. Following shortcomings were noted:

- Most of the examinees were unable to calculate weighted average number of outstanding shares, hence, could not calculate the EPS after the rights issue correctly. Weighted average number of outstanding shares could be computed as follows:

$$\left(700,000 \times \frac{6}{12} \times \frac{40}{38}\right) + \left(875,000 \times \frac{6}{12}\right)$$

Most of them used the fractions  $\left(\frac{4}{12}\right)$  and  $\left(\frac{8}{12}\right)$  instead of  $\left(\frac{6}{12}\right)$  and  $\left(\frac{6}{12}\right)$  in the above formula.

## Question No. 3

### (a) Disclosure of Social Reporting:

This part of the question required the examinees to (i) discuss the requirement of the disclosures of Social Reporting and (ii) briefly explain main types of the information to be included in it. A good number of candidates attempted this question. Following shortcomings were found in the scripts:

- Most of the students did not have knowledge of the topic, hence, they tried to attempt the question with irrelevant answers. Some examinees repeated sentences just to fill up the space.
- Some candidates mistakenly discussed about contents of environmental reporting.

**(b) Share Based Payments:**

In this question, three transactions relating to (i) acquisition of a company, (ii) share based payment to the directors and (iii) payment of bonus shares to the employees, were given. Majority of the examinees attempted this part of the question. Following mistakes were observed as given against each transaction:

Transaction (i): Most of the candidates calculated the correct amount of share based payment for acquisition of a company ( $\text{Rs.}8,800,000 = 400,000 \times \text{Rs.}22$ ) but were unable to pass journal entries correctly.

Transaction (ii): A good number of examinees could not calculate the correct amount of share based payment ( $\text{Rs.}396,000 = 6,000 \times 3 \times \text{Rs.}22$ ) to the directors nor could they pass the journal entries correctly.

Many examinees also wrongly issued shares to the director who had left the company.

Transaction (iii): A number of candidates did not calculate the correct amount of share based payment ( $\text{Rs.}450,000 = 150 \times 100 \times 30$ ) in the form of bonus shares to the employee. Some examinees wrongly used share price of Rs.22 per share at January 01, 2014 in the above calculation. They should have used prevailing share price of Rs.30 per share at the time of bonus issue.

**Question No. 4**

**Foreign Subsidiary:**

Examinees were required to prepare consolidated statement of financial position of a local parent company and a foreign-based subsidiary company. A good number of candidates attempted this question but overall performance was not satisfactory. Following common mistakes were noted:

- (i) A few candidates could not calculate the correct amount of consolidated assets and liabilities mainly because they multiplied the FCR amounts of the subsidiary with PKR exchange rates instead of dividing the former with the latter, since the FCR exchange rates per Re., were given and not PKR exchange rates per FCR.
- (ii) A good number of examinees calculated correct amount of goodwill (i.e., FCR 19,000) but translated the same into PKR wrongly by applying incorrect exchange rate (i.e., FCR 3/Re., instead of FCR 6/Re.).
  - Most of the examinees failed to compute the correct amount of group reserves. Either they did not adjust it for loss on retranslation of loan to subsidiary or unrealized profit of unsold inventory or both. Some of them did make these adjustments but with wrong amounts. Many examinees also did not determine correct amount of post acquisition profit of subsidiary and, therefore, could not adjust group reserves with correct group share of post acquisition profit.
  - Many examinees did not use closing exchange rates for conversion of assets and liabilities of the subsidiaries into Pak Rupees.





**Question No. 1**

**(a) Risk**

This part was only related to general definition of risks which are associated to any business. Despite the good performance of the examinees, some common mistakes observed in the scripts were as follows:

- Examinees only mentioned adverse impacts and did not elaborate that risk may also have favorable impact.
- Many examinees explained that risk may arise only due to present action but failed to explain that it may also arise due to some present inaction / indecision.
- Some examinees defined audit risk instead of defining real concept of risk.

**(b) Risk Management and its Basic Elements**

Examinees were required to briefly explain the risk management and its basic elements as mentioned in the question. Most of the examinees attempted this part generally, however, following common mistakes were observed:

- Instead of explaining four basic elements already written in the question, some examinees explained other elements which were not required in the question.
- Some examinees explained these elements in one paragraph by combining all elements instead of explaining each element separately.
- Some examinees just copied the question wordings i.e. risk management is a process of risk identification, assessment, planning and monitoring.
- Few examinees listed down types of risks instead of defining elements of risk management.

**(c) Roles and Responsibilities of Board of Directors (BODs) with regard to Risk Management:**

The examinees were expected to list down the roles and responsibilities of BODs with regard to risk management of an organization. This part of the question was attempted by majority of the examinees but performance was not satisfactory. Only few examinees were able list down the responsibilities and roles of BODs in the context of risk management process. However, following shortcoming were observed:

- Many examinees explained the roles and responsibilities of BODs in all areas such as management role in developing organizational structure, human resources management and developing incentive policy etc.
- Some examinees were confused and mixed up the roles of BODs with management, consequently explained general responsibilities of management.
- Few examinees explained the roles and functions of internal auditor and risk management divisions as role of BODs.
- Some examinees were failed to understand the roles of BODs at strategic level and also failed to mention risk appetite, residual risk and creation of risk management committee which are important responsibilities of BODs.

**Question No. 2**

**(a) (i) Principal Matters / Terms of Engagement Letter**

In this part the principal matters / terms were required to be included in the engagement letter. Overall examinees were familiar with the contents of engagement letter, however, very few examinees stated specifically with reference to ISA 210. Following common mistakes were identified:

- Examinees failed to mention principal matters such as scope of audit, responsibilities of the auditor and management as well the financial reporting framework which will be applicable for preparation of financial statements.

- Few examinees wrote engagement letter instead of specifying forms and contents of audit engagement letter.
- Some examinees were confused and listed down irrelevant points for e.g. auditor fee, detail of audit plan, duration of audit etc.

**(ii) Specific Matter:**

Most of the examinees were failed to answer the scenario given in the question regarding specific matters to be included in the engagement letter i.e., involvement of experts. Examinees committed following mistakes:

- Many examinees mentioned the involvement of auditor of holding and subsidiary companies instead of relating it to the involvement of expert during the course of audit.
- Some examinees mentioned that procedures undertaken for auditing of related party should be included in the engagement letter.
- Few of them considered nature of subsidiary's business as specific matter to be included in the engagement letter.

**(b) Bank Reconciliation Statements (ii) Bank Confirmations**

This was a simple part in which at least five audit procedures regarding bank reconciliation statement and bank confirmation were required to be listed down. Majority of the examinees attempted this part of question but most of them made the following common errors:

- Examinees were expected to list down at least five audit procedures but many were confused to differentiate between bank reconciliation statement and bank confirmations.
- Bank reconciliation statement is meant to reconcile the difference between balance as per company book and balance as per bank statement. But many examinees related it to invoicing, accounts receivable, discounts given and availed and other transactions not directly related to bank reconciliation.
- Most of the examinees repeated the same audit procedures for both bank reconciliation statement and bank confirmation.
- Majority wrote general points such as perform recalculations, comparison with payments and receipts, verify the interest rate on loan and check proper books of accounts maintained or not etc.
- Examinees could not properly enumerate procedures for bank confirmation such as obtaining a bank confirmation letter from the company's bankers, verifying balances listed on the bank confirmation letter to the company's bank reconciliations or the trial balance to ensure completeness of bank balances and examining the bank confirmation letter for details of any security provided by the company etc. Moreover, examinees mixed up the bank confirmation with confirmations of debtors and creditors balances.
- Some of the examinees wrote bank confirmation shall be obtained from company's higher management instead of company's banks.

**Question No. 3**

**(a) (i) Related Party:**

In this part person/ entities to be termed as related party were required to be answered. However, examinees attempted generally and made a list of following irrelevant persons/ entities:

- Most of the examinees enumerated the related party as customers, suppliers, employee, labors and management of the company.
- Some examinees mentioned all investors and share-holders are termed as related party without any reference to significant voting powers.

**(ii) Why are Related Party Transactions Potentially Significant:**

This part consisted of two requirements i.e., (i) was there any wrong with the company (in the given scenario) dealing with a related party and (ii) why are related party transactions potentially significant. However, most of the examinees could not elaborate the complete answer and committed following common mistakes:

- A significant number of examinees considered related party transactions 'wrong' ab initio.
- Majority of the examinees failed to explain the "*arm's length*" concept which determines the risks associated with related party transactions and therefore, it is appropriate for such transactions to be brought to the attention of shareholders.
- Some of the examinees mentioned that going concern issue will arise due to these transactions.

**(iii) Typical Procedures Auditors Perform to identify Related Party Transactions**

Majority of students did not understand the requirement of the question. Examinees failed to describe the procedures which auditors may perform to identify related party transactions and a vast majority has simply written the irrelevant points. Majority of the examinees failed to mention the important records and documents i.e. entity income tax returns, third party confirmations, information supplied to the regulatory authorities, shareholders and investment record and statement of conflicts of interest from the management etc. Following other shortcomings were also found:

- Instead of defining specific audit procedures, mostly examinees explained normal audit procedures adopted for audit of financial and non-financial transactions.
- Majority of the examinees listed down the procedures to identify the related party transaction as evaluating the percentage of sale, comparing the rate of product with other companies, verifying the rate of special discount given to related party, ensuring all the details containing in a contract with related party etc.

**(b) International Standards on Auditing (ISAs)**

Examinees were supposed to state which subsidiary board of International Federation of Accountants (IFAC) is authorized to develop and promote International Standards on Auditing (ISAs) and the reasons why does an auditor need to learn about the key principles and requirements of the International Standards on Auditing (ISAs). Majority of the examinees answered incompletely with following errors:

- Most of the examinees were not able to identify the subsidiary board of IFAC which is authorized to develop and promote ISAs. Some mentioned names of Institute of Chartered Accountants, Institute of Cost and Management Accountants of Pakistan or International Accounting Standard Board instead of International Audit and Assurance Standards Board (IAASB) as the legitimate body responsible for development of ISAs.
- Examinees also could not explain properly the key principles and requirements of these standards and simply mentioned that auditors should know the principles, rules and regulations as they have to audit financial statements and undertake their audit assignment effectively and efficiently.

**Question No. 4**

**(a) Audit Risk**

In this part examinees were asked to discuss audit risk and its components. Most of the examinees attempted this part generally. However, following shortcomings were found:

- Some examinees mixed up the concept of 'audit risk' with the 'risk' asked in question No.1 and gave similar types of answers.
- Few examinees were failed to understand that audit risk is the risk that auditor can give an unmodified audit opinion when the financial statements may have material misstatements and explained it as physical risks (like threats) which an auditor may face during audit of a company.
- Majority of the examinees mentioned various components of audit risks, i.e. inherent risk, control risk and detection risk but were unable to differentiate among them and mixed up all type of risks which shows lack of clarity of the concept on the part of examinees.

**(b) Possible overall Responses to Risk Assessment:**

Most of the examinees could not properly answer the requirement of the question that is enumerating the possible overall responses to address the assessed risks of material misstatement at the financial statement level. Following misconceptions were observed:

- Examinees did not comprehend the question and wrote general procedures such as test of control, test of detail and analytical procedures instead of indicating consultation with experts on technically complex matters, change in timing and frequency of review procedures, use of additional partners to review work etc.
- Instead of addressing the assessed risks of material misstatement at the financial statement level, mostly examinees only explained normal audit procedures performed during the audit of financial statements of a company i.e., vouching, physical verification, observation, confirmation, recalculation etc.
- Some examinees linked audit risk with physical risks (like threats) and explained wrongly that auditor should talk to management to avoid and tackle such type of risks.

**Question No. 5**

**(a)** In this part of the question, it was noted that examinees were more interested in explaining the place and position of audit report, where auditor should sign, where the date of the report to be mentioned or where the address to be printed instead of its significance in the light of international auditing standards which was the actual requirement of the question. Examinees committed following mistakes while explaining auditor's signature, date of auditor's report and auditor's address:

**(i) Auditor's Signature:**

- Examinees simply mentioned that auditor's signature on auditor's report is must.
- Most of the examinees failed to explain that signature may be in the personal name of the auditor or in the name of the audit firm or both depending upon the particular jurisdiction and also in some jurisdictions auditors are required to mention professional accountancy designation or the fact that they are recognized by the appropriate authority.

**Date of Auditor's Report:**

- Some examinees wrongly mentioned that it should be the date on which auditor's report is presented in AGM while few mentioned that it is date on which it is presented to management.
- Most of them failed to explain the significance of the date and link it with obtaining a sufficient appropriate evidence and assertion of the Board that they have taken the responsibility of audited financial statements.

**Auditor's Address:**

- Most examinees just mentioned that complete office address of the auditor is necessary so that any shareholder can contact the auditor. Examinees were not aware that it is the legal jurisdiction (normally the city where the auditor maintains the office) which should be mentioned in the auditor's report.

**(ii) Emphasis of Matter Paragraphs:**

The examinees attempted the answers in general form and could not properly mention the circumstances where the auditor may consider it necessary to include an emphasis of matter paragraph. Only few examinees explained circumstances which were required in the question i.e. going concern issue, early application of new accounting standard, major catastrophe etc. Common errors were found as under:

- Many examinees were unable to understand what it meant. Only few examinees explained where such paragraph is mentioned in the auditor's report instead of explaining the circumstances in which it becomes necessary.
- Some examinees mentioned other circumstances such as non-cooperation of management and threats during audit etc.
- Majority of the examinees just defined the term "emphasis of matter paragraphs".

**(b) The Role of Internal Audit Functions:**

Certain issues on which internal auditors may provide assurance to internal management were required to be identified in the question. Most of the examinees overlooked the important activities of internal audit like review of operating activities, assessment of governance process and review of compliance with laws and regulations and wrote many irrelevant and general answers which were as follows:

- Most of the examinees explained only one or two major roles and explained these roles in greater depth instead of briefly mentioning all major roles in a proper manner.
- Some of the examinees identified certain issues generally i.e., auditor assurance to internal management in correction of inventory system, preparation of financial statement according to financial reporting frame work, selection of samples for audit purpose.

**Question No. 6**

**(a) (i) Need of Separate Cost Audit in addition to External Statutory Audit:**

Examinees were expected to justify the need of separate cost audit in addition to external statutory audit but many of them did not understand the requirement and made the following common mistakes:

- A number of examinees simply listed down the benefits of cost audit instead of justifying a separate need of cost audit.
- Some examinees failed to highlight the requirements of SECP for maintaining cost accounting records for certain types of industries.

**(ii) Advantages of Cost Audit:**

It was a simple question in which advantages of cost audit were required to be discussed. Overall performance of the examinees was good. Few shortcomings were as under:

- Examinees tried to specify the benefits of cost accounting instead of cost audit.
- Most of the examinees repeated the same advantages in other words.

**(b) Persons cannot be Appointed as the Cost Auditor of a Company:**

Almost all examinees attempted this part of the question and overall performance was good. However, some examinees had no idea about the requirement of the question which was to specify the person who cannot be appointed as the cost auditor of the company. Following common errors were identified:

- Most of the examinees performed well in this question. However, few examinees mentioned wrongly that 'a person cannot be appointed as cost auditor of a company if he is not a cost and management accountant or chartered accountant'.
- Some examinees confused and mixed up such persons with the term related parties.
- Some of the examinees wrongly included following persons in the list of persons who cannot be appointed as cost auditor:
  - Insolvent person,
  - Unsound person,
  - Person involved in misconduct
  - Criminal



**Question No. 1**

**(a) Acquisition of Save Life Hospital (SLH):**

**(i) The ratio of exchange of shares:**

Examinees were required to calculate the ratio of exchange of shares on the basis of book value. Majority of the examinees showed the correct computation towards the net assets, number of shares and intrinsic value per share of both companies. However, few examinees only calculated the net worth of one company and ignored the other. In the same part, few examinees mistakenly considered the number of shares for exchange, instead of intrinsic value per share.

**(ii) Earning yield basis:**

Examinees were required to calculate the value of SLH on the basis of earning yield. In this question five (5) years' profit was given but majority of the examinees did not consider the average profit for the period which comes to Rs.69 million.

**(iii) Dividend yield basis:**

Under the dividend yield method, examinees were required to calculate the weighted average of last five years dividend and then divide it by industry rate of return before multiplying it with the nominal value of SLH to find its value per share. Most of the examinees neglected the industry rate of return and lost their marks by applying different dividend models.

**(iv) Return on Capital Employed (ROCE):**

Candidates were required to calculate value of equity share based on ROCE. Most of the examinees correctly computed ROCE but they could not solve the rest of the question because of the ignorance of the market rate of return i.e., 12%.

**(b) Establishing Equitable Exchange Terms:**

**(i) Growth rates of future earnings:**

Examinees were required to calculate growth rates of future earnings of each hospital. Majority of the examinees correctly calculated return on equity but they could not take correct retention ratio. Few examinees write incorrect formula of growth rate.

**(ii) Range of justifiable exchange ratios:**

Examinees were asked to develop a range of justifiable equity share exchange ratios that can be offered by MHN to SLH's shareholders on the basis of expected operating synergies. Most of the examinees provided appropriate answers. Few of the examinees did not attempt this part.

**(iii) Post merger earning per share (EPS):**

Candidates were required to calculate the EPS after the merger and to point out any increase or decrease in the EPS for both hospitals. Most of the examinees attempted this part of the question correctly. However, some of them committed a common mistake. They correctly demonstrated the increase in the EPS of MHN i.e.,  $305.26 - 250 = 55.26$ , but they wrongly increased EPS of SLH as  $305.26 - 300 = 5.26$  instead of  $305.26 \times 0.5 = 152.63$  without considering the ratio, i.e., 0.5:1.

**(iv) Post merger market price:**

Examinees were asked to estimate the post merger market price of each hospital shares and to show increase or decrease in the share price. A large number of examinees correctly computed the post merger market price but they could not calculate the increase in market price per share of SLH. They wrongly deducted pre merger market price of Rs.1,700 from Rs.5,495 instead of Rs.2,747.50 (Rs.5,495 x 0.50) due to not taking into account the exchange ratio of 0.50:1.

## Question No. 2

### (a) Dividend Per Share (DPS) and External Financing:

This question required to answer the dividend per share and external financing required each year, using residual dividend policy, dividend payout ratio and Rs.1 annual dividend per share. Most of the examinees performed well in this question. However, few of them did not calculate the total dividends or dividend per share of each year under different dividend policies. Few of the examinees could not correctly calculate the external financing requirement under each dividend policy. Few examinees were not able to state that which dividend policy gave maximum aggregate dividend and minimum external financing.

### (b) Level of Debt:

The examinees were required to add the tax shield at the rate of 20% on each level of debt into unlevered firm value and deduct the bankruptcy, agency cost etc., to find the value of firm accordingly. However, few examinees added level of debt into tax shield instead of unlevered firm value. Majority of the examinees correctly attempted this question.

## Question No. 3

### (a) Implied Price of a Warrant:

Examinees were asked to work out implied price of warrant. Most of the examinees were able to calculate present value of the warrants but they could not calculate implied price of a warrant. It was observed that examinees were not prepared well for this topic.

### (b) Theoretical Value of the Warrant:

This question required to calculate the theoretical value of the warrant of Delta manufacturing company. Few examinees showed the correct working of the theoretical value of the warrant i.e.,  $(Rs.200-175) \times 4 = Rs.100$ . Few of them only wrote Rs.100 without showing any supporting calculation. Most of the candidates attempted this question inappropriately.

### (c) Warrant Premium:

Examinees were asked to calculate warrant premium for investor. A large number of examinees correctly calculated number of shares and number of warrants but they could not calculate warrant premium due to insufficient knowledge of the warrants.

## Question No. 4

### Viability of the buy or lease option for Fast Airline:

Examinees were required to check the feasibility of buy or lease option for Fast Airline. It was a straight forward question and required basic concepts of strategic financial management. Many examinees did not correctly calculate the amortization schedule. They used discount factor of 7% for the annual bank payment instead of 10%. Moreover, they also could not correctly calculate the gain on sale of aircraft and after tax terminal value due to incorrect calculation of depreciation. Furthermore, it was clearly stated in the question that maintenance cost would be paid by the lessor but few examinees incorrectly took maintenance cost as cash outflow in the lease option. In lease option, many examinees incorrectly showed lease payments of Rs.700 million in year 1-10 instead of year 0-9 and tax advantage of Rs.210 million in year 2-11 instead of year 1-10.

**Question No. 5**

**(a) Indifference point and EPS:**

This question required to compute level of earning before interest and tax (EBIT). Few examinees correctly computed EBIT and EPS. Few of them wrongly took same number of shares for both equity and debt alternatives. Additional interest had to be subtracted from debt alternative but examinees wrongly subtracted additional interest from both alternatives. Few candidates started with the EBIT of Rs.26 million and worked out the indifference point which definitely did not match with both options.

**(b) Indifference point with Sinking Fund:**

Examinees were required to compute the EBIT with sinking fund obligation. Majority of the examinees could not compute EBIT because of the incorrect treatment of sinking fund and number of shares taken for both equity and debt alternative. Those who calculated correct EBIT were unable to calculate EPS for both alternatives.

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**Question No. 1**

Objective of this question was to check basic concepts of direct and relevant cost while contribution margin and limiting factor were the critical factors to decide appropriate product mix, break-even and other requirements. Since, lot of information was involved, summarising the answer in tabular form was required and expected at this level of professional education.

**(a) Budgeted statement of profit or loss based on direct costing:**

Examinees were required to prepare statement of profit or loss on the basis of direct costing. Most of the examinees were able to attempt this part correctly. However, few examinees could not demonstrate profit or loss statement as per direct costing, which clearly highlights the lack of understanding of basic concepts. Few examinees could not segregate variable and fixed expenses as well.

**(b) Product-wise contribution margin ratios(C/M):**

Examinees were asked to calculate product-wise contribution margin ratios and to explain the factors to be considered for the products having zero or negative contribution. Instead of calculating product-wise contribution margin ratio, examinees either calculated product wise gross margin or product wise net income ratio. Some of the candidates ignored contribution margin ratio of Halogen lamp which was required to calculate, notwithstanding, it was a negative margin. A number of examinees wrongly suggested holding production of energy savers and halogen lamps having zero or negative contribution margin, irrespective of relationship between the products.

**(c) Product-wise breakeven sales:**

Examinees were required to calculate the breakeven sales of each product using average contribution margin ratio of 29.17%. Most of the examinees wrongly break-up fixed cost according to the sales mix, whereas right approach was to calculate total break-even sales by using total contribution margin and fixed cost and then allocate the same through sales mix. Few examinees wrongly determined the contribution margin ratio by dividing total fixed cost of Rs.10 million by total rupee value of contribution margin of Rs.17 million (57.14%) and then calculated the product-wise break-even sales by multiplying the product-wise fixed cost with the contribution margin ratio of 57.14%.

**(d) Sales preference:**

Examinees were asked to determine order of sales preference to maximize the contribution margin. Majority of the examinees were able to attempt it correctly, however, those examinees, who were unable to attempt 1. (b) correctly, could not attempt this part accurately. Few examinees ignored products having zero or negative contribution.

**(e) Revised sales mix with 10% variations in the sales:**

Examinees were asked to work out revised sales mix of Rs.60 million to maximize contribution, assuming that product-wise budgeted sales may vary by 10% (up or down). Majority of the examinee were unable to compute the revised sales mix of Rs.60 million. In the first step, they increased the product-wise sale by 10% and arrived at a total sales figure of Rs.66 million. In the second step they decreased the product-wise sales by 10%, and arrived at revised product-wise sales of Rs.54 million. The requirement was simple, which required 10% increase in sales of the products carrying higher contribution margin ratio and decrease the sales of the products having negative or lower contribution margin ratio.

**(f) Revised sales mix with labour constraints:**

Examinees were asked to compute maximum contribution with labour constraints with the assumption that sales mix may be varied up to 20%. Only few examinees attempted it partially correct. Almost all of the examinees increased total sales by 20% and arrived at a new sales figure of Rs.72 million in the first instance, and in the second instance reduced the sales by 20% and arrived at a reduced sales figure of Rs.48 million and then arrived at a new contribution margin, which was totally wrong. In order to make strategy, the contribution per rupee of labour cost was to be determined. To maximize the contribution in the situation, the product with highest contribution per labour cost will be increased in sales by 20% and the products having least margin will be decreased by 20%. The remaining product had to be adjusted by the remaining balance.

**(g) Commission of the agent:**

Examinees were required to calculate the percentage of commission of the agent on the sales order of tube light, halogen lamp and LED light. Few examinees attempted the question incorrectly without understanding the requirement. They tried to compute the contribution margin for all the 5 products by assuming sales of Rs.1.5 million for each product. Some of them wrongly taken Rs.1.5 million total sales and then computed contribution margin by taking the overall contribution margin ratio. However, the correct approach was to calculate the contribution margin of the three products i.e., tube light, halogen lamp and LED light, using already calculated contribution margin ratios and then this contribution had to be subtracted from the required contribution (Rs.4.5 million  $\times$  20% = Rs.0.9 million) to arrive at the figure of required commission of Rs.0.103 million.

**Question No. 2**

**(a) Just-in-Time (JIT):**

Examinees were required to calculate amount of saving or loss on adoption of JIT. Only few examinees were able to attempt this question completely and correctly. Many examinees could not differentiate between savings and losses. Majority of the examinees ignored the return on investment at 12%, which the company can earn on Rs.3 million inventories which will be released on adoption of JIT. A number of examinees could not understand that the loss of contribution is reduced from 5% to 2% by incurring overtime cost.

**(b) Factors before switching to JIT:**

Majority of the examinees failed to mention the factors to be considered by the company before switching over to JIT and most of them mentioned only one sentence that "suppliers should be reliable".

**Question No. 3**

**(a) Determination of excess / shortfall in terms of machine hours:**

Examinees were required to determine excess / shortfall of machine hours in both processes. Majority of the examinees attempted this question correctly. However, few of the examinees combined the required machine hours of both the departments but matched these hours with available hours of one department i.e., 2,000 hours, to determine excess / shortfall, which was incorrect. Few of them combined the available hours as well as required hours of both the departments to calculate the excess / shortfall, which was also wrong.

**(b) Determination of required components produced or purchased:**

Examinees were required to determine the requirement of components A, B and C to be purchased from outside or produced in-house at minimum cost. A number of examinees did not adopt variable approach, ignoring the principle that fixed cost did not affect the decision. They also could not determine the number of units of component "A" and "C" to be produced in-house or to be purchased from outside, resultantly, they could not determine the cost of in-house production and matching it with the cost of purchases from outside for components "A" and "C".

**Question No. 4****(a) Return on capital employed (ROCE):**

Examinees were required to calculate ROCE of Maqbool Mills Limited (MML) on the basis of formulae for both Haroon Mills Limited (HML) and MML. Majority of the examinees calculated correct ROCE, using basis of both the companies but few of them only computed ROCE for either Maqbool Mills Ltd. or Haroon Mills Ltd.

**(b) Return on capital employed (ROCE):**

Examinees were required to calculate ROCE of MML for four mutually exclusive transactions. Majority of the examinees could not comprehend and responded according to the requirements of each transaction, particularly for computing capital employed and profit. Although, it was clearly stated in the question that both companies basis should be used, but majority of the examinees have answered for single formula and ignored the other one. They did not deducted depreciation from profit in transaction b (i). Similarly, Rs.20,000 in transaction b (ii) should have been incorporated in profit while negotiation of Rs.100,000 had no impact on capital employed, as taken into account by majority. Most of the examinees did not deducted Rs.30,000 from the initial profit in transaction b (iv), while capital employed remained the same as per initial value. Few examinees also ignored the net current assets in calculating the capital employed and they only took fixed assets as capital employed.

**Question No. 5****(a) Transfer pricing (Hobbing division's perspective):**

Examinees were required to compute the contribution margin for Assembly division's requirements of 4,000 gears and China Autos' expected order for 5,000 gears. They were also asked to recommend the acceptance of the favourable order of the two. Majority of the examinees could not comprehend it. Excessive calculations and haphazard approach for conclusion created confusion and led to unplanned presentation of the solution. Examinees are advised to use flow chart to apprehend given information and requirements.

**(b) Zeerak engineering perspective:**

Since, this question required decision from company's perspective; examinees were required to compare net cost of both the alternatives. In the first step, variable cost of Forging Division and Hobbing Division had to be calculated. In the second step, Assembly Division's purchase of gears had to be calculated, taking into account the payment to Super Engineering for purchase of gears and variable cost of Forging Division etc. In the third step, net profit / loss on China Autos' order had to be calculated, taking into account the receipts of Hobbing Division and variable expenses of Hobbing and Forging divisions. Since, examinees had mixed up workings of both the alternatives; hence, they were unable to attempt this part of question correctly.



**Question No. 1**

**(a) Sustainable Growth Rate:**

Almost all examinees calculated correct sustainable growth rate for both Racer Limited and Mover Limited. However, few examinees wrongly used payout ratios instead of retention ratios in the formula.

**(b) Constant Growth Model:**

Most of the examinees correctly calculated required rates of return of the companies but they could not calculate value of both companies using constant growth model due to ignorance of the formula i.e.,  $\frac{D_1}{r-g}$  or  $\frac{D_0(1+g)}{r-g}$ .

Some of them did not multiply  $D_0$  with  $(1+g)$ . They wrongly treated  $D_0$  as  $D_1$ .

Some examinees did not subtract 'g' from 'r' in the denominator.

**(c) Two-Stage Model:**

Few examinees used correct two stage model. Most of the examinees correctly calculated dividend for four years but they could not calculate terminal value (i.e., Rs.22.82) using the formula,  $P_4 = \frac{D_5}{r-g}$ .

**(d) H-Model:**

Majority of the examinees attempted this question and gave partially correct answers. A good number of them wrongly used long-term growth rate of Mover Limited ( $g_n = 5\%$ ) for both Racer Limited and Mover Limited. Some of them could not simplify the following expression:

$$\text{Estimated value of Racer} = \frac{1.44(1+0.07)}{(0.21-0.07)} + \frac{1.44(4/2)(0.2-0.07)}{(0.21-0.07)}$$

Due to various errors committed during the process of simplification they could not reach at the correct figure of the value of the company i.e., Rs.13.68.

**(e) P/E Ratios in Worst Case Scenario:**

Examinees committed a number of mistakes while computing above ratios of the two companies, which were to be computed by using the formula  $\left(\frac{1-b}{r-g}\right)$ . Some examinees wrongly treated 'b' as payout ratio rather than retention ratio.

**(f) Calculation of Internal Rate of Return (IRR):**

This question was attempted by most of the examinees satisfactorily.

**(g) Use of DuPont Equation:**

Most of the examinees performed well in this question. Few examinees, however, calculated return on equity (ROE) without using DuPont equation despite of clear instruction given in the question paper. Due to this lapse, they lost marks.

**(h) Use of Free Cash Flow in Finding Value of a Company:**

Most of the examinees accurately calculated free cash flows i.e., Rs.10.75 million but some of them could not calculate values of firm and equity because of two main reasons: (i) They wrongly considered weighted average cost of capital (WACC) as 18% instead of 13% and (ii) Few of them did not subtract Rs.20 million debts from the value of firm while computing value of equity.

**(i) Use of Free Cash Flow in Finding Value of Equity:**

Examinees were required to calculate free cash flow. Some of them were unable to differentiate between cash and non-cash items. As a result, few examinees considered depreciation as cash outflow. Most of them did not calculate free cash flow of sixth year. Hence, they were unable to compute terminal value of the firm.

**Question No. 2**

**(a) Put Option:**

Performance of the examinees was satisfactory in this part of the question.

**(b) Portfolio Management Strategies:**

In this part, a scenario was given, in which an investor had investments in stocks (Rs.100) and government securities (Rs.75) at time zero. It was also given that equity index at time 1, changed from 124 to 135 and at time 2 from 135 to 130. Examinees were asked to (i) provide optimal stock to total assets ratio (ii) stock holdings at time 1, (iii) stock holdings at time 2 and (iv) the amount of stock that should be bought at time 1 under constant mix strategy. As far as sub-parts (i) to (iv) were concerned, examinees' responses were satisfactory. However, in the sub-part (v) in which, examinees were required to recommend and justify a strategy for the investor under the assumption that over the next year stock market would remain volatile and during the holding period return would be zero, examinees' responses lacked relevance and they were found deficient in analytical skills.

**(c) Determinants of Optimal Corridor Width:**

It seems that examinees focus more on numerical part of the question paper, hence, they become weak in theoretical part. Few examinees answered this question satisfactorily. Some examinees provided definition of optimal corridor width instead.

**(d) Traditional Finance VS Behavioral Finance:**

In this part also, examinees' lack of interest in theoretical part was observed. Most of them responded with irrelevant answers based on their general knowledge.

**Question No. 3**

**(a) Behavioral Biases:**

Performance of examinees' was satisfactory in this part. Majority of the examinees provided correct behavioral biases.

**(b) Price-weighted and Value-weighted Indices:**

Majority of examinees prepared market capitalization table accurately but some of them could not calculate price weighted return, since they wrongly divided Rs.120 (total of share prices of 2013) by Rs.105 (total of share prices of 2014). Similarly, in calculating value weighted return they divided Rs.210,000 (market capitalization total in 2013) by Rs.220,000 (market capitalization total in 2014).

**(c) Return on Investment:**

Most of the examinees did not calculate the return on trade of stocks (without margin) i.e., 83%, although, they correctly mentioned initial outlay of Rs.60,000 (1,000 x Rs. 60). In case of return on investment with 70% initial margin, examinees provided partially correct answers. Initial cash outlay of Rs.42,000 and borrowed amount of Rs.18,000 were calculated accurately by many examinees but they could not solve further.

**(d) Time-weighted Rate of Return:**

Most of the examinees calculated time weighted rates of return for first two quarters accurately. But for the next 3 quarters, in which adjustments for annual fee and annual contribution were to be made, most of the examinees failed to provide correct answers because of their inability to properly account for above adjustments.

**Question No. 4**

**(a) Holding Period and Effective Annual Yields:**

Most of examinees provided correct answer to this part. Some examinees calculated both yields correctly but treated holding period yield as effective annual yield and vice versa.

**(b) Arithmetic and Geometric Means of Annual Returns:**

Arithmetic mean was calculated accurately by most of the examinees but very few calculated geometric mean accurately. For calculating geometric mean, examinees just multiplied 4 years' annual returns. They did not take 4<sup>th</sup> root of the resultant figure.

**(c) Money-weighted and Time-weighted Rates of Returns:**

Only a few examinees could define money weighted return correctly, however, most of the examinees defined time weighted returns satisfactorily.

**(d) Premium for Un-systematic Risk:**

Instead of explaining why an investor should not get premium for un-systematic risk, most of the examinees tried to define un-systematic risk.

**(e) Expected Return of Portfolio:**

Most of the examinees provided expected return of stocks accurately but they could not compute expected return of portfolio. In order to compute expected returns of portfolio, examinees' were required to determine relevant weights of the stocks and then multiply these weights with expected returns of stocks. Most of examinees failed to determine relevant 'weights'. Consequently, they could not find expected returns of portfolio as well.

**(f) Expected and Required Return:**

Examinees were required to compute the expected and required returns of stocks and then point out an appropriate strategy (i.e., to buy or sell stocks) considering whether the stocks were overvalued, undervalued or correctly priced. A good number of the examinees correctly answered expected returns and required returns but they could not answer the second part of the question i.e., adoption of an appropriate strategy.

## Question No. 5

### (a) Valuation of a Stock:

Examinees were required to calculate value of a stock using cost of equity of 18%. Most of the examinees calculated  $D_1$  (dividend for next year) and cost of equity correctly but they could not calculate value of the stock, since some of them wrongly divided  $D_1$  (Rs.10.5) by 1.18 instead of dividing  $(10.5+130)$  by 1.18, (Rs.130 being price of the stock at year end).

### (b) Expected P/E Ratio and Value of Stock:

Most of the examinees could not calculate price earnings ratio i.e.,  $P/E = \frac{\text{Payout ratio}}{r-g}$ . Few examinees ignored dividend growth rate (g). The majority did not write correct formula for calculating value of stock (i.e., P/E ratio x Earnings per share).

### (c) Growth Rates of Earnings and Dividends:

Performance of the examinees was good in this part. However, a few of them simply wrote growth rate without mentioning whether it is earnings growth rate or dividend growth rate.

### (d) Difference between Value Stock and Growth Stock:

It seems examinees do not seriously consider theoretical part of the syllabus, so same deficiency was observed in this part as was observed in other theoretical parts / sub-parts..

### (e) Modified Duration, Effective Duration and Convexity:

Again most of the examinees could not answer this part appropriately because of their habit of ignoring theoretical part of the syllabus.

### (f) Effect of Decrease in Yield of Bond on its Price:

A good number of the examinees used yield of 7.2% or 6.9% to calculate the change in price of bond instead of taking decrease in yield (i.e., 0.3%), which resulted in wrong new bond price.



**Question No.2**

**(a) “Case Study”**

In this question, examinees were asked to use Ansoff's product market growth framework to identify the strategic direction of Pakistan Paints. This was a straight-forward application question based on a very significant concept of strategic management i.e. organization's strategic direction. Majority of the examinees correctly presented the analysis. Igor Ansoff directional matrix analyses the options in terms of market and product as PPL approach is enhancing existing market and trying to tap new market along with addition of new products and new brands to its product range.

**(b)** In this question, examinees were required to explain how the Pakistan Paints was employing Business Process Re-engineering (BPR) and Process Innovation (PI). These two tools are significant for any company's strategic management toolkit for organizational improvement. Once again, a simple application question that analyzes the examinees' ability to the organizational tools for improvement and their effectiveness in a particular scenario. Majority of examinees were able to correctly present the analysis.

Process Innovation focuses on the creation of new processes, aims for a whole new way of performing each process, whereas Business Process Re-engineering focuses on improving and redesigning existing processes.

**(c)** In this question, examinees had to explain how to perform “Position Audit” of Pakistan Paints and analyze the Pakistan Paints strategy. The purpose of “Position Audit” is to act as the starting point for the corporate appraisal of an organization. It will be very difficult to plot a successful strategy in absence of position audit. It requires an analysis of both environments of an organization as well as the stake holders, mission and objectives. This was a question of medium difficulty level that evaluated examinees' understanding of various organizational growth strategies and their ability to analyze the same. A good number of examinees presented correct analysis. However, few examinees totally misunderstood the question and described what the organization is rather than how the organizations prepare strategies for growth.

**(d)** In this question, examinees were required to explain how Pakistan Paints entering into different market could maintain synergy with its existing business. This was an application based question that required examinees carefully evaluate company's existing position, its competitive advantage, and its capabilities to ascertain the level of synergy that company would be able to achieve while entering into a business that is not part of core competencies of the business. A good number of examinees presented correct analysis.

**(e)** In this question, examinees had to comment on Pakistan Paints e-business endeavour. E-business is a significant component of every modern business strategy. Once again an application based question that sought to examine the student's understanding to correctly analyze organization's strategic orientation towards expansion using technology. A good number of examinees were able to answer the question correctly. The organization can enjoy the following benefits through e-business endeavour:

- Cost reduction
- Increased revenue
- Better information for control
- Enhanced customer servicing
- Market penetration etc.

**Question No.3**

**(a) Levels of Strategy:**

This was a straight simple question that asked for comments on whether few persons from top management should be responsible for strategic planning at the various levels. This question aimed to examine the examinees' ability to critically evaluate various options for strategic planning. A large majority of examinees answered correctly. The three levels of strategy are Corporate strategy, Business strategy and Functional strategy (operational strategy).



**(b) Characteristics of Good Information:**

Another straight-forward simple question that required examinees to explain the importance of good information in managerial decision making. This question was very straight and simple that sought to examine examinees' ability to analyze various attributes of good information. A large majority of examinees answered correctly. The characteristics of good information are Accurate, Complete, Cost effective, Understandable, Relevant, Accessible, Timely and Easy to use.

**Question No.4**

**(a) Problems with Deliberate Long-term Planning:**

This question required examinees to explain how a strategist would deal with the problems associated with long-term planning. This question tested the ability of student to critically evaluate the benefits and pitfalls of long-term planning. Most examinees explained general ideas rather than explaining the specific benefits/pitfalls of long-term planning. Very few examinees provided the critical analysis of the long-term planning as required by the question. The problems with deliberately long-term planning are setting corporate objectives, difficulties of forecasting accurately, short-term pressures, rigidity, cost, and management distrust of techniques etc.

**(b) Benchmarking:**

In this question examinees had to explain various types of benchmarking. This question was related with one of the very important aspect of strategic management i.e. the benchmarking of organizational performance. Very few examinees were able to offer the appropriate analysis of different types of benchmarking. Many examinees explained what the benchmarking is rather than explaining different types of benchmarking. Three basic types of benchmarking are Internal benchmarking, Competitor benchmarking and Process or Activity benchmarking.

**Question No.5**

**(a) Measurement Mix:**

In this question examinees were required to discuss some of the factors needed to be considered in developing the 'measurement mix' and also the determination of 'measurement mix'. This was a moderately difficult question that analyzed examinees deeper understanding of higher level strategic management concepts. Although few examinees explained the concept in detail but mostly failed to answer correctly. They opted to describe the organization and its various departments rather than describing what factors could be used to develop 'measurement mix' and how a 'measurement mix' can be determined. The organizations need to develop measurement mix to reflect their critical success factor. It will consider the environment in which the organization operates, strategy the business adopts and the type of business.

**(b) Porter's Five Forces for Direct Triggers:**

In this question examinees had to explain a very important framework in strategic management (Porter's five forces framework) and its relationship with respect to the direct and indirect triggers that could affect environment in which organizations operate. This was a straight-forward question that examined examinees understanding of the various factors affecting organizational environment. A large number of examinees were able to answer correctly. Porter's five forces for direct triggers are Competitive rivalry, Power of customers, Power of suppliers, Threat of new entrants, and Threat of substitutes. The indirect triggers are Political/ legal issues, Economic issues, Social issues, and Technological factors.