

FUNDAMENTALS OF FINANCIAL ACCOUNTING
STAGE-1

QUESTION NO:- 1 – MCQs

Good performance was noted in this question.

QUESTION NO:- 2- INTANGIBLE NON-CURRENT ASSETS-GOODWILL

Computation of the value of goodwill, using capitalization method.

- Overall performance of the examinees was found to be above average.
- Generally the examinees were able to solve the question satisfactorily, however, few of the examinees were unable to arrive at correct capitalization of the average annual profit.

QUESTION NO:- 3 - IAS-18-REVENUE

- INVENTORIES

a) **Discussion of the bases for recognition of revenue under the heads: Interest, Royalties and Dividends as per IAS-18.**

b) **Computation of the value of the ending inventory by applying:**

- **weighted average method**
- **FIFO method**

(a) Very poor performance was displayed by the examinees in answering this simple question on IAS –18.

- Instead of giving specific answers, the examinees had written long irrelevant material, which indicates their attempts to gain weight by just putting in irrelevant material.

(b) Overall performance of the examinees in this part of the question was found to be satisfactory. However, few examinees solved the question assuming “periodic” basis whereas it was clearly mentioned in the question that company maintains its inventory on “perpetual” basis, and lost some valuable marks.

- Examinees performed fairly well while computing the value under FIFO method, but their performance in valuation of stock under “weighted average” method was below average.

QUESTION NO:4 - ACCOUNTS RECEIVABLE

-TANGIBLE ASSETS

- LIQUIDITY RATIOS

(a) **Computation of:**

- (i) **Amount of Credit Sales**
- (j) **The balance of accounts receivable at the end of the year.**

(b-i) **Computation of cost of machine .**

(b-ii) **Journal entry to record acquisition of machine.**

(b-iii) **Journal entries to record depreciation.**

(b-iv) **Computation of gain or loss on exchange of machine.**

(b-v) **Journal entry to record trade – in of the old machine.**

(c) **Breif explanation of liquidity ratios.**

- a) overall performance of the examinees was found to be satisfactory in this part of the question.
- b) satisfactory performance was given by most of the examinees in this part of the question, however, few examinees were not able to even correctly calculate the cost of acquisition of machine and depreciation under straight – line method.
 - Examinees were required to pass six journal entries to record depreciation. Few of the examinees passed just only one journal entry for first year and wrote that remaining journal entries will be the same and lost easy marks.

- c) It is surprising to note that majority of the students was not aware of the liquidity ratios.
- Many examinees had written long irrelevant stories instead of giving specific, brief and to the point answers.
 - Many of the examinees were unable to distinguish between current and quick ratios.

QUESTION NO:-5 - BASIC PRINCIPLES OF ACCOUNTING

- RECTIFICATION OF ERRORS (SUSPENSE ACCOUNT)

- IAS – 2 – INVENTORIES

(a) Discussion of the basic principle of accounting and nature of these principles.

(b) (i) Adjusting entries for correction of errors.

(ii) Preparation of Suspense Account.

(c) Description of disclosure requirements of inventories as per IAS-2.

- a) very unsatisfactory performance was noted in this part of the question, as almost all of the examinees were unable to provide correct answer.
- b) Majority of the examinees did not perform well in this part of the question. From most of the answers it was evident that the examinees did not have any knowledge of adjusting and correcting entries.
- Lack of understanding with regard to basics of debit and credit rules and proper posting into ledger was evident from answers.
 - Many of the examinees mixed up all the items and were unable to post these into suspense account correctly.
- c) None of the examinee was able to answer this part of the question in context to IAS-2.

QUESTION NO:-6 – PREPARATION OF FINANCIAL STATEMENTS

Preparation of:

i) Manufacturing account.

ii) Profit and loss accounting

iii) Balance sheet.

- The examinees were generally found very weak in the computation of cost of goods manufactured, which affected the overall performance of the examinees.
- It had been felt that examinees generally prepare for the final accounts of trading business only, whereas preparation of accounts of manufacturing concerns is also part of the syllabus.
- Examinees committed mistakes in apportionment of light, rent and insurance expenses between manufacturing and profit and loss account, which resulted in incorrect determination of gross profit and net profit.
- It was observed that majority of the students even do not know the format of the manufacturing account, profit and loss accounts and balance sheet, and logical sequence of items appearing in these statements.

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BUSINESS ECONOMICS
STAGE-1

The overall performance of the examinees in this paper remained very poor. Though the paper was simple and straight but majority of the examinees was failed to give the relevant answers. This subject is highly technical in nature and requires good quantitative skills. Most of the examinees were found weak in showing good abilities on presenting the technical side of the paper. Similarly the conceptual weaknesses were also found. Generally it was found that lack of understanding the requirements of the questions on the part of examinees had been the main factor of their poor performance.

QUESTION NO. 2

- (a) & (b) **Indifference Curve and it's characteristics:** Almost all the examinees attempted this question. Regarding the correctness it was observed that very few had given the correct definition. Few stated the concept of Marginal Rate of Substitution (MRS) and correctly drew the graph with the schedule showing diminishing MRS. Majority stated the characteristics of indifference curve correctly but in explanation they showed poor performance by not providing the proper reasons.
- (c) Very few examinees correctly attempted the question with proper diagram and explanation. Majority examinees stated income effect, price effect and sales effect separately. But the demand of the question required the diagram in which price effect may be shown as the summaries of income and sales effect, that was merely observed.

QUESTION NO. 3

- (a) **The law of Diminishing Marginal Returns (DMR).** Although it was a simple and a straight forward question but it was observed that the question was not attempted correctly. Some discussed the law of Diminishing Marginal Utility, which was wrong, others discussed the law of variable proportion, which was also not required. Very few examinees correctly attempted the question and stated with the help of schedule and diagram.
- (b) **Application of DMR in agriculture sector:** This portion of the question was attempted poorly. Very few had stated the reasons of its especial application to agriculture section. Either they repeated the schedule and diagram or simply wrote the statement that the law of DMR has especial application to agriculture sector.

QUESTION NO. 4

- (a) **National Income (NI):** It was the easiest question of the paper on basic subject of economics. Majority of the examinees had attempted this question but mostly provided vague and irrelevant answers. Some examinees were unaware of the meaning of NI, GNP and GDP. Very few had stated the definition of National Income presented by different economists.
- (b) **Gross National Product (GNP)/ Gross Domestic Product (GDP).** The examinees were failed to differentiate the terms correctly. GDP is the money value of final foods and services produced by the factors of production located in the domestic economy in respect of their ownership, while GNP is the value of goods and services provided by the residents of the country irrespective of their location. Very few were able to perform correctly by using the correct equation used for calculation for both the terms.

QUESTION NO. 5

A very simple question and could be answered with the help of general knowledge.

- (a) **Protectionism and free trade.** This question depends on academic knowledge. Majority answered on average basis.
- (b) **International trade.** Many examinees were unable to understand what was required in this question. Others were able to answer using their general knowledge about the topic.
- (c) **Evaluate the statement.** Protectionism and free trade and arguments against free international trade, "WTO is a curse not a cure", were required to be answered. It was observed that majority examinees had no knowledge about WTO. They failed to discuss and reflected poor expressing skills. Their concept was also not clear. They demonstrated poor knowledge.

QUESTION NO. 6

- (a) **Industrial Development.** It was a simple question on the importance of Industrial development in the economic development of a country. Examinees might perform well but failed to come up with adequate answers.
- (b) **Causes of Industrial backwardness.** This question seemed to be the most easiest one for the examinees, since it did not require any analyses. The graphs or illustration was also not required. On the whole the performance was not upto the mark. Examinees lacked the technical approach of the subject and possessed only the knowledge which was general in nature.

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**EXAMINERS' COMMENTS
SPRING (SUMMER) 2007 EXAMINATIONS**

**BUSINESS LAWS
STAGE-1**

QUESTION NO. 2

- (a) This part of the question on **"Court of first instance"** was simple. However, majority relied on their general knowledge.
- (b) This part of the question on **"Appellate court"** was answered correctly by the most of the examinees and got good marks.
- (c) and (d) Most examinees failed to differentiate between **"Decision Reversal"** and **"Decision Overruled"**. Lack of professional knowledge on the topic was noted.
- (e) This part of the question on **"Session"** was not answered correctly. The examinees were not familiar with the legal terms rather they had totally ignored them.

QUESTION NO. 3

This question belongs to the Contract Act, 1872.

- (a) Satisfactory performance was displayed by the examinee in this part of the question on **"Types of offer"**. However, some of the examinees were confused with implied offer, specific offer and cross offer.
- (b) Most of the examinees did not mention the various medium of communication in the **"Communication of offer"**
- (c) Satisfactory performance was displayed by the examinee in this part of the question on **"Judicial consideration"**
- (d) Examinees gave average performance in this part of the question on **"Alien enemy"**. However, most of the examinees only elaborated the word enemy based on their general knowledge.

QUESTION NO. 4

- (a) Poor performance was noted in this part of the question on **"Objects of the Partnership Act, 1932"**. Almost majority had written various features of partnership.
- (b) This part of the question on **"Advantages of partnership"** was also attempted poorly.
- (c) Satisfactory performance was noted in this part of the question on **"Negotiable Instruments"**. However, examples were not given.
- (d) Average performance was noted in this part of the question on classification of listed items as **"Negotiable and non Negotiable Instruments"**. The selection of wrong option as negotiable and non-negotiable instrument by the examinees depicted lack of concept and also poor knowledge of the topic.

QUESTION NO. 5

Better performance was noted in this part of the question on **"requirement for registration of a Trade Union under the Industrial Relations Ordinance, 2002"**. Most of the examinees mentioned the process of registration instead of registration requirements. Only few examinees had mentioned, the aspects related to custody of funds of the trade union and its annual audit, and the manner in which the trade union may be dissolved.

QUESTION NO. 6

- (a) Provisions of the Factories Act, 1934.
 - (i) **"Overtime payment"**. The normal daily and weekly hours beyond which overtime become payable was not defined. (ii) Average performance was noted in this part of the question on **"weekly and annual holidays"**. However, holidays were confused with public holidays.
- (b) Benefits under the Social Security Ordinance, 1965.
 - (i) Satisfactory performance was noted in this part of the question on **"Sickness"**. However, most of the examinees did not mention the requirement of submitting medical practitioner's certificate.
 - (ii) Satisfactory performance was noted in this part of the question on account of **"Maternity"** leave and benefits. However, examinees answered in broad term and did not mention that benefit in monetary term that is payable for days on, which she does not work during the period of 12 months.
 - (iii) Most of the examinees had attempted this part of the question on **"Death grant"** and scored good marks.

**BUSINESS ENGLISH
STAGE-1**

The overall performance of the examinees was unsatisfactory. The answers reflected casual approach to preparations. The quality of answers was superficial and below standard. Due to poor command on the language, examinees were not able to convey their thoughts properly. Examinees were also found lacking in the expression and presentation. There was also a tendency to write unnecessary and lengthy answers. For better performance, examinees are advised to focus on balanced approach to each answer, undertake thorough reading and assimilation of the study material for conceptual clarity and improve expression, presentation and vocabulary.

QUESTION NO. 2 and 3

Both questions were meant to test the examinees ' **knowledge of grammar**'. Hardly any candidate could come up with correct answers to these questions. They did not show understanding of the correct usage of articles (a, an, the), nouns, prepositions, change of sentence from active to passive voice and vice versa, direct and indirect speech, punctuation and joining of a sentence by using phrase in apposition. As a result, the candidates in general failed to obtain good marks in these two questions.

Their knowledge of past and present tense usage was weak. Part 3(b) of the question was on punctuation. The given passage was interesting and simple but very few could provide all the ten required punctuations correctly. Majority took it half-heartedly or had no sound knowledge about usage of punctuation.

QUESTION NO. 4

(a), (b), (c), and (d). The question took the form of an exercise in "**comprehension**". The given passage was lengthy in contents and wording but quite simple and easy to comprehend. Most of the examinees resorted to lift the passage material freely and reproduced it un-intelligently. Most of the examinees simply ignored that answers were to be framed in their own words with proper understanding of relevant question. It is suggested that comprehensive reading skill be practiced by examinees and exercise in skimming, scanning, surveying, searching out connectors, comprehensive revision of tenses, spelling and structures should be undertaken. This would facilitate and enhance comprehension skill of the examinees.

QUESTION NO. 5

In this question, the examinees were required to write an **essay** of about 300 words on one of the given six topics, which were quite interesting and relevant. Almost all the topics were attended but very poor, vague, irrelevant and misconceived piece of writings were produced. Coherence and logical development was found in very few answer scripts. Paragraphing and correct syntax was very poor. Majority of examinees committed spellings and abbreviations mistakes. While composing an essay, a writer must apply rules of punctuation, sentence structure, conjunctions, verbs, active and passive sentences etc. In order to score good marks, the examinees were expected to exhibit a fair knowledge of the subject they chose to write on and reproduce the same in a logical sequence in a coherent and convincing style. These qualities were missing in the essays written by the examinees. They poured in whatever they wished to rather than what they were expected to relating to the subject.

QUESTION NO. 6

In this question, examinees were asked to write a "**notice of a meeting**" giving details like time, date, venue etc. The notice presupposes that the meeting has to take place on a future date. However, the candidates, perhaps due to lack of knowledge of grammar, wrote it down as an event which had already taken place.

QUESTION NO. 7

In this question, the candidates were required to write down the “**spoken utterance of the chairman of the meeting**”. Instead, the candidates wrote down what it should be or what they would do if they were to chair a meeting. From the answer it appeared they had never attended or read about meetings and their proceedings. Examinees’ answers clearly reflected that they did not understand the question properly. Few examinees came up with utterance relevant to the titles. Generally examinees lost marks in this question. Either they did not attempt this question completely or if they had attempted it, their responses were incorrect. However few examinees elaborated the situation correctly by indicating the purpose and hinting the agenda too.

QUESTION NO. 8

“**Three major strengths and three major weaknesses**” of the examinees were to be discussed in this question. Majority of examinees produced good answers for this question in term of material but poor in presentation. Most of the candidates reported two or more considerations for the interview for each of three steps. Material contents were good and relevant but reported carelessly with numerous faults of various types. Due care was not given to avoid mistakes of spellings, sentence formations and mark of punctuation.

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FUNDAMENTALS OF COST AND MANAGEMENT ACCOUNTING
STAGE-2

QUESTION. NO:- 1 - MCQs

Average performance was displayed by examinees in this question.

QUESTION. NO:- 2

COST CLASSIFICATION

COST CONCEPTS

- (a) Discussion of how can the fixed and variable elements of semi-variable costs be determined? Explanation of any method discussing its limitations.
- (b) Computation of profit or loss expected from processing the additional order of 8,000 units, using the data as given in the question.
- (c) Explanation of the cost behaviour.

- (a) Examinees without understanding the requirements of the question, had simply written the definitions of variable, fixed and semi-variable elements of cost, which was an incorrect answer.
- Most of the examinees did not have the knowledge of determination of fixed and variable elements of semi-variable cost. Instead of discussing the method they had given definition of fixed, variable and semi-variable cost.
- (b) Most of the examinees had calculated profit on existing and / or total output instead of calculating the profit or loss on additional order of 8,000 units.
- Those who had prepared the statement of profit or loss for additional 8,000 units, had charged the fixed cost against 8,000 units which was not correct.
- (c) Very disappointed performance was displayed by the examinees in this part of the question.
- Many of the examinees had highlighted the fixed, variable and semi-variable expenses instead of discussing the cost behaviour.

**QUESTION. NO:- 3 – MATERIAL CONTROL
– PROCESS COSTING**

- (a) (i) Determination of economic order quantity and frequency of replenishment of stock.

(ii) Determination of:

- Absolute maximum inventory
- Safety stock (normal)
- Re-order level, and
- Total economic cost (ordering and holding cost)

- (b) Discussion of primary objective of process costing.

- (a) Examinees performed very poorly in this part of the question.
- Examinees were not able to apply the formula correctly and arrived at incorrect answers to almost all the requirements of the question.
 - Most of the examinees could not differentiate between cost and number of boxes in a lot while applying the formula for determination of economic order quantity.
 - Units were also incorrectly calculated. Even when price per lot was applied, the annual requirement was expressed in number of boxes, which resulted in incorrect matching of numbers of boxes with the cost of the lot, which was totally against the basic concepts of arithmetic.
- (b) Mixed performance was noted in this part of the question, where many of the examinees were able to attempt the question correctly and equally good number of examinees gave incorrect answers and had discussed the nature of process costing without discussing its objectives.

QUESTION. NO:- 4 – FACTORY OVERHEAD CONTROL**(a) Discussion of impracticalities and in-accuracies of charging actual overhead.****(b) Determination of:**

- (i) **Total overheads of two producing departments, overhead charged to both the departments, and under or overcharge, if any.**
- (ii) **Discussion of whether the present system of charging of overhead to jobs by adding 125% on direct wages is correct. If not, suggest alternate basis.**

(a) Few of the examinees had written descriptive replies to this part of the question, instead of giving specific and comprehensive replies, and were not able to provide correct answers.

- Instead of discussing the problems of charging actual overhead, they had discussed, what the actual and applied overheads are.
- Few of the examinees had discussed the different methods of applying overhead, which shows that examinees had attempted the question without understanding its requirements.

(b-i) Average performance was noted in this part of the question.

- Many of the examinees had either added actual overhead to applied overhead or had added direct wages with factory overheads, and thus arrived at a wrong answer and lost some valuable marks.

(b-ii) • Mixed response was noted in this part of the question, where may of the examinees had agreed that the present basis of charging overhead to jobs is correct while others have mentioned that the present basis of charging overhead is not correct. Very few could mention the alternate basis with supporting figures.

QUESTION. NO:- 5 – LABOUR CONTROL**– COST CLASSIFICATION****(a) Discussion of the need to distinguish between direct and indirect labour.****(b) Computation of:**

- (i) **weekly gross wages for the whole group of workers and for one individual.**
- (ii) **Weekly gross wages of the group of workers, if the bonus entitlement is increased from 75% to 95% of time saved.**

(c) Differentiation between fixed cost and stepped cost.

(a) Majority of the examinees had defined and discussed the direct and indirect labour instead of discussing the need to distinguish between direct and indirect labour.

(b) Very, very disappointing performance was observed in this part of the question. Almost all of the examinees failed to compute the gross wages and bonus for the whole group of the workers correctly.

- While computing the weekly wages for the group and individual worker, the number of days and percentage of bonus to wage rate was incorrectly applied by may examinees, which resulted in in-correct answer.
- The bonus was to be worked out, based on the performance of the whole group, whereas majority of the examinees had calculated the bonus based on individual performance.
- It was surprising to note that examinees were not able to do simple calculations.

QUESTION. NO:- 6

- **COST CLASSIFICATION**
- **MARGIN OF SAFETY**
- **BREAK-EVEN ANALYSIS**
- **STANDARD COSTING**

(a) Explanation of the “Margin of Safety”. How it is determined?

(b) Computation of:

- (i) Breakeven point in rupees and units
- (ii) Amount of sales required to earn a profit of Rs. 420,000/=.

(c) Discussion of types of variance for direct labour cost.

(d) Calculation of direct labour cost variance.

(a) Few of the examinees had misunderstood the concept of margin of safety and mixed it up with “safety stock” and “stock out position”.

- Overall performance in this part of the question was however, satisfactory.

(b) Overall performance in this part of the question was found to be satisfactory.

(c) & (d) Overall performance in these two parts of the question was found to be satisfactory.

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MANAGEMENT AND MARKETING
STAGE – 2

The overall performance of the examinees in this paper was very poor. However the question paper was very simple and straight forward. The questions were attempted by almost all the examinees, however only a few of them could arrive at the correct answers. Examinees should understand that no matter how clear their concepts are if they can not put them in writing correctly, their efforts will be in vain. The examinees should also indicate the habit of reading the entire question thoroughly and making up the mind as to what is being asked for.

(SECTION –A-MANAGEMENT)

QUESTION NO. 2:-

Majority of the examinees attempted this question and amongst them very few had given the right answers. It is a very open ended question calling for as much details as possible.

- (a) **Define manager** . Almost all the examinees provided the definition of a manager but only a few had described it properly. Majority answers were lengthy and irrelevant. For four (4) marks question examinees used 2-4 pages, although it was clearly mentioned that to define precisely.
- (b) **Efficiency and Effectiveness**. The answer should not have gone more than three to four lines in explaining these terms but examinees felt free to write 3-4 pages, instead. Still, with exception of those who had clear idea, majority failed to provide the right answer.
- (c) **Theories of Motivation**. Instead of writing names of theories viz attribution, content, agency, equity etc, examinees started writing motivating style. They could not define the model as well which was required.
- (d) **Leaders and Leadership Powers**. The powers viz coercive, reward, legitimate, referent and expert could not find place in discussion. Examinees went on discussing their own points without any reference to the requirements of the question.

QUESTION NO. 3:-

- (a) **Plans are nothing planning is everything**. A very simple and straight forward question. Deciding statement as True/False, the examinees mentioned it correct. This answer is also suggested in later part of the question where comments on truthfulness of the statement is required.
- (b) **Performance Appraisal (PA)**. Quite a number of examinees had correctly pointed out most of the PA methods. 360 feedback was a new concept for most of them, that is why many examinees skipped it.
- (c) **Classification of Plans through Breadth Dimension**. Here breadth dimension was misunderstood. Examinees had written many types of plans, but the correct ones were: (i) Strategic and (ii) Operational.

(SECTION – B- MARKETING)

QUESTION NO. 4:-

It was the simplest question of the paper. Almost all the examinees attempted this question but only a few had given the proper definition of marketing and it's process. Most of the answer were vague and irrelevant.

- (a) **Marketing and Marketing Process**. By and large the definition of 'Marketing' was defined well by the examinees but majority of them could not mention/ illustrate the model for building profit for the firm and creating long term customers' satisfaction.
- (b) **Customer Equity**. The problem was with the definition of customer equity. However building the right relationship with the right customer had well attempted.
- (c) **Product mix**. It was a very easy question. However, the examinees were confused and most of them were driven to marketing mix.
- (d) **E-marketing**. Very poor performance and irrelevant answers were provided by the examinees. Examinees had mentioned it's limited use. It is marketing beyond physical barriers and limitless option, both at home and abroad. Creating / designing effective website aspects had also not been discussed.

QUESTION NO. 5:-

Answer to this question lacked clarity and content. The examinees had reported less than average performance in the various parts of this question.

- (a) **Marketing logistics.** Examinees rightly pointed out that it was total concept in solving planning, implementing and controlling physical flow and not simply transportation of goods.
- (b) **Logistics efforts.** Emphasis on logistic efforts could not be understood by majority. Here simply chain management both up stream (production / availability) and downstream (distribution) had to be taken care of so that customers did not suffer.
- (c) **Advertising communication.** Effective advertising communication depends primarily upon identifying target audience and defining advertisement objectives by delivering appropriate message through proper media selection. It was a very open and straight question and examinees were expected to answer well but examinees showed very poor performance in this question.
- (d) **Advertising Budget.** Only few examinees could list the correct methods of setting advertising budgets. Very poorly attempted question.

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**EXAMINERS' COMMENTS
SPRING (SUMMER) 2007 EXAMINATIONS**

**BUSINESS MATHEMATICS & STATISTICS
STAGE – 2**

QUESTION NO. 2:-

- (a) Average performance was displayed by the examinees in this part of the question on “**Equation of the straight line**”. However, they lack in simplification skills.
- (b) Majority of the candidates who attempted this part of the question on “**The profit function to be dealt with differentiation**” were failed to attempt the test of minimum/ maximum. The common error was that examinees did not find 2nd derivative of infinite $f''(x)$.
- (c) Majority who attempted this part of the question on “**limiting form of functions**” was failed to evaluate the limits $x \rightarrow \infty$. The concept of limits of a function needs attention.
- (d) Satisfactory performance was noted in this part of the question on “**formulation of a multivariate function from a business problem**”. However formulation of mathematical function needs to be improved. Examinees had misconception for the quantities greater than 5,000 masks.

QUESTION NO. 3:-

- (a) Poor performance was noted in this part of the question on “**integration**” as examinees were unable to correctly apply the limits of integration.
- (b) Examinees demonstrated average performance in this part of the question on “**linear equation**”. However, it was mentioned in the question to solve it by Cramer’s Rule even then some examinees had tried to solve it through matrix inversion method, that was uncalled for.
- (c) Average performance was noted in this part of the question on “**sum of the series and 20th term**”.

QUESTION NO. 4:-

- (a) Below average performance was noted in this part of the question on “**application of normal distribution**”. Examinees failed to understand and attempt this application problem on normal probability distribution.
- (b) Average performance was displayed by the examinees in this part of the question on “**confidence interval for mean**”. However, examinees did not know at which point the probability was required and how to set confidence interval.

QUESTION NO. 5:-

- (a) Below average performance was noted in this part of the question on “**Basic rules of set algebra**”. Examinees had no clear concept of probability.
- (b) Satisfactory performance was noted in this part of the question on “**smoothing time series**”.

QUESTION NO. 6:-

- (a) Average performance was displayed by the examinee in this part of the question on “**normal cost, crash cost, crash time and cost slopes**”.
- (b) Satisfactory performance was noted in part of the question on “**cost slopes and the critical path**”. However the majority failed to construct least cost schedule by crashing the normal activities.

QUESTION NO. 7:-

- (a) Most of the examinees performed well in formulation of “**linear programming model**”.
- (b) Average performance was noted in this part of the question on “**linear programming model by using the simplex method**”. The arithmetic skills of the examinees were found weak.

INTRODUCTION TO INFORMATION TECHNOLOGY (THEORY)
STAGE – 2

QUESTION NO. 2:-

- (a) A large number of examinees could not even distinguish between “**magnetic tape and optical storage**” media. While describing the significance of optical storage, they mentioned harddisk and floppy disk as optical storage media which is quite incorrect.
- (b) Utility of the following memory devices.
- (i) On-line storage and (ii) Smart Card; most of the examinees did not correctly describe the utility of these gadgets.
 - (iii) Flash memory, and (iv) Magnetic tape; satisfactory answer were given. However, some of the examinees failed to write correct utility of magnetic tape.

QUESTION NO. 3:-

- (a) This was a very simple question on “**classification of computers**” and was attempted by almost all examinees and gained good marks. However, some of the examinee confused with size and capacity of computers.
- (b) (i) Most of the examinees had the proper concept of “**device driver**” and they also explained the functions of device driver appropriately. (ii) Average performance was noted in this part of the question of “**feature of ISA and PCI**”. Only few examinees could correctly compare the features of ISA and PCI Bus.

QUESTION NO.4:-

- (a) Average performance was noted in this part of the question, as examinees were unable to describe the five basic functions of “**operating system**”.
- (b) (i) Most of the examinees had attempted this part of the question on “**multi-tasking**” and overall performance was found satisfactory. (ii) Spooling: Poor performance was noted in this part of the question as very few examinees were able to discuss “**spooling**” correctly and completely.

QUESTION NO. 5:-

- (a) The question was on “**application software**” where examinee were confused between shareware and groupware. Examinees demonstrated average performance in this part. However, majority relied on their general knowledge.
- (b) Majority of the examinees found it easy to describe the concept of “**virtual memory**”. However, many of them could not properly describe it due to poor presentation.

QUESTION NO. 6:-

- (a) Utility and example of : (i) data transmission modes and (ii) data transmission channels.
Majority found confused between these two concepts. Poor performance was noted in this part of the question.
- (b) Good performance was displayed by the examinees in this part of the question and they described “**Star**” and “**Ring**” topologies of LAN along with their advantages and disadvantages adequately.

INTRODUCTION TO INFORMATION TECHNOLOGY (PRACTICAL)
STAGE – 2

WORD PROCESSING

This was a fairly easy question. The first part consisted of MCQs where most examinees scored good marks. The second part on writing a given text was also well attempted by most of the examinees. However some examinees were unable to recreate the formatting that was required. Some of the examinees lacked the skill of creating data in tabular form.

SPREADSHEET

Average performance was displayed by the examinees in this question. Those examinees who had failed in this part could not correctly apply the formula to the given data and led to wrong bar chart. Some examinees instead of making bar chart used the pie chart option from the menu the was not required.

DATABASE

Most of the examinee left this part under option with Peachtree Accounting question. Only few could attempt its complete parts consisting of five questions. Many examinees had no idea how to apply filter, set conditions and do calculation using MS Access tools.

PEACHTREE

Under the option with database, a majority of the examinees attempted Peachtree Accounting package. The overall performance of the examinees in this part was remained average. It seemed that most examinees knew how to use the software. However, they were unable to answer the question correctly which showed that their accounting skills were extremely inadequate.

POWERPOINT

This was the easiest question of the entire practical paper. Most examinees got full marks in this question. However, some examinees could not place a graphic at the required location.

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FINANCIAL ACCOUNTING
STAGE-3

QUESTION NO:- 1- MCQs

Good performance was noted in this question.

QUESTION NO:- 2 -- DEPARTMENTAL ACCOUNTING

Preparation of trading accounts for three departments:

- The question required the examinees to allocate the amount of purchases to departments, calculation of value of closing inventory etc. Performance of the examinees in this question was found to be quite unsatisfactory.
- The examinees did not follow the information / contents provided in the question and were unable to attempt the question completely and correctly.
- Most of the examinees did not have conceptual knowledge of the topic and were unable to solve this question correctly.
- Following common errors / shortcomings were noted from the answers:
 - Gross profit percentage was not worked out correctly.
 - Incorrect valuation of closing inventory.
 - Incorrect application of formulae to compute percentage of cost of sales and gross profit.

QUESTION NO:- 3 – ACCOUNTING FOR ROYALTY

(a) Preparation of statement for five years showing the amounts of:

- Royalty
- Minimum rent
- Short workings
- Short workings recouped
- Short workings irrecoverable

(b) Preparation of necessary ledger accounts in the books of lessee for five years.

- The question was very well attempted by almost all the examinees and scored good marks.
- Few of the examinees had prepared the profit and loss account and minimum rent account, which was not required.

QUESTION NO:- 4

- ACCOUNTING FOR PARTNERSHIP

- IAS-8 – ACCOUNTING POLICIES, CHANGES IN ACCOUNTING ESTIMATES AND ERRORS

(a) Journal entries to be passed on admission of a new partner under separate assumptions.

(b) Journal entries to record division of net profit among partners and preparation of a schedule showing distribution of profit.

(c) Writing of short notes under IAS-8 on the following:

- Accounting policies
- When change in accounting policies might be required?

(a & b) From the answers it was evident that examinees had not prepared for the topic of accounting of partnership although the question was very simple and easy.

- Examinees had an opportunity to earn few easy marks, but most of the examinees were not able to solve the question as per the requirements of the question.

(c) It was observed from the answers that almost all the examinees have not bothered to study the relevant IAS. Overall performance in this part of question was very poor.

- Most of the students had written long stories without any relevance to the question, which means examinees did not study the IASs included in the syllabus.

QUESTION NO:- 5 – ACCOUNTING FOR NON-PROFIT MAKING ORGANIZATIONS

Preparation of:

- (i) Receipts and Payment Accounts**
- (ii) Income and Expenditure account, and**
- (iii) Balance sheet**

- The question was very well attempted by the majority of the examinees and overall performance was found to be satisfactory.

QUESTION NO:- 6 – PREPARATION OF FINANCIAL STATEMENTS AS PER REQUIREMENTS OF RELEVANT IAS AND THE COMPANIES ORDINANCE, 1984.

Preparation of:

- (a) Profit and loss account**
- (b) Balance sheet**
- (c) Statement of changes in equity, and**
- (d) Schedule of fixed assets**

- Many of the examinees did not have the understanding of company accounts and were unable to solve the question as per the requirements of the relevant IAS the and Companies Ordinance, 1984.
- Many of the examinees were found unaware about the “statement of changes in equity” and “schedule of fixed assets”.
- Many of the examinees have prepared the profit and loss account in account (T) form instead of report form.

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**EXAMINERS' COMMENTS
SPRING (SUMMER) 2007 EXAMINATION**

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

QUESTION NO:- 1 - MCQs

Above average performance was displayed by the examinees in this question.

QUESTION NO:- 2 - INCOME TAX

- (a) Discussion of provision of section-29 of the Income Tax Ordinance, 2001.
- (b) Definition of following terms as per the provisions of section-35 of the Income Tax Ordinance, 2001:
- i). Prime cost method
 - ii). Stock-in-trade
- (c) Description as to how the residential status of an individual is determined under Rule 14 of the Income Tax Rules, 2002.
- (d) Discussion of the provisions of Rule 29 of the Income Tax Rules, 2002 regarding maintenance of books of accounts, documents and record.
- From the answers it was evident that the examinees have understood the requirements of the question but were unable to describe as per the requirements of law.

QUESTION NO:- 3 - INCOME TAX

Definition of the terms as per Income Tax Ordinance, 2001.

- (a) Amalgamation as per section-2(1A).
- (b) "Industrial undertaking" as per section 2(29C).
- (c) profit on debt as per section 2(46).
- (d) Description in details of:
- (i) Disposal and acquisition of assets as per section 75.
 - (ii) Business and personal assets as per section 75(c).
- From the answers it was noted that examinees were not aware of the term "amalgamation" as per the description under section 2(1A). Their answers were based mostly on their accounting knowledge.
 - It was noted from the answers that examinees found it very difficult to define and differentiate the required discussion as per spirit of law. All answers were vague and irrelevant.

QUESTION NO:- 4 - INCOME TAX

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

- The question was not difficult and covered some important sections of Income Tax Ordinance 2001 and Income Tax Rules, 2002.
- Majority of the examinees had not understood the application of various sections in attempting the question.
- It was very easy to attempt the question completely and correctly as every explanation was available in question itself, but examinees did not realize it.
- It was apparent from the answers that due to lack of knowledge, study and interest in the subject they could not perform well in this question.

QUESTION NO:- 5 - SALES TAX

- (a) Explanation of the term "short paid amount recoverable without notice" as per section 11-A of Sales Tax Act, 1990.
- (b) Description of the records required to be maintained by a registered person under section 22 of the Sales Tax Act, 1990.
- The question was very simple, but majority of the examinees was not able to answer this question completely and correctly.

QUESTION NO:- 6 - FEDERAL EXCISE ACT, 2005

- CUSTOMS ACT, 1969.

- (a) Description of "Due date" as per section 2(8a) of the Federal Excise Act, 2005.
- (b) Explanation of the provisions of section 8 of the Federal Excise Act, 2005 for levy of "Default Surcharge".
- (c) Description of provision contained in section 21-A of the Customs Act, 1969 regarding "power to defer the collection of custom duty".
- It had been noted from the answers that it was looking very difficult to examinees to attempt the question as per spirit of law.

EXAMINERS' COMMENTS
SPRING (SUMMER) 2007 EXAMINATION

Page # 1 of 3

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

QUESTION NO:- 1 – MCQs –

Above average performance was given by the examinees in this question.

QUESTION. NO:- 2 ABSORPTION COSTING AND MARGINAL COSTING

- (a) **Computation of the amount of fixed manufacturing cost applied to production under absorption costing.**
- (b) **Preparation of Income Statements under absorption and marginal costing.**
- (c) **Reconciliation of difference in operating income under the two methods.**
- In part (a), of the question most of the examinees failed to pick the production of 12,000 units from the question to calculate the correct application rate.
- (b) • Most of the examinees committed mistakes in arriving at manufacturing cost and the cost of ending inventory under absorption costing method.
- Few examinees prepared income statements on the sale of 10,000, 15,000 and 20,000 units respectively, whereas the question required to prepare income statements on the sale of 6,000 units.
 - Many examinees committed mistakes in computation of fixed expenses either at Rs. 6,000/= or Rs. 160,000/=, whereas correct figure was Rs. 80,000/=.
 - Following common errors / shortcomings were noted:
 - Incorrect calculation of sale figures on the quantities of flexible budget.
 - Incorrect valuation of closing inventory under both the methods.
 - Poor presentation
 - Incorrect application of variable marketing expenses.
- (c) Due to errors committed by examinees in attempting part (b) of the question, they could not reconcile the difference in operating income arrived at under absorption and marginal costing.
- None of the examinees was able to calculate over-applied manufacturing cost as being the difference between normal production capacity of 20,000 units and actual production of 12,000 units.
 - Most of the examinees also ignored difference in valuation of closing inventories under both the methods.

QUESTION. NO:- 3 - PROCESS COSTING

Computation of cost assigned to work-in-process ending inventory under the following costing methods:

- **Average cost**
- **First-in-first**
 - From the answers it appeared that the question had not been understood by majority of the examinees, as they were unable to correctly calculate the monthly equivalent production for material, labour and overhead.
 - Most of the examinees failed to understand that ending inventory consisted of 60% completed units as to labour and overhead.
 - Many of the examinees were unable to calculate the cost of materials and conversion under average cost method. They did not add the cost of opening work-in-process inventory to the cost incurred during current period.

QUESTION. NO:- 4 - STANDARD COSTING

(a) **Discussion of the statement: “How is the use of standard costing valuable in pricing and budgeting decisions”?**

(b) **Computation of:**

- (i) **Monthly equivalent production for material and conversion cost.**
- (ii) **Standard cost of: Units transferred to finished goods, abnormal spoilage and ending inventory of work-in-process.**
- (iii) **Material quantity and price variance.**
- (iv) **Labour rate and efficiency variance.**
- (v) **Factory overhead variance using “four variance” method.**

- (a) Very few of the examinees were able to answer the theoretical part of the question properly. Most of the examinees had defined the standard costing and Budgeting.
- Advantages of standard costing i.e., ‘comparison of actuals with standards’ were repetitively discussed by the examinees in their lengthy and irrelevant answers.
 - Many of the examinees instead of giving to the point and specific answers went into the details of defining standard cost of material, labour and factory overhead, idle capacity and variances. They also discussed, how the budget is prepared and also the comparison of budget with actuals, which was totally an incorrect and irrelevant answer.
- (b) Many of the examinees failed to prepare the quantity schedule which was the starting point to solve the question.
- Many of the examinees failed to take into account the number of units of abnormal loss for materials and conversion costs while calculating the equivalent production units under FIFO costing methods.
 - Following common errors / shortcomings were noted from the answers:
 - Incorrect computation of unit cost whereas standard production cost per unit of Rs. 95/= was given in the question.
 - Incorrect calculation of spending variance, due to error in computing budget allowance based on actual hours worked.
 - Incorrect computation of variable and fixed efficiency variances due to errors in identifying the actual and standard hours and standard variable / fixed overhead rates.
 - Majority of the examinees failed to calculate the required variances under “factory overhead-four variance” method.
 - Some of the examinees had calculated the volume variance instead of capacity variance. They did not know that volume variance is the difference between “normal capacity hours” and “standard hours” whereas “capacity variance” is the difference between “normal capacity hours” and “actual hours worked”.

QUESTION. NO:- 5 – BUDGETING

(a) **Discussion of the human aspect of budgeting and the importance of recognition of existence of human element.**

(d) **Preparation of cash budget for the year showing cash flow of each quarter.**

- a) Many of the examinees provided very detailed answers instead of giving brief and specific replies.
- Some of the examinees had defined the budgeting in their answers and had stated its advantages, instead of explaining the human aspect of the budgeting.
 - Examinees, generally, did not have any idea of the topic. Many of the examinees had left this part of question un-attempted while many others have written long stories without touching the actual topic
- c) Majority of the examinees was unable to solve this part of the question correctly and completely.
- Most common mistake committed was incorrect computation of borrowings in first and second quarters respectively, and repayment of loan and payment of Interest in third and fourth quarters respectively.

- Following errors/ shortcomings were commonly noted:
 - Poor presentation, as few of the examinees had prepared budget for each of the four quarters on a separate page instead of on one page, thus the answer was spread over five to six pages.
 - Many of the examinees had prepared the quarterly budget in isolation instead of annual budget.
 - Cash collection from sales were not correctly calculated.
 - Incorrect calculations of payment on account of purchases due to ignoring the payment of balance amount of previous year.
 - Considering the dividend as cash inflow instead of outflow.
 - Non calculation of minimum cash balance at the beginning of each quarter.
 - Incorrect amount of bank borrowings and interest payments.

QUESTION. NO:- 6 – TRANSFER PRICING

Preparation of profit statements showing revenue, variable cost and contribution margin for two divisions and the company as a whole at various selling prices.

- The question was very simple, but very few examinees were able to attempt it correctly and completely.
- Many of the examinees had prepared profit statements of both the divisions and the company as a whole showing one total figure, each for sale, cost and margin, instead of showing the amounts of sales, cost and margin at various selling prices.
- Many of the examinees had left this very simple question unattempted.

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**EXAMINERS' COMMENTS
SPRING (SUMMER) 2007 EXAMINATIONS**

**PRESENTATION & COMMUNICATION SKILLS
STAGE-3**

The question paper was easy that covered all major sections of the subject. By asking these questions one can easily check the different levels of learning of examinees such as memorizing, comprehending and analysing. It also reflects the examinees understanding and power of expressing ideas. Responses of the examinees were average. Majority of the examinees showed awareness of the basic principles of writing business report and sales letters.

QUESTION NO. 2:-

- (a) **Key responsibilities of senders in the communication cycle.** The examinees responses covered the central focus of the question but occasionally they used informal ideas overlooking the technical issues. Also at times non-specific language and details were used. Examinees must realize that in this paper while addressing any question whether theoretical or applied, constantly they must follow principles of effective communication.
- (b) **Importance of feedback in communication cycle.** The performance of the examinees was average. However, some examinees ignored the weight age of the question and answered using unnecessary details and repetition, which eventually put them in difficulty while doing the later parts/ question of the paper for which they lacked adequate time.

QUESTION NO. 3:-

Memo Report. A very clear and focused question on seeking opinion from staff about their preference for wearing uniform. Examinees performed well in this question but some examinees who understood the situation and wrote the needed report had faced the problem of imagining real world scenario. The structure was well presented. The different parts of the report were properly outlined. Students' weak language skills affected the quality and relevance of the report presented.

QUESTION NO. 4:-

Non-verbal communication. Although the candidates responded with different approaches and in different expression, overall performance of the examinees was average. A few examinees answered the technical details as covered in the prescribed books.

QUESTION NO. 5:-

Sales promotion. The sales letter was required in this question but examinees misunderstood the situation, failed to elaborate on the given situation. Examinees letters had problems in the elements and format. Few examinees did not use letterhead format. The strategy for persuasive communication "AIDA Approach" was either ignored or misrepresented. Even the instructions given in the question regarding the introduction of the product, comparing it with the competitor's and the promotional materials attachment were missed out by some examinees.

QUESTION NO. 6:-

Performance report. It was an applied question on drafting a branch performance memo report. It was found to be the most difficult question for examinees who lost marks due to failure in conceiving the situation given in the problem while selecting a consumer goods company.

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

QUESTION NO:- 1- MCQs

Above average performance was noted in this question.

QUESTION NO:- 2

(a) RATIO ANALYSIS – RECEIVABLE TURNOVER

(b) FINANCIAL CHARGES – BONDS

(c) & (d) IAS-33 - EARNINGS PER SHARE

- Computation of impact on the cash flow, if receivables' turnover is extended from 4.5 to 7.0 days.
- Computation of financial charges on issue of bonds and amortization of discounts.
- Computation of basic earnings and diluted earnings per share.
- Discussion, whether a private limited company is also required to disclose earnings per share in accordance with IAS-33.

- (a) • Part (a) of the question was very well attempted generally, however, some of the examinees tried to calculate current receivable turnover in days whereas it was already given in the question.
 - Many examinees were not able to calculate the impact of change on the cash flow.
- (b) • Majority of the examinees did not seem to have any concept of amortization of discount using the effective interest rate method. They calculated the total discount and simply charged it off on straight-line basis over three years. Very few examinees were able to answer the question in entirety.
- (c) • This part of question was attempted by a majority of the examinees, and they were able to correctly calculate the "basic earnings per share", however, very few examinees could calculate the "diluted earnings per share". The common error was incorrect computation of the number of shares for computation of "diluted earnings per share".
 - Many examinees were unable to calculate the incremental effect of option.
- (d) • Most of the examinees were able to provide correct answer to this part of the question. However, few examinees had mentioned that if a private company wanted to disclose the earnings per share, it can do so as per the requirements of IAS-33, which was not a correct answer.

QUESTION NO:- 3

(a-i) IAS-11 – CONSTRUCTION CONTRACTS

(a-ii) IAS-27 – CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

(a-ii) IAS-32 – FINANCIAL INSTRUMENTS: DISCLOSURE AND PRESENTATION

(b) CASH FLOW STATEMENT - IAS - 7

- Most of the examinees performed fairly well in part(a) of the question. however, many of the examinees did not have a clear idea of financial instruments as per IAS-32.
- Part (b) of the question required preparation of cash flow statement and the majority of the examinees performed very well and scored good marks.
- A fairly good number of the examinees were unable to correctly classify the items under operating, investing and financing activities.
- Following shortcomings were also noted:
 - Incorrect treatment of interest income and interest expense.
 - Incorrect treatment of repayment of short term borrowing.
 - Incorrect computation of cost of fixed assets purchased, and depreciation.

QUESTION NO:- 4 - ACCOUNTING FOR LEASES

(a) Computation of:

- (i) Amount of trading income and leasing income to be recognised in year-1.**
- (ii) Journal entries to record trading and leasing income?**

(b) Computation of revised amount of trading and leasing income to be recorded in year-1, if the rate of interest is revised from 10% to 20%.

- Part (a) of the question was attempted by a majority of the examinees. However, significant number of examinees was not able to calculate the margin correctly.
- Majority of the examinees also tried to calculate the present value of minimum lease payments in order to determine whether the lease was a finance lease or not. This was not required at all.
- Few of the examinees passed the journal entries from the view point of lessee instead of lessor.
- Examinees were unable to provide correct answers to part (b) of the question. From the answers it was evident that the examinees did not have any idea of the requirements of IAS-17.
- Examinees did not know that the commercial rate of interest in case of dealer-lessor is higher than the implicit rate of interest of lease as provided in IAS-17.
- Except for a rare few, most of the examinees mentioned that the commercial rate of interest should be ignored.

QUESTION NO:- 5 – RECONSTRUCTION

(a) Passing of journal entries to record the transactions related to “Reconstruction”.

(b) Preparation of “Reconstruction” account, and

(c) Preparation of balance sheet after incorporating the necessary adjustments as required in the question.

- The question was attempted by almost all of the examinees.
- Many of the examinees were able to score good marks in this question.
- Following shortcomings were, however, noted from many of the answers:
 - All the journal entries could not be passed correctly.
 - Examinees ignored the accumulated loss while preparing the “Reconstruction Account”.
 - Balance sheet could not be prepared correctly and completely.

QUESTION NO:- 6 – ACCOUNTING FOR INVESTMENTS

(a) Preparation of ledger accounts for transactions as mentioned in the question.

(b) Preparation of profit and loss account and shareholders’ dividend account.

- This question was not attempted by a majority of the examinees.
- Many examinees had passed journal entries for the transactions whereas question has asked for preparation of ledger accounts.
- Very poor performance was noted in this question.

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**EXAMINERS' COMMENTS
SPRING (SUMMER) 2007 EXAMINATIONS**

**INTEGRATED MANAGEMENT
STAGE-4**

The questions were very logical, rational and conceptual. The performance of the few examinees was excellent. The overall performance of the examinees was below level.

QUESTION NO. 2

The overall performance of the examinees in this question was very poor.

- (a) **Evaluation of Strategies.** In this part examinees generally concentrated on the profitability and resource utilization of the organization. They generally overlooked management and other stakeholders while discussing "acceptability" of a strategy.
- (b) **Techniques used to access logic of a strategy.** Majority of the examinees had no idea what was asked in this part, eventually they relied on their guess work and lost marks.

QUESTION NO. 3

- (a) **Strategic controls in organizations.** It was a scoring question and examinees obtained good marks in this question.
- (b) **Budgets used in financial control.** Majority of the answers were well presented and comprehensive in content.
- (c) **Various types of budgets for financial controls.** Generally well understood and was replied correctly, but purposes of budgets were inadequately covered .

QUESTION NO. 4

- (a) **Project management software.** Majority of the examinees wrote unnecessary details. However, only few replied to the point.
- (b) **Inputs for typical management package.** Examinees gave general answers. Some of the answers were so general that even an under graduate examinees could have given the same answer.

QUESTION NO. 5

- (a) **Performance of a project team.** Majority of the examinees did not understand the requirement of the question, only few examinees replied correctly and to the point. Mostly wrote on what was team, its composition and roles that was not asked for.
- (b) **Critical Path/ Network analysis.** Hardly any examinees replied the question correctly or completely. Majority of the examinees got confused and yielded vague and irrelevant answers. Instead of providing critiques they wrote on PERT/ CPM.

QUESTION NO. 6

- (a) **Political behaviour.** Generally well understood and was replied correctly, but not to the point. Many assumed political behaviour in the context of an organization as unethical.
- (b) **Cultural values.** In this part the solution provided was mostly from the text book and the discussion on model of culture development was not upto the mark. Mostly examinees discussed various customs and cultures, not their values in the context of an organization.

QUESTION NO. 7

- (a) **Define a team.** A very easy question to score good marks. Unfortunately majority of examinees answered the definition part correctly but were not able to identify two basic approaches to the organization of teamwork correctly.
- (b) **Development of a team.** Almost all examinees attempted it, but majority failed to provide four stages of development of a team correctly.

EXAMINERS' COMMENTS
SPRING (SUMMER) 2007 EXAMINATIONS
CORPORATE LAWS AND SECRETARIAL PRACTICES
PROFESSIONAL – II / STAGE–4

QUESTION NO. 2:-

- (a) Majority of examinees did not mention “**further issue of capital to employees**”. Only few quoted section 86 of the Companies Ordinance, 1984. Most of the examinees were un-aware about the filing of circular u/s 86(3) and Form-III with the Registrar, Securities and Exchange Commission of Pakistan (SECP).
- (b) Poor performance was noted in this part of the question, that asked for the “**conditions related to issue of right shares**”, which was answered by most of examinees considering as bonus shares.
- (c) In this part of the question while explaining the procedural steps involved in the issue of “**right shares**” by un-listed companies, majority of examinees dragged the answer to special resolution and approval in Annual General Meeting for the issuance of the same.

QUESTION NO. 3:-

- (a) This part of the question on “**articles of association**” was straightforward and simple. Most of the examinees had the required knowledge and secured good marks.
- (b) Most of the examinees were un-aware of the restrictions the law imposed relating to “**alteration of Articles of Association**” and they confused their answer with changes required in the specific object clause of Memorandum of Association.
- (c) Majority of the examinees only explained the “**Doctrine of Indoor Management**” and left the answer pertaining to “exception” to the doctrine, which was the core issue and thus could not get the desired marks.

QUESTION NO. 4:-

- (a) (i) Most of the examinees did not define “**inside information**” properly. Many of them confused it with just trading information in the stock exchange. (ii) “**An Insider**” was mentioned as a person operating in the stock exchange.
- (b) “**Single Member Company**” was generally defined well. But the issues related to arrangement of nominee and alternate nominee directors were hardly touched upon.

QUESTION NO. 5:-

- (a) Answers to this part of the question on “**names which are not allowed or deceptive**” were satisfactory, except in few cases where the examinees appeared to be confused and answered without any relevance to the legal provisions.
- (b) Most of the examinees were not aware about the search facility on SECP’s website enabling to check identical or closely resembling names. Examinees’ answers contained irrelevant details on availability of name.
- (c) A large number of examinees attempted it without considering the relevant requirements pertaining to Board approval, AGM notice, passing of special resolution and filing of prescribed forms with the SECP for “**changing in name**”.
- (d) Average performance was given by the examinees in this part of the question on “**the effects of change in the name of the company**”.

QUESTION NO. 6:-

- (a) The required answer of the question was a simple phrase that the board of directors “**cannot refuse**” the resignation submitted by the director. Most of the examinees mentioned the Board of Directors as an authority to refuse the resignation on the basis of their own figment of imagination, providing ifs and buts.
- (b) Most of the examinees demonstrated wrong approach on “**filling up the casual vacancy issue**”.
- (c) This part of the question was on “**term of office of the director appointed against casual vacancy**”. Some examinees guessed it to the next Annual General Meeting. However, u/s 180(2) of such director shall hold office for the remainder of the term of the director in whose place he is appointed.

FINANCIAL REPORTING
PROFESSIONAL – III / STAGE-5

QUESTION NO:- 1- MCQs

Very good performance was noted in this question.

QUESTION NO:- 2 - IFRS – 5 - BUSINESS VALUATION

- (a) Discussion of measurement of non-current assets classified as held for sale and its presentation and disclosure requirements.
- (b) Computation of total consideration to be paid to vending shareholder of a non-listed public limited company upon sale of 100% shareholding in preference share capital and 60% in ordinary share capital.
- Part (a) of the question was generally well attempted, however, some of the examinees mixed up the non-current assets held for sale as per IFRS – 5 with Investment held for trading as per IAS-39.
 - Majority of the students performed fairly well in part (b) of the question, however, some examinees failed to realize that calculation of goodwill required certain adjustments against profits of previous years.
 - A large number of the examinees also ignored that the goodwill was to be calculated at three years' purchase of average profits.

**QUESTION NO:-3 - INTERPRETATION AND VALUE MEASUREMENT
- COMPANIES ORDINANCE, 1984.**

- (a) Discussion of the terms "Dilution" and "Antidilution".
- (b) Calculation of earnings per share.
- (c) Discussion of rights available to holding company's representatives and members with regard to subsidiary company under Companies Ordinance 1984.
- Average performance was noted in part (a) of the question, however, some of the examinees had provided unnecessary lengthy explanation.
 - Very poor performance was noted in part (b) of the question where a very, very few examinees were able to perform well. The most common mistake was the incorrect calculation of the "weighted average number" of shares.
 - Very few examinees answered part (c) of the question in accordance with the respective Section of the Companies Ordinance, 1984. Most of the examinees listed all the rights available to parent company, they could think of, without mentioning any thing as provided in the Ordinance.

QUESTION NO:-4 - IAS-19 – EMPLOYEES BENEFITS

- IFRS-2 – ACCOUNTING FOR SHARE-BASED PAYMENT TRANSACTIONS

- IFRS-3 – REVERSE ACQUISITION

- (a) Preparation and presentation of the accounting treatment of pension liability, present value of the obligation and fair value of the obligation.
- (b) Discussion of two bases of accounting for share-based payment transaction and its treatment, if a share based payment transaction does not qualify for recognition as asset.
- (c) Computation of:
- Cost of business combination
 - Amount of goodwill

Preparation of balance sheet.

- (a) Very, very poor performance was noted in part (a) of the question. From the answers it was evident that examinees did not have any knowledge of IAS-19.
- (b) Average performance was noted in part (b) of the question. Many of the examinees did not have any idea of “share based payment transactions” and the requirements of IFRS-2.
- (c) Part (c) of the question was on “Reverse Acquisition” as per IFRS-3. Very, very few examinees knew the concept of reverse acquisition, and could answer the question correctly in its entirety.
 - Majority of the examinees did not have any knowledge of the treatment of reverse acquisition as mentioned in IFRS-3.

CASE STUDY:

CASE STUDY PRESENTATION

- The quality of answers to case study were generally good. However, the following shortcomings and weaknesses were noted:
 - Examinees provided unnecessary details instead of logical and brief analysis.
 - Lots of grammatical and spelling mistakes were noted in the text.
 - In some cases, ratios were calculated without giving supportive workings.
 - In some cases, the data was repetitively used in the answers.

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MANAGEMENT ACCOUNTING-DECISION MAKING
STAGE-5

QUESTION. NO:- 1 - MCQs

Average performance was noted in this question.

QUESTION. NO:- 2 - DECISION MAKING – SELECTION OF ALTERNATIVES

Preparation and presentation of cost information of two alternatives, and advising on the selection of best alternative amongst the two.

- Examinees had difficulty in handling the classification of direct labour between unskilled and highly skilled labour.
- Many of the examinees had incorrectly included the fixed cost in their computation.
- Majority of the examinees ignored opportunity cost of material "B" i.e., lost contribution of product Z.
- Examinees were unable to calculate the savings on purchase of sub-assembly.
- Explanation of including or excluding various costs in each of the two alternatives was not provided.

QUESTION. NO:- 3

COST VOLUME PROFIT ANALYSIS – EFFECT OF CHANGE

(a) Computation of the budgeted return on capital employed (ROCE) before tax.

(b) Computation of:

(i) Number of two nights' package needed to be sold to improve ROCE by a further 4%.

(ii) Increase in percentage amount of price of accommodation needed to be increased to achieve desired increase in ROCE.

- The question was not handled properly by most of the examinees. They were not able to compute the number of two nights' package and then effect on other packages.
- The extra contribution required was not correctly calculated properly. Examinees were lost in two-night package and based their calculations on one night.
- In April – June quarter, examinees used 12 weeks rather than 13 weeks in their calculations.
- Accommodation price was wrongly calculated, as the examinees involved themselves in calculating total contribution rather than incremental contribution.
- Some of the examinees used quarterly sales of all the three revenue centres and mixed up the calculations.
- Unnecessary long calculations were made which resulted in loss of valuable time.

QUESTION. NO:- 4

RISK AND SENSITIVITY ANALYSIS

Evaluation of different probabilities to arrive at a decision about change in sales price of a product:

(a) Advise to the management about change of sales price.

(b) Computation of expected profit at the recommended sales price, and margin of safety.

(c) Critical comments on the method of analysis used.

(d) Description of use of computer assistance to improve the analysis.

- In projections, use of probability is very common, but the examinees were not clear about expected value concept.

- The major error committed by examinees was in the adjustment of the variable cost per unit, which involved a bit of variance analysis.
- Examinees generally had the difficulty in correctly computing the break-even point and margin of safety.
- Expected value approach was not clear to the examinees. Most of the examinees were unable to calculate variable cost using the information given in the question.
- Break-even point was incorrectly calculated. Few of the examinees had taken total cost and total sales in their computations. Few of the examinees were even not clear about “Margin of Safety” ratio.
- Use of computer assistance to improve the analysis was explained in a general way, and specific comments about accuracy and speed etc were not discussed.

QUESTION. NO:- 5

CAPITAL INVESTMENT DECISION – CAPITAL RATIONING

Evaluation of six different projects under capital rationing and recommendation as to which project to be undertaken and why?

Factors to be considered before making a final decision.

- Ranking of projects using the concept of “profitability index” was found difficult to examinees.
- The formula of “profitability index” was either not known to examinees or was incorrectly applied.
- Question was simple, but examinees could not perform well. They took a long route to arrive at the answer.
- Examinees calculated the NPV ranking only and ignored the calculation of “Profitability Index”. For ranking purposes, one has to calculate the “Profitability Index”, mere NPV ranking is incorrect.
- Majority of the examinees was unable to provide a specific reply to the requirement (b) of the question.

QUESTION. NO:- 6

UNCERTAINTY AND USE OF PROBABILITY – EXPECTED VALUE IN DECISION MAKING

(a) Calculation of return on Investment of four divisions of a company:

- Before the proposed investment
- Of the proposed investment, and
- Combined investment

• **Comment on the result**

(b) Calculation of residual income of each of the four divisions and comments on the result, and how the adoption of proposed investment will affect the residual income of respective divisions.

- Satisfactory performance was noted in this question, however, examinees lacked understanding of the concept of “Residual Income”.
- Some examinees mixed up the concept of “Return on Investment” and “Residual Income” and were found confused.

RISK MANAGEMENT AND AUDIT
STAGE-5

QUESTION NO:- 1- MCQs

Average performance was noted in this question.

QUESTION NO:- 2 - RISK MANAGEMENT

- (a) Enumeration of some risks associated with development of software for sale and for own use, which will take substantial time for development, and the steps to be taken by the company to minimize the impact and likelihood of such risks.
- (b) Examples of how do the business risks relate to financial risks
- a) Examinees failed to describe the possible risks and measures required to minimize the risks. General statements were made without realizing the significance and relationship of answer. Most of the examinees were unable to handle the question properly.
- The answer given by most of the examinees were general. Examinees were unable to highlight industry / scenario specific risks and practices to minimize such risks.
- b) Very few examinees who were able to understand the question properly, however, lacked the presentation and writing skills. Business risks and related financial risks were not correctly stated.
- Examinees failed to appreciate the requirement of the question. Most of them defined the business and financial risks and gave example independently of each type of risks but failed to explain the relationship between business risks and financial risks with specific examples.

QUESTION NO:-3

AUDITING

DOCUMENTATION –AUDIT WORK PAPERS

DUTIES OF ENGAGEMENT PARTNER

- (a) Discussion of essential matters to be considered in preparing all audit work papers for substantive procedures.
- (b) Explanation of duties of Engagement Partner in relation to quality control.
- a) Most of the examinees failed to pick up the requirements of the question. Focus had been mainly on discussing the substantive testing rather than the consideration of documentation by the auditor. Majority of the candidates failed to provide key elements of working papers.
- b) Most of the candidates were lacking knowledge and understanding of the quality control requirements form an Engagement Partner as prescribed by the “ Quality Control Standard”. In some of the cases, even if they had the knowledge, it was outdated as the answers contained the provisions of the old standard, which clearly indicates that the candidates were not upto date about the revision in “Standards” and other prescribed practices. **Some of the candidates even misunderstood the question and their answers were focused on steps to be taken for quality of the products being manufactured by the clients.**

QUESTION NO:-4

AUDIT

TECHNIQUES, PROCEDURES AND REPORTING--SCENARIO BASED QUESTION / CASE STUDY

- (a) Definition of “Going Concern” assumption. It’s significance in preparation of financial statements with few examples of the events or conditions which can cast significant doubts about “Going Concern” assumption.
- (b) Reasons to support the answer whether it is appropriate to use “Going Concern” assumption in preparation of financial statements based on the facts given in the question.
- (c) Drafting of an appropriate para for audit report on each of the following assumptions:
- (i) If the management prepares financial statements using the “Going Concern” assumption.
 - (ii) If the management does not consider the “Going Concern” assumption, appropriate, for preparation of financial statements.

Most of the candidates failed to manage the case study and a variety of issues were observed varying from very basic terms to the application of knowledge to offer practical solutions. A considerable majority was unable to properly define the going concern assumption and explain its significance and the indicative conditions / factors causing doubts on such assumption. In most of the cases it was observed that the candidates were lacking the understanding of the professional material in this respect, both accounting and auditing. For example in respect of timeframe to be used for this assumption a variety of terms were used by the candidates such as “long term”, “for ever”, “unforeseeable”, “short term”, “future periods” etc. etc. which clearly indicates lack of familiarity with the professional guidance in this regards. Candidates also mixed up the requirements of part (a) and (b) as in part (a) general indicators were to be explained while for part (b) the reasons to be given were scenario specific. Part (c) was hardly answered correctly by any candidate. Based on the answers given for this part, it was observed that most of the candidates not only lack basic understanding of the relevant standards and professional material, they also need considerable practice on report writing and opinion drafting.

QUESTION NO:-5**AUDIT****LEGAL AND PROFESSIONAL****INTERIM AUDIT**

- (a) **Definition of the term “confidentiality”, and discussion of auditor’s “Ethical” obligations in respect of confidential information.**
- (b) **Discussion of circumstances under which an auditor is required or permitted to make disclosure of confidential information.**
- (c) **Discussion of matters to be examined during “Interim Audit”.**

- (a) Average performance was noted in this part of the question.
- (b) Unsatisfactory performance was noticeable, as complete examples of disclosure were missing. Disclosures required by law and professional duty or right to disclose was not correctly stated.
- Situations for permitted disclosures given by most of the examinees were very general and were not as prescribed by relevant professional material which indicate the lack of required level of understating of professional standards.
- (c) Most of the examinees mixed up the interim audit with the audit of interim financial statements.
- Most of the examinees had written that interim audit is required for the purposes of declaring interim dividend.

QUESTION NO:-6**COST AUDIT**

- (a) **Discussion of the statement:**
“When the audit of financial statements is required to be carried out annually why there has to be a separate cost audit”?
- (b) **How to examine the cost of the following while carrying out a cost audit:**
- **Waste**
 - **Defective work**
 - **Spoilage**
 - **Scrap**
 - **Normal losses**

- (a) While answering this part of question, most of the examinees gave comparison of both financial and cost audits, however, more discussion was on cost audit and the examinees were unable to define and discuss the financial audit in order to differentiate between both types of audit.
- (b) Most of the examinees emphasized more on defining and explaining the nature of these items rather than giving the audit considerations such a the evidence to be examined and appropriate steps to be performed in each situation.

QUESTION NO:- 1 - MCQs

Very encouraging performance was displayed by the examinees in this question.

QUESTION NO:- 2

FINANCIAL PLANNING AND ANALYSIS – MULTI-PRODUCT BREAK-EVEN ANALYSIS

(a) **Computation of break-even point sales on the current product mix.**

(b) **Computation of number of units of product-V at break-even point.**

(c) **Comments on the viability of product-V.**

- Students failed to comprehend the part (a) of the question in which break-even sales on current product mix was required, which meant the break-even point sale of products M, V & A. Students generally calculated break-even point sales of individual products.
- In part (b) of the question, students calculated the break-even point sales of product-V in isolation rather than calculating the share of product-V in total product mix of M, V & A.
- Some students got involved in calculation of sales, cost of sales and contribution of each product and wasted their valuable time.
- Specific fixed cost of each product was considered as variable, which was incorrect.

QUESTION NO:-3

SHORT AND MEDIUM TERM STRATEGY – SHORT TERM FINANCES

(a) **Preparation of comparative evaluation sheet for availing short term financing facility:**

Computation of cost of funds under:

(i) **Current conditions**

(ii) **Proposed offer**

(b) **Definition of “Commercial Papers”.**

- (a) The first thing to correctly attempt the question was to determine stretched payables under current conditions, to calculate the current cost. Most of the students did not realize this aspect, and calculated the cost under insurance company offer.
- The other major mistake was incorrect calculation of cost of funds from finance company and term loan from insurance company.
 - Mark-up on stretched payables was also calculated @ 24% instead of 30%.
 - Many students ignored the statement that 30% of funds' requirement are normal payables, and do not attract mark-up, thus mark-up was calculated on full amount, which was wrong.
 - It was simple question but students were unable to understand the scenario analysis.
- (b) In part (b) of the question definition of “commercial papers” was asked. Some students had written that commercial papers are issued by SBP and SECP.

QUESTION NO:-4

DIVIDEND POLICY – LINKAGES BETWEEN SHARE PRICE EARNINGS AND DIVIDENDS

(a) **Calculation of gains made by the original shareholders and the new shareholders, if:**

(ii) **New shares are issued at Rs. 100/= each**

(iii) **Shares are issued at Rs. 96/= each.**

(b) If, all gains from the project goes to:

- (i) **Original shareholders**
- (ii) **New shareholders**

- From the attempts it appeared that students either have not covered syllabus or were confused to calculate gains from different analysis.
- Those who attempted the first part correctly, failed to respond same way in second part.
- Students failed to understand the question. They simply calculated the dividend per share and dividend rate, and did not calculate the value of the firm, which was actually the requirement of the question.
- Students were unable to calculate the gain to existing and new shareholders.
- New market price of the company was to be calculated by dividing the total dividend of Rs. 310 million by 12%, the required rate of return, however, examinees instead of calculating the value or market price of the company, had calculated the dividend per share by dividing Rs. 310 million by number of shares.
- Majority of the students did not have any knowledge of the topic.

QUESTION NO:-5**CAPITAL STRUCTURE****(a) Calculation of profit available for dividend and the value of the company under:**

- (i) **Current capital structure**
- (ii) **Proposed capital structure**

(b) Discussion of the statement:

“The capital structure of a company has no effect on the value of the company”:

- **Arguments for**
 - **Arguments against**
 - **Conclusion**
- Part (a) of the question was solely dependant on the use of formula. Most of the students were able to correctly apply the formula to determine value of the company under current conditions.
 - Most of the students, failed to determine the value of company under proposed capital structure.
 - Part (b) of the question was dependent on correct answer of requirement (a), therefore, those who had attempted part (a) correctly were able to make comments effectively.
 - Students were not clear on Beta calculation of un-levered company using the Beta of levered company. They could not produce the right formula using simple CAPM model and determining required rate of return (RR) to be used in valuation of business.
 - Students were not clear whether the capital structure of a company affect the value of the company. Arguments in favour or against were not given, rather general statements were made.

QUESTION NO:-6**VALUATION CONCEPTS – INVESTMENT DECISIONS**

Computation of project's NPV, assuming a target required rate of 14% and corporate tax of 35%, where, carry forward of losses, if any, is applicable subject to application of turnover tax of 0.5% as, per Income Tax Ordinance 2001.

- This was the most interesting and good question from the students' point of view, having straight flow of answer.
- Many students ignored cash flow in year ZERO which affected the result.
- Calculation of contribution margin in most of the cases was correct, however, while calculating profit after tax, most of the students failed to account for impact of losses on profit for tax purposes which affected the whole answer.
- It was a routine question of capital budgeting. Majority of the students did not work out tax calculations correctly. They also ignored the carry forward of tax losses.
- In working out depreciation charge, the students ignored cost of installation of plant.
- Some students could not even calculate the depreciation under reducing balance method.
- Promotional expenses were taken in ZERO year, although it was a one off payment in year-1, the students have taken it in all the seven years.
- Working capital requirements and terminal value, both were wrongly calculated.

INFORMATION SYSTEMS & I.T. AUDIT (THEORY)
STAGE-6

QUESTION. NO:- 2

- (a) An average performance was displayed by the examinees in this part of the question on **“Encryption be used for making data meaningless”**. Whether or not encryption can be used for making data meaningless was not asked. Neither the question was meant for a note on **“importance of encryption”**. The emphasis was on **“how it is accomplished”**.
- (b) (i) Examinees demonstrated average performance in the part of the question on **“IS Plan”**. However, before writing uses of any IS plan, examinees should write what an IS plan means at strategic level and at project level.
- (c) This part of the question was on **“the challenges of IS planning”** where examinees included challenges that usually encounter in various phases of development of an information system. Here only those challenges should be discussed that relate to IS planning phase.

QUESTION. NO:- 3

- (a) This part of the question was on **“consideration before designing a system”**. Instead of writing lengthy notes only bulleted points on prime considerations were sufficient enough.
- (b) This part of the question pertained to **“elements of a work system”**. Most of the examinees only listed the elements of a work system. A better way to answer this question was to include a line description along with each element.
- (c) This part of the question was not meant to be taken as an English literature essay on “importance of computers/ information system”. The core of this question was limited to the impact of IS on **“improving communication within an organization”**. In this part most of the examinees bogged down in the meaning of technological communication instead of answering “How it can help” to improve the communication with in an organisation.

QUESTION. NO:- 4

- (a) This was a quite straightforward question requiring examinees to discuss **“risks and issues of various systems”**. Examinees mixed up the issues of LAN, Client Server and Wireless systems. Also, the issues that has already been resolved in these systems with the advancement of technology and are no more than a past story should not be discussed as **“current issues and risks with the use of these systems”**.
- (b) This part of the question was on **“review of operating system and database”**. Examinees wrote irrelevant points that could not at all be a part of the review.

QUESTION. NO:- 5

- (a) Examinees were faced difficulties in giving answering on **“Control Self Assessment” (CSA)** , though it was a very basic concept in IS audit.
- (b) This part of the question was on **“implementation and stabilization of a system”**. The focus here was on post-implementation / post-stabilization phase. Points related to general IT audit had no relevance here. Only the considerations that were taken after a system had been stabilized, were required to be discussed.

EXAMINERS' COMMENTS
SPRING (SUMMER) 2007 EXAMINATION

Page # 2 of 2

INFORMATION SYSTEMS & I.T. AUDIT (PRACTICAL)
STAGE-6

PAPER – 1 - ABC PRODUCT SALES

The examinees committed mistakes in sorting out the data in descending order of invoice date. Filter was not applied properly. A 3-D pie chart for quantity dated 1-Jan-07 was not drawn properly.

PAPER-2 – GLOBAL MANUFACTURING COMPANY LTD.

Most of the examinee faced problem with “goal seek” tool and this led to problem in forecasting for year 2010.

PAPER-3 – FIRST YEAR NET SALES & COST ALLOCATIONS

Examinees faced problem in calculating Net Income due to inadequate skills in applying the formula.

PAPER-4 – FAST FOOD SHOP – PROJECTED SALES

A pie chart for month-wise sales of the Fast Food Shop was not drawn in most of the cases.

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MANAGEMENT ACCOUNTING-BUSINESS STRATEGY
STAGE-6

QUESTION. NO:- 1 MCQs

Average performance was given by examinees in this question.

QUESTION. NO:- 2

EXTERNAL APPRAISAL

Identification of threats and opportunities focussing on five specific areas of appraisal: (i) Competition (ii) Political (iii) Economical (iv) Social, and (v) Technological, on Local, National and International level.

- Instead of discussing separately the five appraisal areas on Local, National and International levels the examinees discussed repetitively the same comments on the five specific areas.
- Most of examinees had defined the terms rather than discussing how these factors affect the Industry.
- Examinees attempted the question in the style of brief notes and the approach was general rather than specific.

QUESTION. NO:- 3

STRATEGIES IN ACTION

Discussion of strategies to be adopted by a company to counter the problems of an event or combination of events with severe consequences to the company to achieve its targets.

- The question required some thinking by the examinees before attempting the question. Majority of the examinees described the strategies without relating them with the requirements of the question.
- The objectives and goals are set in the light of VISION and MISSION of the company. Strategies are formed accordingly. At the same time following strategies are also formed:
 - Prevention, postponement or modification
 - Mitigation, and
 - Contingency

With the exception of a very few examinees, almost all the examinees ignored this aspect, and earned very few marks. A lot of strategies were mentioned but without any relevance to the requirements of the question.

- The phrase "an event or combination of events" was not clearly understood by the examinees, as most of the examinees attempted the question on the concept of "Business Combination" i.e., acquisition and mergers.
- The mixing up of combination of events with business combination resulted in wrong answers.

QUESTION. NO:- 4

MANAGEMENT CONTROL PROCEDURES

Discussion of "Management Control Procedures" and "Management Guidance Systems" and the role of accountants in them and differentiation between "Control" and "Guidance".

- This was a very straight and simple question asking for the role of management accountant in an organization. The examinees must be aware "that all the controls are exercised through the systems. Systems describe the standards of measures against which the actual results are compared. This is known as control. Any activity resulting in over and above expenditure / achievement or vice versa against the standard or measuring yard stick are monitored and reported accordingly with comments and suggestions for control purposes". It is surprising to note that this aspect was missing in majority of the answers.

- Examinees described the control as a negative aspect of the activities of a business organisation and the importance of topic was not realised.
- In any manufacturing or other business concern all the departmental heads interact with each other. The management accountant provides guidance and acts as communicator, and makes recommendations and suggestions. This aspect was not understood, perhaps misunderstood by the examinees, and their answers were unspecific and irrelevant.
- The crust of the question was role of management accountant in designing and use of Management Control Procedures, and Management Guidance System. Examinees were found totally misguided, as they discussed the role of an accountant instead of a "Management Accountant".

QUESTION. NO:- 5

CASE STUDY

Statistical analysis of three proposals to find out which one is the most viable.

The case study / question was not well understood by the examinees. In a number of cases the recommendation of putting up a new building / plant was given which was an incorrect answer.

- The conclusions drawn were vague i.e., the low demand would result in heavy losses, was not mentioned in the answers.
- The question required proper tabulated presentation, but the approach of examinees was not clear.
- Presentations were very poor.

QUESTION. NO:- 6

LEVEL OF STRATEGIES

- **Definition and explanation of:**
 - **Corporate-level strategy**
 - **Business – unit strategy, and**
 - **Functional – level strategy**
- The overall performance in this question was found satisfactory.
- Some of the examinees confused the issue with the strategy of the company, having a single line of business.

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MANAGEMENT INFORMATION SYSTEMS-II (THEORY)
FOUNDATION-II

QUESTION NO. 2:-

- (a) It was observed that a large number of examinees did not have proper knowledge of **“structured and un-structured”** information used in decision making.
- (b) Most of the examinees could not describe the **“transaction processing cycle”** and its benefits correctly.

QUESTION NO. 3:-

- (a) Instead of focussing on the **“role of system analyst”** as facilitator, many examinees described the System Development Life Cycle (SDLC).
- (b) This part of the question on **“Acquiring commercial ERP solutions”** could not correctly be described by the majority along with its benefits. Majority mentioned the common features provided by a customized software package, that was not required.

QUESTION NO. 4:-

- (a) Most of the examinees only gave the definition of B2B and B2C categories of e-commerce and could not specifically **“differentiate between the two”**, through appropriate examples or illustrations.
- (b) Most of the examinees only defined EDI. Hardly any could correctly mention the various **“standards used in EDI”**, as it was asked in the question.

QUESTION NO. 5:-

The main reason of the failure in this question was the lack of knowledge of **“System-building methodologies and tools”**. Many examinees did not attempt this question. Lack of preparation was apparently the main reason for poor performance.

QUESTION NO. 6:-

A significant number of examinees described the **“importance of feasibility study”** in systems analysis and design quite correctly but only few examinees could explain the process of physical and logical design.

QUESTION NO. 7:-

The performance of a majority of examinees in this question was remained average. Only few examinees could appropriately discuss the issue of **“ information right”** in the light of the given statement regarding an individual.

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

QUESTION NO. 1:- CHART OF ACCOUNTS

Though most of the examinees got through in this question, however, a sizeable number of examinees did not provide the current balances with the accounts. Moreover, some examinees instead of creating their own (fictitious) company, imported the chart of account of the sample company, given in the package whereas they were specifically instructed not to do so.

QUESTION NO. 2: - GENERAL JOURNAL

A fairly large number of examinees performed well in this question. However, few examinees due to some wrong entries could not provide the correct totals at the end. The entries of General Journal are always the most sensitive and critical in order to get desired results from Peachtree Accounting package, and that requires the knowledge of recording transactions – the basic accounting skill / knowledge. Therefore, those who could not get hold of General Journal entries did not perform well in the rest of the paper.

QUESTION NO. 3: - GL – TRIAL BALANCE

The overall performance in this part was remained average. A few examinees could obtain full marks whereas some examinees even did not get passing marks due to errors in debit / credit amounts.

QUESTION NO. 4:- BALANCE SHEET

Most of the examinees correctly provided the total current assets amounts but a fairly large number of examinees could not correctly mention the total assets, total liabilities and capital. The overall performance in this question was remained average.

QUESTION NO. 5:- INCOME STATEMENT

A majority of examinees performed well in this question by providing correct values of total revenue, gross profit, total expenses and net income and obtained full marks. However, those who committed mistakes in earlier questions could not obtain passing marks in this question.

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STRATEGIC MANAGEMENT ACCOUNTING
PROFESSIONAL-III

QUESTION NO:- 1 - MCQs

Average performance was noted in this question.

QUESTION NO:- 2

- (a & b) **THROUGHPUT ACCOUNTING**
(c) **COST OF QUALITY**

(a) Discussion of advantages claimed for "Throughput Accounting".

(b) Computation of:

- Total Factory Cost
- Cost per Factory Minute
- Return per Factory Minute
- Throughput accounting ratios
- Comments on the ratios
- Efficiency percentage

(c) Definition and discussion of cost of quality.

(a) Examinees did not have any idea of "Throughput Accounting" and majority failed to answer part (a) of the question.

(b) Examinees do not seem to have studied this topic well as majority of the examinees could not attempt this part of the question successfully.

- Ignorance of the concept of "Throughput Accounting" was evident from answers.
- "Total Factory Cost" was incorrectly calculated in most of the answers, therefore, all other calculations also went wrong.

(c) Examinees defined the "cost of quality" more or less correctly, but failed to describe the categories of quality.

QUESTION NO:-3

(a) **DECISION MAKING-ETHICAL ISSUES**

(b) **DECISION MAKING-CVP ANALYSIS OF TWO ALTERNATIVE PRODUCTS.**

(a) Discussion of "why should Management Accountants be concerned with ethical issues involved in the performance of their duties".

(b) Computation of:

- Cost with normal material
- Cost with cheaper grade material
- Contribution from normal grade material
- Contribution from cheaper grade material
- Best price of product
- Optimal level of production
- Profit

Brief comments on sensitivity of the issue

(a) Average performance was noted from the answers to this part of the question.

(b) Examinees could not comprehend the question. Basic mistake committed by the examinees was to include fixed cost in the calculation of cost per unit, which affected decision-making process.

- Provision for 5% wastage was also not accounted for in calculating the cost per unit.
- Sensitivity related to choice of material was generally not understood by majority of the examinees.
- Knowledge of variable costing and contribution margin was generally not applied correctly.

QUESTION NO:-4

CAPITAL BUDGETING – NPV COMPARISON

Computation of:

- **Direct material cost saving**
 - **Direct labour cost saving**
 - **Variable overhead cost saving**
 - **Payback period**
 - **Sensitivity analysis**
-
- The question was on capital budgeting in which a decision was required to be taken about replacement of an old machine with a new automatic machine.
 - The key points in the question were to calculate:
 - Operating savings
 - Adjustment of current disposal price of the old machine against the cost of new automatic machine and calculation of point of indifference.
 - Majority of the examinees was unable to attempt the question completely and correctly.
 - Replacement decision evaluation could not be handled properly by a large number of candidates.

QUESTION NO:-5

(a) BUDGETARY CONTROL

(b) DECISION MAKING (SPECIAL SALES ORDER)

(a) Discussion of the statement:

“The successful implementation of budgetary control mechanism suffers from certain obvious weaknesses”.

(b) Computation of:

- **Contribution margin**
- **Evaluation of proposal-1**
- **Evaluation of proposal-2**

Conclusion / recommendations

- (a) Examinees could not give specific and relevant answers.
- (b) This was the only question which was successfully attempted by majority of the examinees.

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**EXAMINERS' COMMENTS
SPRING (SUMMER) 2007 EXAMINATIONS**

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

QUESTION No. 2:-

- (a) **Socialization.** Only few examinees could point out correctly the steps involved in socialization process. Others replied on the general knowledge and, at the most, gave subjective answers.
- (b) **Perceiver and perceived.** Only few examinees wrote correct answers. Others have beaten about the bush with one or two correct points.
- (c) **Job satisfaction.** Most of the examinees had written correct answers of this part. Due to this part examinees secured good marks in this question. It is note worthy that examinees understood emotional, expected outcomes and attitudinal dimensions of job satisfaction. The most beneficial learning, however is that examinees feel that a negative attitude may lead to their expulsion.

QUESTION No. 3:-

- (a) **Charismatic leadership theories.** Examinees had rightly mentioned that success of charismatic leaders was due to their confidence in self and their followers. Such leaders inspire people and as managers they are most successful ones because their subordinates consider objectives, goals and targets set by the boss as their own.
- (b) **Characteristics of transformational vs transactional leaders.** This part was an extension of part (a) where the difference between transformational and transactional leaders had to be discussed analytically. Most examinees could not compare the characteristics of transactional vs transformational leaders.
- (c) **Determinants of Status.** Examinees had done this part subjectively and with sheer guess-work. Had they done it with reference to points in the text, they would have earned more marks.
- (d) **Need for immediate feedback.** Immediate feedback carries an achievement factor. Examinees wrote that ceremonies in honor of high achiever salesmen accrue positive results.

QUESTION No. 4:-

- (a) **Enlightened self-interest.** Every business is an emblem of social utility of greed. Businesses are carried out on self-interest, but it progresses only when service concept, social responsibility and consumer's interest are also taken care. The examinees demonstrated very weak concept on the subject.
- (b) **Four principles of social contract.** Four principles of social contract are reactive, defensive, accommodative, and proactive. It is supposed that in all these decision-making situations, firms would keep the interest over and above their own but examinees demonstrated very poorly in this part also.
- (c) **Ethical levels In business.** This question was responded in subjective style, indicating no level viz societal, stakeholder, interval policy or personal. Although examinees did not explain their points against above –mentioned level, it was believed from their answers that they believed in fair treatment with people. Ethical behaviour itself constitutes the most significant aspect of reciprocal interaction.

QUESTION No. 5:-

By and large the knowledge level of the examinees for this question was “ shockingly poor”. Their concepts were not clear and answers were vague and irrelevant.

- (a) (i) **Programmed and non-programmed decisions.** The question was clearly suggestive of the answer, a guesswork mostly appeared useful. (ii) **Problem finding process in decision-making.** It was not understood at all, thus examinees were miserably failed. (iii) **Principles of Fredrick W Taylor's Philosophy.** This theory goes round maximizing human efficiency in jobs. Had this point been clear to examinees, they would have picked up the correct answer. Management concepts are understood with association. Examinees went into irrelevant details.
- (b) **Lewin's three-steps.** Lewin's 3-step process of change aims at adopting new attitudes, values and behaviours. The purposeful learning demands that examinees should first decide why at all we should remember a particular concept. Performance in this part was also not upto the mark.
- (c) **Reinforcement theory of motivation.** The underlying concept is law of effect. A successful behaviour is always repeated. Mostly examinees wrote about basic theories of motivation, ignoring the key words of “stimuli and response”.

AUDITING
PROFESSIONAL-III

QUESTION NO:- 1 - MCQs

Very impressive performance was noted in this question.

QUESTION NO:- 2

AUDIT PROCEDURE AND AUDIT TECHNIQUES

- (a) Discussion of audit procedures carried out by the auditor to become aware of any litigation and claims involving the company.
- (b) Description of matters to be considered by the auditor in planning attendance at the physical inventory count or the alternative procedures conducted by the auditor.

- (a) Examinees failed to describe the audit procedures for verification of litigation cases. Vouching of legal expenses account, review of minutes and direct confirmation from legal advisor was not mentioned by majority of the examinees.
- (b) The question had asked for steps to be considered for planning stage of inventory count, not how to audit the inventory taking exercise. Almost all of the examinees failed to comprehend this aspect.
- Examinees either failed to describe the relevant matters for planning attendance at physical inventory count or they did not restrict answers to planning matters only and explained the whole list of procedures for physical inventory count such as procedures, before, at, and after the physical inventory count.

QUESTION NO:- 3

DOCUMENTATION, EXISTENCE, OWNERSHIP, ETC:

- Discussion of various assertions used by the auditor for:
- Class of transactions
- Account balances, and
- Presentations and disclosures, for the purpose of assessing the risk of material misstatement and the design and performance of audit procedures.
- Majority of the answers did not distinguish between assertions about transactions and events for the period, account balances at the period end and at the presentation and disclosure stage. They mixed up the assertions for three different stages. It appeared from most of the answers, that the examinees did not know what "assertions" are.
- The question was simple and straightforward and tested the knowledge and professional material. However, most of the candidates failed to handle the question properly.
- Quite a few examinees gave wrong list of assertions, which indicate the lack of knowledge of the relevant standards, both accounting and auditing.
- In few cases, even if they had the knowledge, it was outdated as the assertions explained were on the pattern of the provisions of the old standards, which clearly indicates that the knowledge of candidates was not upto date.

QUESTION NO:- 4

**AUDIT RISK
REASONABLE ASSURANCE
REPORTING FUNCTION**

- (a) Explanation of risk assessment procedures applied by an auditor to identify risks of material misstatement due to fraud.
- (b) Definition of term "Reasonable Assurance" and why the auditor can only provide reasonable assurance about correctness of financial statements.

(c) Responsibility of auditor under Companies Ordinance, 1984 on doubts about the ability of the company to continue as “going concern”.

- (a) The topic was quite unfamiliar to majority of the examinees. In overall terms response was very poor.
- All parts of the question were pretty straightforward and required demonstration of knowledge and understanding of the subject by the candidates.
 - Most of the candidates failed to meet the requirements of the question. Material provided by examinees as answer to all parts of the questions was incorrect.
 - Risk assessment procedures for fraud risk were mixed up with overall risk assessment process of the audit.
- (b) Most of the examinees failed to justify the provision of “Reasonable Assurance” by the auditor and not the “Absolute assurance”.
- Reason why the auditor cannot provide “Absolute Assurance” was not discussed.
- (c) Majority failed to describe the emphasis para in audit report required to be given by auditor.
- Uncertainty was not touched upon as for as “going concern” was concerned.
 - Most of the examinees were not aware of the responsibilities of auditor in the situation given in question.

QUESTION NO:- 5**AUDIT TECHNIQUES****AUDIT PROCEDURES****(a) Establishment of overall audit strategy for the audit by the auditor.****(b) Procedure for examination of “Related Party Transactions”.****(c) Procedure for verification of “Unclaimed Dividend”.**

- (a) Ingredients of overall strategy to perform the audit were not known to most of the examinees.
- Majority of the examinees failed to differentiate auditor’s professional requirements for overall audit strategy and overall planning.
- (b) This was perhaps the most favourite topic among the examinees, though the result was not satisfactory. Steps required to remain alert while performing the audit were not discussed by the examinees.
- Procedures explained by the examinees were general in nature, and very few candidates discussed the steps specifically to be performed for verification of the transactions.
 - Almost all of the examinees had no clue, what the “Unclaimed Dividend” is referred to.

QUESTION NO:- 6**INVESTIGATION****AUDIT PROCEDURES / AUDIT EVIDENCE****(a) Points to be considered while investigating the increase in profit of almost 100% in the 2nd half of the year as compared to 1st half year of a company, although turnover remained the same.****(b) Brief enumeration of the audit procedures for obtaining audit evidence as per International Standard of Auditing.**

- (a) Most prominent mistake was to comment on the increase of sales, although it was clearly mentioned in the question that there was no increase in “Turnover” in the second half of the year as compared to first half.
- Majority of the examinees did not discuss cost and expense factors.
 - Most of the examinees were unable to critically analyse the situation and come up with specific / relevant factors causing the 100% increase in the profit of second half year as compared to first half year, without increase in “turnover”.
 - Most of the stuff was either irrelevant such as “doubling of sales price”, “Valuation of inventory” etc. Examinees failed to list down all the factors relevant to the situation given in the question.
- (b) Most of the examinees failed to differentiate the audit procedures and techniques to perform audit procedures for obtaining audit evidence. Most of the candidates had explained the techniques such as inspection, observation etc. instead of the audit tests such as test of controls and substantive procedures.

**EXAMINERS' COMMENTS
SPRING (SUMMER) 2007 EXAMINATIONS**

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

It was observed that examinees were not thoroughly prepared for the subject. They seemed to have taken this subject as granted and had not gone through formal examination preparation procedures. Lack of time management skills and poor presentation was found in both numerical and theoretical questions. Writing skills were also not appropriate for this examination. Examinees had no idea about how theory could be explained by using theoretical models.

QUESTION NO. 2:-

Generally examinees had a fair knowledge of the concepts discussed in this question.

- (a) Majority of examinees attempted this part on value and use of non financial measures incorrectly.
- (b) Most of examinees remained far away from performance and progress indicators used by organizations.
- (c) Examinees correctly attempted this part on identifying financial and non financial factors responsible for the success of public and private sectors.

QUESTION NO. 3:-

- (a) **Strategies for sales management system.** This question was fairly attempted. Some examinees concisely attempted and provided exact answer of this part and secured good marks.
- (b) **Environmental issues.** Examinees were not very much familiar with the "environment issues" and gave irrelevant answers. Majority of the examinees described the "organisational environment" while answering about "environmental issues".
- (c) **Concept of Business Process Reengineering (BPR).** Almost all examinees knew the meaning and concept of Business Process Reengineering (BPR). Few examinees used the diagrammatic models to describe Business Process Reengineering, that was encouraging.

QUESTION NO. 4:-

A large number of examinees attempted this question. Most of the examinees gave vague answers to this question.

- (a) **Eligibility for cost auditor.** Examinees could not answer that what are prerequisite for becoming a cost auditor and gave irrelevant answers.
- (b) **Provision of timeframe, appointment & conducting Cost Audit.** Below average performance was given by the examinees. Examinees wrote irrelevant details to this part of question.
- (c) Preparing the "**Reconciliation Statement**" for the completion of cost audit report, was attempted by almost all examinees but most of the examinees appeared to have meagre knowledge about formal reconciliation statements. Hardly any could completely attempt this part.

QUESTION NO. 5:-

This was a numerical question comprising five sub-questions to be worked out. Only few examinees accurately solved and secured good marks. Line of action of most of the examinees was conceptually right but they failed to score good marks due to lack of understanding the concept of Activity Based Costing, most of them could not understand the idea and applied traditional costing approach to solve the numerical. The question was simple enough to solve, but examinees could not even apply the concept of "mark up". They misunderstood "mark up" as "gross margin".

**EXAMINERS' COMMENTS
SPRING (SUMMER) 2007 EXAMINATIONS**

**MARKETING MANAGEMENT
PROFESSIONAL – IV**

The overall performance of the examinees in this subject had been found unsatisfactory. It seemed that examinees did not try at their level best to produce rational and logical answers as per the requirements of the questions. Poor presentation, illegible handwriting, poor composition with spelling and grammatical mistakes and irrelevant answers were found in majority of cases.

QUESTION No. 2:-

- (a) **Opportunity matrix.** It was a very pertinent question. The common mistakes normally committed here were that examinees did not draw up opportunity matrix or else had drawn it incorrectly. Attractiveness should appear as dependent variable. Most of the candidates confused it with "SWOT analysis" and described all irrelevant things.
- (b) **Product Positioning.** Examinees did not fully understand positioning. However, use of appropriate examples was missing largely. Rest of the examinees responded the question hypothetically. Most of the examinees answered the question on the bases of their general understanding of the subject.

QUESTION No. 3:-

- (a) **Developing effective brand strategy.** Majority of examinees had tried to write the answer in a fluke style. Examinees were generally not able to classify between various portfolio of market shareholders. Majority could only deliberate upon the definition of the brand rather than its effectiveness.
- (b) **Brand Strategy.** Branding is a core topic of marketing and largely missed by the examinees. Examinees again used common sense and tried to refer famous brand names and their household fame branding activities, while attempting the part, rather than discussing various types of brand strategies.

QUESTION No. 4:-

- (a) **Integrated Marketing.** Generally examinees were able to give answer to this part. It was a basic question and examinees demonstrated know-now about the topic. They were also able to differentiate between external marketing and Internal marketing.
- (b) **SWOT guidelines of Piercy.** This question tested the knowledge of examinees on five guidelines on SWOT proposed by PIERCY. Normally examinees had awareness of SWOT analysis but they failed to explain it's application in real business scenario. They had given statements without substantiating their view points with examples.

QUESTION No. 5:-

- (a) **Strategic Planning.** This part was discussed correctly. Examinees however, could not point out issues of responsibility.
- (b) **Cost –volume profit analysis.** It was the most practical and pragmatic aspect of running a business and understanding a market place. With discussion on fixed costs, variable costs and advertising and sales expenses, the final area of discussion had been profits. Unfortunately, examinees failed to crystallize on this aspect.

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INFORMATION MANAGEMENT & AUDITING (THEORY)
PROFESSIONAL-IV

QUESTION NO. 2:-

- (a) Good performance was demonstrated by the examinees in this very straightforward question on “**difference among preventive, detective and corrective controls**”. However, it was specifically mentioned to quote an example along with each type but some of the examinees ignored these aspects.
- (b) Most of the examinees had difficulties in understanding this part of the question on “**system development and its impact on the audit** “. The way the examinees solved it was even harder to understand. This question was meant for checking examinees ability on the application of the methodology to design and implement information system.

QUESTION NO. 3:-

- (a) Satisfactory performance was noted in this part of the question on “**data administration and database administration role for conducting of an audit**”. However, Examinees need to understand that the roles of both the data administrator and the database administrator should clearly be specified before moving towards the implication of their existence. Implication of their existence is based on what roles they both play and the judgement about which role is more important from an auditor's point of view can only be derived from it.
- (b) Good performance was noticed in this part of the question on “**types of logs**”. However, the logs required here were not general logs. Only those logs that closely monitor DBA's activities were needed to be discussed. But some of the examinees answered based on their general knowledge.

QUESTION NO. 4:-

- (a) This part of the question was on “**maintenance of data integrity**”. Examinees knew little about how auditors make decisions. Once that was clear this was not difficult to explain why the qualitative approach was difficult to assess. The problem's solution lies again in concepts building.
- (b) An auditor can only be involved for “**evaluating a system development processes**”. Auditor's task is to evaluate and not to develop a system. Evidence collection method should really make sense. Here examinees wrote points that were by no mean part of evidence collection process.

QUESTION NO. 5:-

- (a) This part of the question was on “**steps in audit life cycle**”. Sequencing matters a lot here. Also a brief description of each step really adds to the value of the answer. Examinees usually missed either or both of above-mentioned aspects while answering this question.
- (b) Average performance was given by the examinees in this part of the question on “**digital signatures**”. However, very few examinees had a correct idea of what a digital signature was and even fewer were able to outline the flow of digital signature in secured data transmission.

**EXAMINERS' COMMENTS
SPRING (SUMMER) 2007 EXAMINATIONS**

Page # 2 of 2

**INFORMATION MANAGEMENT & AUDITING (PRACTICAL)
PROFESSIONAL-IV**

PAPER NO. 1:-

The question required examinees to calculate projected income statement from February to June 2007. Some examinees gave the projected income just for the month of February with base, option - 1 and option - 2.

PAPER NO. 2:-

Examinees committed mistakes in understanding the requirements of this question. Some of the examinees even could not differentiate between what was **“itemized manufacturing costs”** and what was **“total manufacturing costs”**.

PAPER NO. 3:-

The question contained following calculations to be performed; (1) Job Order Cost Sheet (2) Schedule showing different sales amount at different markup percentages. Examinee attempted this question quite well.

PAPER NO. 4:-

The question was on **“projected factory overheads rates”**. Solution was required in comparative format to describe the projection. This was particularly significant for comparison and that was missing in some cases. There were numerous mistakes committed by the examinees while finding rate of Variable FOH and Fixed FOH because they divided wrong columns to arrive at solutions.

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