

**EXAMINERS' COMMENTS**  
**SUMMER (MAY) 2011 EXAMINATIONS**  
**FUNDAMENTALS OF FINANCIAL ACCOUNTING**  
**Stage – 1**

**Question No. 2**

**Accounting Procedures and Systems:**

This question provided transactions of a trader for a given month and examinees were required to (a) prepare relevant journal entries (b) enter the transaction in the ledger accounts and (c) extract a trial balance. Following mistakes were committed by the examinees:

- Many examinees failed to write correct titles of accounts.
- In relation to purchase of a van, instead of mentioning Van account, some of them wrote it as 'carriage in' or the seller's account.
- Treatment of return of goods was not correct in many cases. Examinees debited sales account or even purchase account instead of debiting sales return account.
- Withdrawal of goods by the owner was not treated correctly by the examinees. They debited capital account or cash account where as they should have debited 'drawings account'.
- In preparing ledger accounts, examinees omitted dates, particulars etc., of the relevant transactions. In some cases even totals were not correct.
- While making trial balance, very few examinees could produce balanced trial balance.

**Question No. 3**

**(a) Definitions of (i) materiality (ii) relevance and (iii) reliability:**

This sub-part asked examinees to define the terms (i) materiality (ii) relevance and (iii) reliability. Answers of the aforesaid left a lot to be desired and exposed examinees' lack of interest towards relevant IAS.

**(b) Accounts Receivable:**

In this sub-part, examinees were required to (i) prepare 'aging schedule' for estimating doubtful debts (ii) determine closing balance of 'allowance for doubtful debts' and (iii) the amount to be charged to income statement in respect of doubtful debts for the period. Following shortcomings were observed:

- As regards sub-part (i), columns of the schedule were not made properly such as 'period debt outstanding', 'amount outstanding', 'estimated % doubtful debts', and 'allowance for doubtful debts'.
- In response of sub-part (iii), some examinees prepared journal entry instead of mentioning the desired amount. They were also confused about whether to credit or debit the income statement.

**(c) Accounting treatment of recovery of bad debt:**

This part tested the knowledge of the examinees in respect of accounting treatment of recovery of bad debt. They were asked to prepare journal entries as regards the recovery of a bad debt in the subsequent year. Hardly any examinees could make correct journal entries. While restoring the 'accounts receivable' they wrongly credited the recovered amount to 'allowance for doubtful debts' instead of crediting 'bad debts recovered account'. Moreover, they could not make the credit entry for income statement.

**(d) Payroll accounting:**

This part pertained to payroll accounting and the examinees were required to calculate the net pay of an employee having taken into consideration the deductions for provident fund and income tax. The majority could not work out correct amount of tax. They made yearly calculation instead of monthly working. While calculating income tax, most of them could not deduct provident fund from the gross salary, which was clearly mentioned in the question as tax relief against income tax. Some examinees calculated provident fund on gross salary rather than on basic salary. Because of above facts, the majority ended up calculating wrong amount of net pay.

#### Question No. 4

##### (a) Preparation of Petty Cash Book:

This part required examinees to write out an analytical petty cash book having columns for such expenses as 'printing and stationery', 'communication', 'newspaper and subscription', 'vehicle running and maintenance' and 'miscellaneous'. Following shortcomings were noted:

- The majority could not write the title of the petty cash book properly.
- Some examinees could not make proper columns as per requirement of the question. Instead, they made columns with their self produced titles of accounts.
- Hardly any one mentioned dates of transactions.
- Some of them made journal entries against the requirement of the question.
- Many examinees entered some of the transactions in wrong columns. Consequently, totals of columns could not be found correctly.

##### (b) Change of Recording Depreciation Method:

This part was based on change of depreciation method. Initially non-current assets were subjected to reducing balance method, which was later on changed to straight-line method. Examinees were expected to (i) calculate gain or loss on the machinery sold and (ii) the depreciation expense for three years after change of method of depreciation. Examinees committed following mistakes:

- While calculating gain or loss on disposal of machinery, many examinees applied straight-line method of depreciation although reducing balance method should have been used.
- They could not distinguish between old and new machines. Change of depreciation method was relevant to the old machinery only because the new machine was sold before the new method of depreciation (i.e., straight-line) was effected.
- As regards sub part (ii), hardly any one could work out 'written down value' of old machine at the beginning of year 2009 and deduct residual value there from, which was a pre-requisite for the calculation of correct amount of depreciation expense on straight-line basis for the years starting from 2009.
- Proper workings/ schedules were not prepared by the examinees.

#### Question No. 5

##### (a) Capital and Revenue Expenditures:

In this part, examinees were provided with a number of financial transactions and they were supposed to (i) classify the given expenses into revenue and capital expenditures and (ii) describe the difference between revenue and capital expenditures. This was an easy question and examinees performed quite well. Nevertheless, some common errors committed by the examinees needed to be highlighted as under:

- Examinees tried to explain each transaction instead of just classifying it into capital or revenue expenditure. Some of them even explained the reasons for being or not being the kind of expenditure of a particular type.
- In response to sub part (ii) examinees could not explain the difference between the revenue and capital expenditures in the context of the nature of the expenses. Some examinees elaborated too much considering the fact that only one mark was allotted to it.

##### (b) Control Account:

This part required examinees to (i) prepare revised 'purchase ledger control account' after taking into consideration the given set of adjustments and (ii) list out the kinds of ledgers. Following observations were made:

- Mostly, examinees were not conversant with the terminology of 'purchase ledger control account', since they posted opening balance to the debit side of the account instead of crediting it to the credit side of the account.
- They did not know how to revise the ledger account. They wrongly posted the entries on both debit and credit sides. Having considered the aforesaid facts, it was not strange that hardly any examinee was able to work out the correct balance of the control account.

- Responding to the sub part (ii), examinees could write names of only sales and purchase ledgers. The majority seemed to be ignorant about the general ledger and private ledger.

### **Question No. 6**

#### **Financial Statements:**

This question required examinees to prepare (a) income statement and (b) statement of financial position.

Examinees made the following mistakes in respect of part (a):

- Title of the income statement was not correctly written. Some of them left out the name of the firm, others could not write “for the year ended”.
- Some examinees deducted discount allowed from the gross sales (instead of incorporating it in the operating expenses) resulting into incorrect figure of net sales.
- ‘Cost of goods sold’ was not prepared as a perfect schedule. Haphazard workings were observed in most of the cases.
- Many examinees committed mistakes in calculating ‘bad debts expense’ to be charged to the income statement. Some of them took it as Rs.20,000 only, others took came up with the figure of Rs.118,000 by adding amounts of actual bad debt expense for the year (Rs.20,000) and closing balance of ‘allowance for bad debts’ (Rs.98,000). Whereas the correct amount of charge to the income statement could be arrived at by adding the figures of actual bad debt expense for the year (Rs.20,000) and the increase in the ‘allowance for doubtful debts’.

As regards the part (b), following common errors were witnessed:

- In this part of the question, the majority failed to write heading correctly. For instance, some of them did not mention “as at June 30, 2010” in the heading.
- Non-current assets and current assets were not separately classified. Some did not total heads and sub-heads.
- Some could not work total equity separately rather they included it in the liabilities.
- A few examinees converted ‘Rs.’ into ‘Rs.000’ and were in problems while writing amounts.

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**EXAMINERS' COMMENTS  
SUMMER (MAY) 2011 EXAMINATIONS**

**BUSINESS ECONOMICS  
Stage – 1**

**SECTION "A"**

**Question No. 2**

**(a) Utility, difference between total utility and marginal utility and law of diminishing marginal utility:**

Definition of utility, difference between total utility and marginal utility and law of diminishing marginal utility with a numeric example, was the main requirement of the sub-part of the question. Almost all the examinees defined the term utility very well and they also provided and drew the schedule and diagrams. However, some of them were not conversant with the concept of marginal utility and total utility.

**(b) Large scale and small scale productions and their advantages (economies) and disadvantages (diseconomies):**

In this part, examinees were supposed to provide differences between large scale production and small scale production and advantages (economies) and disadvantages (diseconomies) for both forms of production. Very few students could differentiate between large scale production and small scale production properly and technically. Some of them presented it as long-run and short-run. Some of them presented it in terms of area. Some of them presented it in terms of number of workers. Some of them took it in terms of local market and international market. So far economies and diseconomies were concerned very few students pointed out technical differences. Few pointed out towards market economy, division of labour, managerial economy, by-products economy, transport economy and work-shop economy etc. They simply discussed general points of strike and lockout. Some of them took small scale production as cottage industry.

**Question No. 3**

**(a) Perfect and imperfect competition:**

Difference between perfect and imperfect competition and explanation of major kinds of imperfect competition like monopoly, oligopoly and monopolistic competition, was required to be answered in this sub-part of the question. No examinee could differentiate perfect competition from imperfect competition. They simply wrote the condition but at the same time they mentioned the kinds of imperfect competition properly. Most of them wrote few sellers although it contains one seller (monopoly). Few students could explain oligopoly. Mostly they wrote few sellers simply or wrote numbers 04 – 08 etc. No examinee could point out the technical point that number of sellers is such that it could influence the other sellers. So each seller keeps an eye over others. Some of them were confused between 'same and similar'. They were also confused between 'identical and similar'. Some of them went beyond describing equilibrium point of each with diagram showing normal profit, super normal profit and sub-normal profit.

**(b) Aggregate demand and its major components:**

This sub-part of the question required examinees to define aggregate demand and its major components in detail. Majority of the examinees could not follow the term aggregate demand and major components of aggregate demand that are consumption, investment, government purchases and net exports.

**SECTION "B"**

**Question No. 4**

**(a) Balance of payment system:**

This sub-part of the question was related to balance of payment system and remedies in case there is an adverse trend in the balance of payment account of a country. Very few examinees could give clear idea of balance of payment. Mostly, they took it simply the balance of export and import. They could not differentiate between balance of trade and balance of payment. To most of them, payment and receipts are equal then it is balance otherwise imbalance. To correct adverse balance of payment, they stressed over reducing import and increasing export. Remedies for balance of payment were also intermixed with balance of trade.

**(b) Inflation and deflation:**

This sub-part of the question, based on the above topic, required examinees to differentiate between inflation and deflation and to explain the three different categories of inflation. Most of them gave definition of inflation and deflation. However, they were highly confused in defining the three different categories of inflation and mentioned the causes of inflation instead of categories like low inflation, galloping, and hyperinflation.

**Question No. 5**

**(a) Federal budget:**

In this sub-part of the question, examinees were required to define the federal budget and its two components revenue budget and development budget. Most of the examinees were unable to define the term federal budget. Whereas, only few could explain the components of federal budget i.e., revenue and development budgets.

**(b) (i) National income:**

A brief explanation of 'national income' was the requirement of this sub-part of the question. Most of the examinees defined it properly. Some of them defined technically and some as income of whole nation.

**(ii) Investment**

A brief explanation of 'investment' was the requirement of this sub-part of the question. No examinee could explain this concept in macro language. They simply took it as money spent in business that gives profit. No one used the term 'productive capacity'.

**SECTION "C"**

**Question No. 6**

**(a) Economic, social and cultural, and administrative obstacles:**

Economic obstacles, social and cultural obstacles, and administrative obstacles are the main obstacles which affect the rate of growth in economic development, to explain each with reference to Pakistan was the requirement of the sub-part of the question. Majority of the examinees could not understand the nature of this question. They wrote obstacles but they could not distinguish between economic obstacles and non-economic obstacles. They specially failed to understand the nature of social and cultural obstacles. Similarly, they failed to understand the nature of administrative obstacles. Civil and military bureaucracies are roots causes of all evils in Pakistan. Red tape is very famous phrase in Pakistan. None of them mentioned it.

**(b) Mechanism of foreign exchange rate:**

The requirement was to describe foreign exchange rate, which varies according to the forces of supply and demand of the foreign currency and to explain its mechanism with reference to Pakistan by numeric graphical presentation. Hardly any examinee gave the graph of demand and supply of currencies. It was a technical question almost all of them were confused about the demand and supply of foreign currencies (foreign exchange).

**Question No. 7**

**Explanation of thermal electricity, hydel power, nuclear energy and non-conventional sources with reference to their potential and capacity:**

In this sub-part, examinees were required to explain the main sources of electric generation in our country like thermal electricity, hydel power, nuclear energy and non-conventional sources with reference to their potential and capacity. Most of the students were seemed to be unaware of the main sources of electric generation in our country. They explained thermal, hydel, nuclear energy, and non-conventional sources of energy but only a few could explain the same with regard to the potential and capacity. Some wrote sources of thermal electricity from water, some about hydel power from oil-coal-gas. As far as nuclear energy and non-conventional sources, they have no clear-cut idea. Moreover, statistical data was also not provided by the majority.

**EXAMINERS' COMMENTS**  
**SUMMER (MAY) 2011 EXAMINATIONS**  
**BUSINESS LAWS**  
**Stage – 1**

**Question No. 2**

**(a) Legal sources of law: Legislature, precedent, customs and agreement:**

This part of the question was attempted partly correct by majority of examinees. Common mistakes are as follows:

- Some examinees attempted all the four items while any three were required.
- In 'legislature' functioning or objectives of parliament was described instead of requirement for discussing it as legal source of law created by parliament.
- While describing 'precedent' some examinees misconstrued it as president and discussed the ordinance etc.
- Instead of discussing 'custom' as source of law, some examinees discussed custom authorities and custom levy.
- Instead of discussing 'Agreement' as source of law, the process of making agreement was discussed by some examinees.

**(b) Act of parliament:**

Performance of majority of them remained poor. Following shortcomings were observed:

- Instead of discussing 'purpose of act of parliament', some examinees discussed 'purpose of parliament' itself.
- The purposes of creating new laws and amending the existing one were mentioned but consolidating and cancelling the existing laws were not discussed by majority of examinees.
- Some examinees discussed the process of law making, which was not required.

**Question No. 3**

**(a) (i) Express, implied and quasi contracts in view of Contract Act, 1872:**

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

- Some mixed up the different types of contract.
- 'Quasi contract' was not explained by its nature but only through example.
- 'Express contract' was mentioned in 'writing' only rather than both i.e., in 'writing' and 'oral'.

**(ii) Reply to situation related to recover the value from Hilal's property:**

Majority of the examinees replied correctly. However, in some cases reply to situation was wrongly given by just considering that supply was made to a 'minor' rather than the supply was for necessities of life and recovery is permissible from the property of the minor. Some even said that recovery could be made when the minor attains majority.

**(iii) Bailment, bailor and bailee:**

Generally, majority of the examinees showed good performance in it. However, in some cases definitions of bailment, bailor and bailee were not defined with reference to contract law but as 'bail' granted by the courts.

**(iv) Reply to situation related to contract of bailment between Naveed and Javaid:**

Few examinees were unable to identify that there was contract of bailment between Naveed and Javaid due to lack of concept of bailment.

**(b) (i) Advantages of partnership:**

Few examinees discussed the nature and operation of partnership business i.e., two persons can create the partnership business and sharing profit and loss equally etc.

**(ii) Reply to situation related to the creation of partnership:**

In the situation, few examinees were able to identify that even though the heirs of Mr. Ali jointly carry on the inherited business they do not *ipso facto* become partners in such business. They are joint owners.

**(iii) Reply to situation related to liability of the firm:**

Regarding the situation, examinees ignored that the question is about liability of the firm instead of held a particular partner as liable.

**Question No. 4**

**(a) (i) Difference between condition and warranty, as per the Sales of Goods Act, 1930:**

This question was well attempted by many examinees. In some cases, examinees discussed warranty in general or layman's terms rather than the given context of sale of goods law.

**(ii) Essential elements of contract of sale, as per the Sales of Goods Act, 1930:**

Performance of majority of the examinees in this part was poor. Some examinees discussed the process of making contract of sale rather than referring to its essential elements. Some mentioned presence of half elements of a valid contract e.g. offer or acceptance rather than saying that all the elements of a valid contract must be present.

**(iii) Reply to situation related to validity of the contract:**

In some cases, examinees could not define that it was void due to the description of grapes.

**(b) (i) Promissory note:**

Few examinees listed less than five features of promissory note in their reply.

**(ii) Differentiation between bill of exchange and cheque:**

Most of the examinees were not able to demonstrate it correctly. In many cases, the points of difference was mixed up i.e., bill of exchange rather than cheque can be drawn payable on demand etc., or even similarities like both are negotiable instruments were mentioned rather than differentiation.

**Question No. 5**

**(a) Discussion on commercial establishment, construction industry, and workman lie under Industrial and Commercial Employment (Standing Order) Ordinance, 1968:**

This question was partly well attempted by many examinees. However, the following mistakes were committed:

- 'Commercial establishment' was discussed in the context of commercial or trading activity. Some even attributed factories and manufacturing activities as its part. Very few mentioned that Government may also notify any such establishment in the official gazette.
- 'Construction industry' was described in general terms. Many of the areas that its legal definition covered like telegraphic or telephonic installation, dam etc., were not in the knowledge of examinees.
- 'Workman' was misconstrued as representing only labours or all employees of an organization rather than specifically mentioned that workman means any person employed in any industrial or commercial establishment to do any skilled or unskilled, manual or clerical work for hire or reward.

**(b) Provisions related to health and safety of workers:**

The caption of different items was generally correct but the details or descriptions indicated inadequate knowledge in the matter by few examinees.

**Question No. 6**

**(a) Definitions of minor, commissioner and employer under the Workmen's Compensation Act, 1923:**

Majority of examinees were not able to attempt it correctly. Common mistakes are as follows:

- Minor was wrongly defined as 'below 18' rather than 'below 15'.
- Majority of the examinees failed to demonstrate that commissioner is appointed under section 20.
- Employer was also not properly described. Some defined it in the context of the Factories Act while the requirement pertained to Workmen Compensation Act, 1923. Moreover, some examinees defined it in general term.

**(b) Discussion on contribution, disablement, and industry under the Social Security Ordinance, 1965:**

Most of the examinees partly attempted it well. However, the following shortcomings were noticed:

- 'Contribution' was poorly defined with few correctly identifying that employer pays the contribution.
- 'Disablement' was generally described well but wrong percentages were mentioned for different categories of disablements.
- 'Industry' was wrongly confined to 'factories' only.

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**EXAMINERS' COMMENTS**  
**SUMMER (MAY) 2011 EXAMINATIONS**

**BUSINESS ENGLISH**  
**Stage – 1**

**SECTION "A"**

**Question No. 2**

**(a) Do as directed:**

This part of the question required examinees to 'do as directed' i.e., to change the given sentences as per the directives given. This question was meant to test the examinees' knowledge of grammar. Examinees simply failed to apply the rules of conversion mindfully and carefully although given sentences were worded in simple and plain words. Few of them showed understanding of the change of sentences from active to passive. Most of the candidates seemed to be confused while converting dialogues into reported speech.

**(b) Words opposites:**

In this part of the question, the students were required to identify and report words opposites in meaning for each of the four words stated in boldfaces. It was disappointing that performance was not satisfactory although given words were simple, choices were provided. Understanding was poor and far from being satisfactory.

**Question No. 3**

**(a) Completion of sentences in correct or most likely way:**

In each of the given sentences, selection and reporting of the word pair out of four alternatives, which had to be filled in the blank(s) well in the same sequence, was the given exercise. Success rate for this part of question was remained average. Sentences given were simple and so were the word pair shown against each. Perhaps comprehension skill was not mindfully applied by majority of examinees, which led to unsatisfactory performance. Most of the candidates could not solve it correctly due to poor knowledge of vocabulary.

**(b) Picking out the words with spelling mistakes and to correcting them:**

In this subpart, a simple narrative passage was given with certain spelling mistakes and examinees were required to pick out words with faulty spellings and rewrite correctly spelled words. A good number of students did well for this part of the question.

**(c) Fill in the blanks with correct answers:**

From this part, examinees were required to select the correct answer from the given options, which they also found very difficult to do. Resultantly, very few candidates could provide correct answers in each case. Hardly anyone could secure good marks in this subpart.

**Question No. 4**

**(a) Idiomatic expressions:**

In this part of the question, idiomatic expressions were given and examinees were asked to write correct meanings as well as making sentences. They found it quite difficult, and only few of them could write the meanings and some of them could compose proper sentences. Idiomatic expression or idiom means an expression characteristic of a particular language but answers were not satisfactorily reported. It is always a characteristic mode of expressions. These may appear very simple but enable us to express different and fine shades of meaning.

**(b) Differentiation of homophones by making the sentences:**

This part of the question comprised 'homophones', asking the examinees to make sentences so as to show the difference in meaning of the two. The performance of most of them was very poor and was far from being satisfactory. Sentences made were very childish. This showed lack of maturity. The majority of examinees could not differentiate given homophones by making a sentence of each. Given four sets were simple but meaningful use was reported by very few.

## SECTION "B"

### Question No. 5

#### Comprehension passage:

It was a very simple exercise. Four options were provided for each question that follow the passage. Majority produced correct answers for each of six questions. Performance, however, was good and appreciable.

### Question No. 6

#### Essay writing:

Examinees were given the task of writing an essay of about 250 words on one of the five given topics: (a) Grandparents – blessings of God, (b) Natural disasters, (c) Travel as a part of education, (d) The Cyber revolution, and (e) Pleasures and disappointments of friendship. Common faults found were: • messy handwriting • failure to spell even everyday words correctly • use of abbreviated words • weak syntax • incorrect application of subject-verb agreement cases • poor penmanship • disregard of spelling properly • use of short forms of words (SMS style) • punctuation mistakes and grammatical errors. Three distinct parts: topic idea, subject details and conclusions were not properly reported by majority. The answers were mostly poor, irrelevant, and misconceived. Too much lengthy essays were composed by few of them, comprising irrelevant details, lack of adequate knowledge about the topic, grammar and spelling mistakes etc. Only few could write their essays with error-free grammar. Paragraphing was also poor.

### Question No. 7

#### Letter writing:

#### (a) Letter to the Director Human Resources of a Pharmaceutical Company for early retirement:

Assuming certain details, a letter was required to be composed in form of a query to ascertain details about pension payable, other social security benefits payment entitlement and any other benefits / facilities offered by the company to those who chose to retire at the age of 58 instead of 60 years i.e., two years ahead of due age of retirement. Information about prior notice period was also asked. The majority, however, did not do so. Display and sequencing of conceived material was not impressive. Such poor composers did not take into account that the message of a letter, in fact and effect, is a theme writing and as such it must be governed by rules and requirements of theme writings: • clarity • force • correctness and • appropriateness.

#### (b) Inquiry letter to the General Manager HR of a 5-Star hotel:

In this subpart, examinees were required to draft a letter to the manager of a 5-Star hotel as the General Manager of an organization, for arranging a golden jubilee dinner for the officers of the organization. Examinees know how to write formal letters even then, they mixed up different formats. They gave correct message but most of them did not know how to write 'beginning', a 'middle' or an 'end' of the letter. Expressions were un-sequential. Some candidates lost marks as they were unable to write and spell even everyday words correctly.

### Question No. 8

#### Report writing:

The exercise writing a letter report was taken by all the examinees. However, good report was offered by a large number of examinees, giving information on all the queries. Performance in these cases was satisfactory as offered writings carried moderately correct and proper sequencing language. Other lost marks because of poor display of material and poor language used without caring for proper spellings and rules of sentence structures. Due care was not given to avoid mistakes of spellings, sentence formation and mark of punctuation. Few candidates could not do well because of lack of understanding of the question.

**EXAMINERS' COMMENTS**  
**SUMMER (MAY) 2011 EXAMINATIONS**  
**FUNDAMENTALS OF COST AND MANAGEMENT ACCOUNTING**  
**Stage – 2**

**Question No. 2**

**(a) Use of cost accounting information:**

Majority of the examinees failed to explain properly the usage of information generated by costing system. It may be pointed that costing system generates information for the use of management. Therefore, use of given information should be explained with reference to the functions of management i.e., planning, budgeting, organizing, controlling etc.

**(b) Explanation of terminology:**

Considerable number of examinees did not explain the terms in the context of the cost accounting subject and just explained the meaning of the terms like “controllable cost is the cost which can be controlled and uncontrollable cost which cannot be controlled”. Examinees should note that this casual attitude is uncalled for and should be avoided.

**Question No. 3**

**(a) Manufacturing cost, cost of goods manufactured and sold:**

This is a very basic question to assess the examinees in respect of basic concepts i.e., elements of cost, addition and subtraction of inventories to arrive at the figures of materials consumed, cost of goods manufactured and cost of goods sold. In many cases examinees calculated incorrect figures of these costs mainly due to inclusion of non-manufacturing expense in production overheads.

**(b) Ledger accounts of manufacturing concern:**

This question was aimed at assessing the knowledge of accounting cycle of a manufacturing concern. Several examinees failed to produce the correct ledger account of material. Some examinees prepared material store card and added the labour and factory overhead cost in the value of material issued column to arrive at manufacturing cost instead of preparing ledger accounts for material, work-in-process, finished goods and cost of goods sold.

**Question No. 4**

**(a) Labour performance report:**

Majority of the examinees could not produce the report properly in tabular form. Some examinees calculated correct figures of variances but identified them inversely i.e., total variance as labour efficiency variance and vice versa. Some also failed to point out the variances as favourable/ unfavourable or indicated them inversely.

**(b) Distribution of factory overhead and overhead rates:**

Examinees put the figures of fixed factory overhead of service departments to the columns of producing departments as these figures are given in question. However, they failed to calculate the figures of variable overhead on the basis of distribution rates of service departments which could not be calculated by them.

### Question No. 5

**(a) Cost of production report:**

This question was split form of cost of production report. The answers produced by the examinees reflected that they had little knowledge of the process costing and related calculations i.e., preparing quantity schedule, calculating equivalent production units and cost charged, added, accounted for. Majority delivered the partial answers of all requirements. They just added the unit started in process to beginning work-in-process inventory and did not provide break up of this total into units transferred to next process, units in hand and units lost. Similarly, they either correctly calculated equivalent production for material or conversion cost. Resultantly, they failed to calculate the cost charged to the department and cost accounted for by the department. Due to incorrect equivalent production and confusion between weighted average and FIFO methods, majority failed to score easy marks.

**(b) Material labour and overhead variances:**

Majority of the examinees calculated the material variances and labour rate variance correctly. They failed to calculate correctly the budget allowance based on fixed expenses and standard hours allowed. Those who failed to calculate correct figures of standard hours allowed also failed to calculate correct labour efficiency variance and overhead variances. Apart from not indicating the variances as favourable and unfavourable, some examinees showed their careless attitude and took the material rates as paisa 50 & 51 instead of rupees and used dollar (\$) sign instead of rupees (Rs.) sign. This type of negligence indicates non-seriousness of the examinees.

### Question No. 6

**(a) Absorption and direct costing:**

It seems that majority of the examinees had no idea of direct and absorption costing. They failed to divide the amount of fixed manufacturing cost by direct labour hours at normal activity level and multiplied the result by five (5) hours (required to produce one unit) to arrive at per unit fixed cost. Having no concept of the topic they also failed to prepare comparative gross profit statement of four years.

**(b) Operating income and direct costing and break even point:**

Examinees who calculated the operating income correctly were successful to calculate the break even points and margin of safety. However, several examinees calculated the break even point in rupees and left the break even point in units un-attempted. Margin of safety was also not calculated or wrongly calculated by the majority.

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**EXAMINERS' COMMENTS**  
**SUMMER (MAY) 2011 EXAMINATIONS**  
**MANAGEMENT AND MARKETING**  
**Stage – 2**  
**SECTION "A" – MANAGEMENT**

**Question No. 2**

**(a) Management roles and managerial skills:**

The question required examinees to describe managerial roles, which comprise interpersonal, informational and decisional roles. Examinees were also required to define the managerial skills, which include conceptual, human and technical skills. Many of them performed satisfactory in this part but others confounded with the concept of managerial roles and they did not fulfill the requirements of management roles and did not interpret roles completely. They needed to describe the ten roles, which were grouped into interpersonal relationship, the transfer of information, and decision-making. Many examinees intermixed the ten roles with each other creating confusion.

**(b) Universality of management concept:**

Majority lacked basic concept of 'universality of management concept' and just wrote the management concept like what a simple management can do rather than describing the core answer. 'Management is needed in all types and sizes of organization, at all organization levels and in all organization work areas, and in all organizations, no matter where they are located', this was the theme, which was the requirement but rather than that, examinees were focused towards 'planning, organizing, leading and controlling', which are basic functions of management definition that was not asked for.

**(c) Rewards and challenges:**

This sub-part of the question was consisted of reward earned and challenges faced by a manager. In reward portion, examinees were unable to describe what types of reward could be earned by a manager and they just tried to write a very few things, which were insufficient. Many of them were focused only to challenges and they either missed the 'reward' part or just limited to the 'challenges' portion. It showed the low level of knowledge among examinees. It was also noted that answer regarding reward was limited to pay, bonus, promotion, certificates etc. They missed responsibility for creating work environment for best utilization of abilities for achieving goals.

**Question No. 3**

**(a) Organization culture and seven dimensions:**

As per definition, organization culture has been described as the shared values, principles, traditions, and ways of doing things that influence the way organizational members act. Seven dimensions of organization culture are • attention to detail • outcome orientation • people orientation • team orientation • aggressiveness • stability • innovation and risk taking respectively. Examinees had to define these dimensions but instead, they prolonged the culture part and created self-defined definitions of culture dimensions, which were wrong. The majority was not able to elaborate the answer correctly and lost easy marks. It showed the lack of proper study and reflection on the part of examinees.

**(b) Organizational stakeholders:**

This sub-part of the question comprised two parts i.e., to identify organizational stakeholders and four steps in managing external stakeholder relationship. Examinees were highly confounded with their self-described external and internal stakeholder terminologies and they did not come up with common organization stakeholders fully defined. A subset of question was to elaborate the four steps in managing external stakeholder relationship. It was required to elucidate the right four steps, which were part of the course of examinees but majority did not go well and maximum cases reveal that examinees narrated incorrect statements in support of their wrong arguments with irrelevant examples. This showed poor understanding of subject and hence they could not score good marks. Management is not a stakeholder but shareholders and

employees are. Similarly, government is a stakeholder but government regulations are not. Most of them mixed up in describing internal stakeholders from external stakeholders. Steps of maintaining relationship with external stakeholders were also explained wrongly.

**(c) Techniques used by the organizations to move globally:**

The question required the examinees to identify the techniques used by the organizations to move globally which are • global sourcing • exporting the organization's products • importing • licensing or franchising • strategic alliance • joint venture • foreign subsidiary etc. A few examinees attempted this part of the question, while majority of those attempted, answered it incorrectly. It reveals that they did not study thoroughly their course material.

**SECTION "B" – MARKETING**

**Question No. 4**

**(a) Changes in demographic and economic environments:**

In this sub-part of the question, examinees were required to define how the changes in demographic and economic environments affect the marketing decisions. The responses given by the examinees were inadequate and some of them mixed the definitions with each other. Their knowledge was not enough to get good marks.

**(b) Marketing intermediaries:**

This was simple and straightforward question based on role played by marketing intermediaries to promote, sell and distribute products to final buyers. Marketing intermediaries help the company to promote, sell, and distribute its products to final buyers. They include resellers, physical distribution firms, marketing service agencies, and financial intermediaries. Lot of examinees incorrectly answered it, except few of them who reached to the right point and defined satisfactorily. Most of the writings were illegible. Some of the examinees described wrong statements, which were never asked. Marketing intermediaries viz. jobbers, wholesalers, brokers, middlemen, resellers and retailers all move with support of bank, media and marketing service agencies. They skipped to mention their roles and imperfection, and had restricted themselves to physical distribution only.

**Question No. 5**

**(a) Four major steps in designing a customer marketing strategy:**

The given question was simple. Examinees were required to define market segmentation, market targeting properly along with differentiation and positioning. They intermixed targeting and segmentation with each other even then they did not describe these parts to the sufficient extent. A doubt exists with regard to, which comes first, segmentation and marketing. They could not see that targeting is a later activity when marketing chases to enter the market segment. It can be done in two ways (i) by mass marketing and differentiated marketing and (ii) by further segmenting the targeted segment. Positioning aspect was also not clear to some of them. It is how the product occupies a place in consumers' minds.

**(b) Product and product attributes:**

This was simplest question and required examinees to explain the term 'product' and its benefits along with its attributes. The quality of answers was not good and lacked basic knowledge of product concept. Some of the examinees related the style with design terminology because they lacked the proper, in-depth technical knowledge. Core concepts of examinees were very weak. Features are added attributes over quality perceptions. Ordinarily, consumers identify such attributes as plus/ pluses. They were also cloudy over style and design. Style is concerned with appearance and looks only, whereas design is usefulness and looks both. A pair of rexene shoes might look very shining but a leather shoe of suitable design would be much more comfortable and breathing beyond providing elegant looks.

**EXAMINERS' COMMENTS**  
**SUMMER (MAY) 2011 EXAMINATIONS**  
**BUSINESS MATHEMATICS AND STATISTICS**

**Stage – 2**

**SECTION A**

**Question No. 2**

**(a) Inequalities:**

This question related to the topic of solving second degree inequality. Majority of the examinees attempted this part and tried to solve it but a very few could solve it properly. Following shortcomings were noted:

- Examinees showed lack of understanding of the basic difference between equation and inequality. Majority of the examinees solved it like equations. They were not conversant with solution of an inequality and its conditions.

**(b) Sequence and Series:**

This part was on the topic of “sum of the series”. Majority of the examinee attempted this problem. Average performance was noted in this part of the question. Following shortcomings were noted:

- Many examinees could not correctly find the common difference by subtracting two consecutive terms e.g.,  $d = 4 - 5 \frac{1}{2}$ .
- Many of them applied nth term formula i.e.  $a_n = a + (n - 1)d$  instead of :  $S_n = n / 2 \{ 2a + (n - 1) d \}$

**(c) Future Value of Annuity:**

This part was on the topic of “sum (future value)” of an annuity. This was a very simple question. Overall performance was satisfactory in this part. Nevertheless following shortcomings were noted:

- They used incorrect formula instead of using  $S = R \left\{ \frac{(1+i)^n - 1}{i} \right\}$
- Most of the examinees did not provide step-wise calculations and wrote just numeric directly from calculations.

**(d) Indefinite Integration and Partial Derivative:**

Sub-part (i) was on the topic of “Basic integration”. Majority of the examinees attempted this part and presented correct answers, however, some of them could not do well due to lack of knowledge of the following rule of integration:

$$\int [f(x)]^n f'(x) dx = \frac{[f(x)]^{n+1}}{n+1} + C \text{ when } n \neq -1$$

Those who used the above rule could not add constant ‘C’ as given in the above formula.

Sub-part (ii) was an easy question based on partial differentiation. Majority of the examinees attempted this part, however, only a few examinees could produce the proper solution. Following observations were made:

- Surprisingly, the majority did not know the basic concepts of partial differentiation. They also did not know the significance of partial differentiation symbols.
- They lacked solving skills.

**Question No. 3**

**(a) Cramer’s Rule:**

Examinees were asked to solve a system of equations using Cramer’s Rule. They demonstrated average performance in this part of the question. Following shortcomings were noted:

- It was mentioned in the question to solve it by Cramer’s Rule, however, some examinee tried to solve it through other methods e.g., using inverse of matrix method.
- Some examinees did not know the basic determinant rules.

**(b) Revenue, Cost and Profit Functions:**

The maximum number of examinees attempted this question, however, only a few of the examinees answered correctly. Following shortcomings were noted:

- Examinees were asked to write/ form the bivariate revenue, cost and profit functions, whereas examinees responded with univariate functions of the same.
- Most of them focused on defining specified functions instead of mentioning these functions.

**(c) Average and Instantaneous Velocities:**

This part consist of two sub-parts asking examinees to determine (i) the average velocity during the given time interval and (ii) the instantaneous velocity at two points of time. Following shortcomings were noted:

- Majority of the examinees lacked the concept of “average velocity” or “average rate of change”.
- In this part, examinees did not differentiate between “average velocity” and “instantaneous velocity”.
- Examinees did not follow the rules of differentiation and formula for average velocity.

**SECTION B**

**Question No. 4**

**(a) Moving Averages:**

In this part examinees were asked to find the 5-year moving averages. Overall performance in this part was not satisfactory. Following shortcomings were noted:

- Some examinees calculated the required averages to set the trend but did not tabulate them so as to have overall look.
- Examinees lacked calculation skills.

**(b) Permutation and Binomial Probability:**

This part tested the knowledge of the examinees about permutation and binomial probability and they were required to determine the (i) number of two-digit numbers that can be formed from a given set of six digits provided that no digit is repeated in a particular number and (ii) the probability that we get exactly four 3's if a dice is tossed 6 times. As regards sub-part (i) majority of the examinees attempted this part, but could not give the satisfactory answer. Following shortcomings were noted:

- They did not understand the difference between permutation and combination.
- They did not use correct counting formula to solve the problem:  ${}^n P_r = \frac{n!}{(n-r)!}$

As far as sub-part (ii) is concerned the majority failed to answer correctly. They had no idea of the concept and method of finding the required probability. Following shortcoming was noted:

- They neither understood the question nor used the correct formula for solving it i.e.,  $b(x;k;p) = \binom{k}{x} (p)^x (q)^{k-x}$

**Question No. 5**

**(a) Hypothesis Testing:**

This sub-part was based on t-test, a sub-topic of *hypothesis testing*. The performance of the examinees was poor in this question, which shows their inability to use correct table and right values. Following shortcomings were noted:

- Very few examinees knew the standard way to solve the hypothesis problem. Only a few examinees were able to write null hypothesis ( $H_0$ : mean = 500 grams) and alternative hypothesis ( $H_1$ : mean < 500 grams) correctly.
- In this part examinees were asked to apply t-test. Instead of 't scores' many of them confused it with 'z scores'.

- Examinees could not establish the correct null and alternate Hypotheses, select the appropriate test statistic, establish the critical region and compute value of the test statistic from the sample data.

**(b) Combination and Conditional Probability :**

This part contained two sub-parts on the topic of (i) combination and (ii) conditional probability. Most of the examinee tried to solve it but a very few number of examinees could write the correct answers. Following shortcomings were noted:

- Problem of combination was misunderstood for permutation. Majority of the examinees tried to solve the problem given in sub-part (i), but they used wrong formula of  ${}^n C_r$  instead of applying the correct formula:

$${}^n P_r = \frac{n!}{(n-r)!} . \text{ Even answer of } {}^n C_r \text{ was obtained by the keys of the calculator instead of giving all the}$$

required steps.

- As far as sub-part (ii) is concerned, examinees showed poor performance. The majority had no idea of the concept and method of finding the required probability. Just a few of the examinees could provide the correct answers. Once again they did not apply the correct conditional probability formula:  $P(A \cap J) = P(A) P(J/A)$ .

**SECTION C**

**Question No. 6**

**Network Analysis:**

This question required examinees to (a) draw the diagram of a project (b) identify its critical path and (c) calculate Earliest Start Times (EST) and Latest Start Times (LST) for given activities. A very good number of examinee attempted this part and showed good performance. Following shortcomings were noted:

- Examinee could not differentiate between “Activity on Node” and “Activity on Arrow”.
- Working, procedure or method is not exhibited to identify the critical path and in calculating EST and LST.

**Question No. 7**

**Linear Programming (Corner-Point Method):**

This question provided data relating to a new type of fertilizer which was a mixture of two ingredients ‘A’ and ‘B’. Examinees were asked to (a) formulate the linear programming model and (b) solve the above linear programming problem using the “corner-point method” so that the fertilizer is produced at minimum cost. Following shortcomings were noted:

- Objective function and constraint inequalities were not set correctly. Corresponding linear equations were not drawn accordingly and hence corner points and feasible region were not identified for optimal solution.
- A good number of examinees failed to include the non-negativity constraints in their formulation of linear programming model.
- Examinees failed to standardize the LP Model.
- The examinees faced problems in constructing the graphical part of the answer and showed lack of presentation techniques.

**EXAMINERS' COMMENTS  
SUMMER (MAY) 2011 EXAMINATIONS**

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

**SECTION "A" – HARDWARE**

**Question No. 2**

**(a) Basic organization of a computer system:**

This part of the question tested the knowledge of examinees regarding drawing a block diagram to illustrate the basic organization of a computer system and to explain five basic operations of converting raw input data into useful information. A fairly large number of examinees could not properly draw the block diagram to illustrate the basic organization of a computer system. Also, a very few could correctly explain the five operations of converting raw input data into useful information. The level of answers was not upto the mark in most of the cases.

**(b) (i) Impact and non-impact printers:**

In this part, examinees were required to differentiate between impact and non-impact printers and to write their relative advantages and disadvantages. The overall performance in this part of the question remained average. In some cases, the wrong examples were given in case of impact and non-impact printers; i.e., laser printer was mentioned as impact and dot matrix as non-impact, whereas the correct answer is vice versa. Few examinees interchanged the features of impact and non-impact printers.

**(ii) Storage unit and difference between characteristics of primary and secondary storage:**

In this sub-part, the purpose of storage was asked with differentiation between characteristics of primary and secondary storage. This part was little bit easier and majority performed satisfactory. They were seemed to have the understanding of primary and secondary storage devices and their importance in overall functioning of a computer system. Some of them mentioned ROM as secondary storage device, whereas it is categorized as primary storage.

**Question No. 3**

**(a) Advantages and disadvantages of CISC and RISC processors:**

As far as advantages and disadvantages of CISC and RISC were concerned, a large number of examinees could not explain them correctly. Progress of majority examinees was below average. There were few examinees who could mention the differences in CISC and RISC processors. Majority of them had no concept regarding functionality of CISC and RISC processors.

**(b) Cache memory:**

In this part of the question, the examinees were asked to describe as to how cache memory helps improving the overall processing speed of a computer system. Most of the examinees just explained the functions of cache memory reflecting quite shallow knowledge. Only few examinees could properly explain how cache improves overall processing speed of a computer.

**(c) (i) Advantages and limitations of optical disk:**

The requirement in this sub-part of the question was to define the advantages and limitations of optical disk. Majority of the examinees could not correctly and completely describe the advantages and disadvantages. Some of them even mentioned hard disk as optical disk.

**(ii) Disk array:**

Some of the examinees described disk array as a part of hard disk. Majority of them failed to describe the concept of disk array, which is also known as RAID. Mostly they wrote irrelevant details on this topic.

**(iii) Electronic pen:**

Examinees were required to explain briefly the electronic pen. Most of them had correct concept of electronic pen. Few of them, however, could not properly explain the functionality / uses of electronic pen. It is a pen-based point-and-draw device. Movement of electronic pen causes the graphical cursor on screen to move.

**(iv) Flash memory:**

In this sub-part examinees were required to define the flash memory. Many answers were contained a few words on the topic without mentioning the type and uses of flash memory. Majority of them could not explain the features of flash memory, which is used in many I/O and storage devices like USB, pen devices, and MP3 music player.

**SECTION “B” – SOFTWARE**

**Question No. 4**

**(a) Advantages and disadvantages of creating in-house customized software:**

In this part of question, the examinees were required to describe the advantages and disadvantages of creating in-house customized software with outsourced software. A very few of them could correctly answer the question. Majority of them had shallow knowledge of advantages and disadvantages of the two ways of acquisition of the software for the organization. The overall performance in this part therefore, remained below average. Customized software can be developed in-house or outsourced team, depending upon organization's need and financial position / status.

**(b) Characteristics of a good programming language:**

In this sub-part, examinees were asked to elucidate the characteristics of a good programming language. Majority of the examinees did not correctly answer the question. Instead of generalized concept, many examinees started describing features of a particular language, which were not asked for. The overall performance in this part of the question was remained very poor.

**(c) Syntax and logic errors in a computer program:**

This part of the question was aimed to test the knowledge of examinees about syntax and logic errors in a computer system. Majority of them was found confused and wrong concepts of syntax and logical errors was presented. Many of them tried to illustrate the two types of errors with quite inappropriate and incorrect examples. Syntax error occurs when the rules of a programming language are not followed, while logic error occurs when we make errors in planning the program logic.

**Question No. 5**

**(a) Source program and an object program:**

In this part of the question, the examinees were asked to differentiate between source program and object program. Very few examinees found to have the basic concept that a source program after compilation is called object program. The performance of majority of the examinees remained very poor. A source program written in symbolic or high level language and after compiled we get object program, which is loaded into computer. Some of them related object program with object concepts, which is used in object-oriented languages.

**(b) Compilers and interpreters:**

In this part of the question, the examinees were demanded to differentiate between the functions of compilers and interpreters. Besides, few correct and complete answers, many examinees could not appropriately differentiate between these two. The overall performance in this part remained below average. Compiler compiles whole program at a time, while interpreter translates line-by-line, which is slower than compiler.

**SECTION “C” – NETWORK & SECURITY**

**Question No. 6**

**(a) (i) Asynchronous and synchronous modes of data transmission:**

The majority did not correctly describe the asynchronous and synchronous modes of data transmission, which was the requirement of the question. Many of them were found confused and rather described the simplex, half duplex etc., as synchronous and asynchronous modes.

**(ii) Modulation and demodulation:**

Most of the examinees correctly defined modulation and demodulation. However, very few could describe three different forms of modulation correctly like amplitude, phase, pulse modulation etc. They had no concept of analogue / digital modulation types.

**(b) (i) Communication protocols:**

Besides, the basic concepts of communication protocol, most of the examinees did not properly describe the normal functions performed by these protocols that were asked in the question. Protocol is standard value / procedures which is used in communication like TCP/IP protocol.

**(ii) (a) Modem:**

A brief note on modem was concerned in this part. Majority of the examinees correctly defined function of modem.

**(b) Wireless networks:**

In this sub-part examinees were required to define the wireless networks. Most of the examinees explained the concept with quite shallow knowledge.

**(c) The OSI model:**

Description of the OSI model was the requirement in this sub-part of the question. Many of the examinees, despite of describing the basic function of OSI model, just wrote the seven layers provided by the model.

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**EXAMINERS' COMMENTS**  
**SUMMER (MAY) 2011 EXAMINATIONS**  
**FINANCIAL ACCOUNTING**  
**Stage – 3**

**Question No. 2**

**Joint venture:**

It was a very simple question and majority of the examinees demonstrated good performance in it. However, few examinees committed the following mistakes:

- The entries for debit were wrongly credited in the required accounts or vice versa.
- Joint bank account of Mr. 'A', 'B' and 'C' was settled in accordance with the ratio of investments rather than the balance amount in personal accounts of joint venture parties.
- The profit was not distributed among Mr. 'A', 'B' and 'C' in the ratio of their investments.
- The amount of goods taken out by Mr. 'A' was not adjusted in his final settlement.

**Question No. 3**

**Consignment:**

Majority of the examinees were able to solve it properly. However, mistakes committed by examinees were:

- The amount of unloading charges of Rs.2 was applied on full quantity of 1,000 litres instead of 900 litres which resulted in incorrect value of abnormal loss.
- The quantity of normal loss of 100 units was not deducted to calculate the abnormal loss amount.
- Value of closing stock of 125 litres was not correctly calculated using total value of consignment and good quantity of units received.
- Debit and credit entries were posted inversely.
- Profit and loss balancing figure could not be worked out due to wrong value of closing stock and abnormal loss.

**Question No. 4**

**Partnership:**

Another simple question and majority had demonstrated well in it. However, few mistakes were committed by examinees are as under:

- Share of profit of Farhad was required to be calculated on two basis (a salary of Rs.21,000 plus 1/10th of profit after charging interest on capital and salaries to all partners OR 1/6th of profit after charging interest on capital) entitling him the profit which was higher. But examinees failed to calculate mainly because of not deducting the salary of Farhad for calculation of 1/10 of the profit.
- The excess of Rs.880 was not charged to Zaman's share of profit resulted in wrong capital balances in the partners' account.

**Question No. 5****(a) Issuance of shares:**

Examinees did not show good performance in it, despite the fact it was very easy question. The mistakes committed by examinees are as under:

- Payment against furniture was made through shares. Examinees failed to credit the share capital on the basis of face value (i.e., Rs.10) and share premium being difference between market and face value.
- Issuance of debenture / bond was not recorded properly due to absence of the concept of loss on issuance of debenture / bond.

**(b) IAS-16:**

Examinees demonstrated lack of knowledge to the basic accounting terminologies specially used in IAS-16. For instance, they were even unable to write the correct definition of carrying amount i.e., it is the amount at which an asset is recognized after deducting any accumulated depreciation and accumulated impairment losses.

**Question No. 6****Preparation of financial statements:**

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

- Presentation of financial statement was against the format required by IAS-1.
- Examinees did not classify the expenses by function(s).
- Cost of goods sold was not calculated correctly which resulted in the wrong value of profit before tax, net profit and retained earnings.
- Interest on loan was calculated for whole year rather than one month, hence the figure of accrued expenses was derived incorrectly in financial statement.
- Administrative and selling expenses were wrongly calculated due to improper classification of financial statement items.
- Tax payable was not shown in balance sheet despite showing it in income statement.
- Dividend was neither calculated nor was shown in balance sheet.
- The amount of authorized capital was not disclosed in balance sheet.

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**EXAMINERS' COMMENTS**  
**SUMMER (MAY) 2011 EXAMINATIONS**  
**BUSINESS TAXATION**  
**Stage-3**

**Question No. 2**

**(a) Definitions under Income Tax Ordinance, 2001:**

This part required examinees to define (i) Business (ii) Charitable purpose and (iii) employment as per section 2 of the Income Tax Ordinance, 2001. It was a simple question and usually asked in the tax paper from the said section but as few students demonstrated a thorough understanding of the terms. In most of the cases, students explained these terms in general and according to their own understanding. Students must understand the fact that answers to such types of question must be precise and in accordance with the law.

**(b) (i) Employee share scheme:**

In this part, most of the students replied only that "company can issue shares to its employee" and have not covered the question completely. Under employee share scheme a company may issue shares in the company to an employee of the company or an employee of an associated company or the trustee of a trust and under the trust deed the trustee may transfer the shares to an employee of the company or an employee of an associated company.

**(ii) income from other sources:**

Students scored good marks in this part, which was relatively a simple question and required examinees to list down the incomes from other sources under section 39 of the Income Tax Ordinance, 2001.

**(c) Income from property:**

It was a simple question, which was answered by most of the students. In part (i), a practical question always give benefit to the examinee in terms of good marks but the performance in this question was not up to the satisfactory level which showed lack of practice and understanding of relevant topic. Majority of the students got confused with the treatment of security deposit and hence could not correctly compute the Income from property. Part (ii) required examinees to list down the conditions in respect of a person not liable to pay tax on income from property. This was a very simple and normal question and it was expected that average students will secure full marks but they replied incompletely. Most of the students explained only one condition that is income chargeable to tax under this head should not exceed Rs. 150,000. In addition to above mentioned condition, the other conditions such as person must be an individual or association of person and does not derive taxable income under any head were not listed down by the examinees in general.

**Question No. 3**

**(a) Definitions –Income Tax Rules, 2002:**

This was a simple question of definitions under the Income Tax Rules, 2002. Examinees were asked to define the terms (i) Entertainment and (ii) E-intermediary under the said rules. Most of the students were not very much aware about these terms as per the Income Tax Rules, 2002. Students need to develop their understanding of these terms in the context of law. Majority of the students explained the term e-intermediary on presumption basis such as transfer of data from one place to another place by technology while e-intermediary means a person registered as chartered accountant, cost and management accountant, legal practitioner, member of ACCA and income tax practitioner.

**(b) Books of Accounts, Documents and Records:**

Rule 30 of the Income Tax Rules, 2002 specifically states the books of accounts, documents and records of a taxpayer with business income up to Rs.200, 000. Examinees were required to list them down as per said rule but again in some cases the response was general and not specific to the said rule. Examinees listed down in general the cash book, bank reconciliation, profit and loss account, and balance sheet etc., instead of mentioning, for instance, serially numbered and dated cash memo, invoice/receipt for each transaction, daily record of receipts, sales, payments, purchases and expenses etc. Examinees are advised to study the prescribed rules of the Income Tax.

**(c) Prescribed qualifications for registration as an income tax practitioner and duration of registration of an income tax practitioner:**

It was a simple and repeatedly asked question in the tax papers but in some cases students failed to avail the marks scoring opportunity. It was quite strange that few students did not include ICMAP qualification for registration as an income tax practitioner showing that they do not know the benefit of this qualification. Examinees seemed confused in answering the part (ii) as well, requiring them to discuss the situations causing an end of duration of registration of income tax practitioner. In some cases the students mentioned the time period such as 5 years, 10 years etc. and some mentioned only one situation such as death of a practitioner. In addition to the death of the practitioner, there are situations such as the person surrenders the registration by notice in writing to the director regional tax office and the person's registration are terminated by the director general, regional tax office cause an end of duration of registration.

**Question No. 4**

**(a) Contents of Tax Invoice -Sales Tax Act, 1990:**

In this part examinees were asked to list down the contents of a tax invoice under the Sales Tax Act, 1990. Practically, it is one of the basic documents and the contents of which an accountant must know. Majority of the students attempted this question in the true context of the law and hence their response was up to the mark and specific. In some cases students could not provide the full details of the tax invoice, for instance they did not mention the name, address and registration number of the supplier, date of issue of the invoice etc. They should note that Sales Tax Laws carried a considerable weightage and in every tax paper one question is asked from the said laws. It is suggested to students to broaden their studies to other laws as well for scoring good marks.

**(b) Computation of sales tax liability /refund of the company:**

This was a marks scoring and straight forward question requiring the students to calculate the sales tax liability/refund of the company. Practical question always give benefit to the examinee in terms of marks in short time. The question was very normal but students did not consider the requirement and giving proper time to the question in order to develop the understanding. Most of the students applied formula for prorating the input tax (input tax allowed) while there was no need of it and due to this mistake they lost the marks. It is suggested that they should read the questions very carefully even when they feel that the question is easy to attempt.

**Question No. 5**

**Computation of Taxable Income & Tax liability of a Salaried Person:**

It is again a very simple and marks scoring question. Almost every student attempted this question. Despite the good performance in general, following are the some common mistakes identified apart from poor presentation:

- Exemption is allowed to medical allowance. (10% of MTS or BS is exempted).
- Donation to charitable institution under section 61 and donation under clause 61 of part 1 of 2<sup>nd</sup> schedule were misunderstood.

- Pension is exempt from inclusion of taxable income but it was included in the taxable income
- Erroneous computation of tax credit in respect of donation to charitable institution under section 61.
- Leave encashment was treated as exempt income.

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

**(a) Registration under section 13 of the Federal Excise Act, 2005:**

It is a straight question requiring examinees to mention those requiring registration under Federal Excise Act, 2005. Majority of the students failed to answer it correctly and answered that importers are required to be registered. The said section states as “any person engaged in the production or manufacture of goods or providing services liable to duty of excise under this Act shall, unless otherwise specified, be required to obtain registration in the prescribed manner regardless of his annual turnover or volume of sales of such goods or services.” It was evident that students in general ignored the thorough study of Federal Excise Act, 2005.

**(b) Default surcharge:**

This part related to the section 8 of the Federal Excise Act, 2005 and asked examinees as to what rate a default surcharge is payable. Many of the examinees attempted it well and scored full marks but in some cases it is noted that students mention 12% or 15% etc. whereas default surcharge is payable at the rate of KIBOR+3% of duty due. Majority of the students could not attempt the second part of the question regarding period of default and those who attempted, failed to answer in accordance with the relevant law hence their performance was dismal because they perhaps did not study the relevant section of the Federal Excise Act, 2005.

**(c) Goods Dutiable and Goods on which duties shall be repaid as drawback under the Customs Act, 1969**

Part (i) asked examinees to list down the goods dutiable under section 18 of the said Act. In most cases answers were not complete and in accordance with the law. Many of the students answered only as “goods imported into Pakistan” or list down the goods such as machinery, cars etc., which was not required as per said section. Similarly, in part (ii) the examinees’ responses were generalized and few could answer in the true context of the law. It is noticed that students in general do not focus the study of Customs Act, 1969.

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**EXAMINERS' COMMENTS**  
**SUMMER (MAY) 2011 EXAMINATIONS**  
**COST AND MANAGEMENT ACCOUNTING-PERFORMANCE APPRAISAL**  
**Stage – 3**

**Question No. 2**

**Activity Based Costing (ABC):**

- Some examinees wrongly applied production overhead percentage to selling and administrative overheads.
- The examinees calculated overhead cost for processing orders and supporting customers on 80 units basis instead of 4 orders and one customer respectively.
- The examinees calculated customer margin for one cabinet basis instead of 80 cabinets. Some examinees misunderstood the word customer margin and calculated contribution margin avoiding the inclusion of overhead cost.

**Question No. 3**

**Process costing:**

- Equivalent production units for opening and closing work-in-process and abnormal loss were not correctly calculated due to ignoring stage of completion.
- Correct segregation of spoiled units (10,000) between normal and abnormal loss was not made and all spoiled units of 10,000 were valued at Rs.1.50 each while it was the sales price of spoiled units. The abnormal lost units should be valued at equivalent cost per unit as to material and conversion and be shown in the process account.
- Process account was wrong mainly due to incorrect valuation of normal/ abnormal loss and closing work-in-process.

**Question No. 4**

**(a) Criticisms on standard costing:**

Instead of stating general criticism on standard costing, the examinees explained what is standard costing and narrated its advantages instead of disadvantages.

**(b) Standard Costing:**

- Instead of taking standard variable overhead of Rs.180,000 (Rs. 30 x 6,000 hours) the examinees took actual variable overhead cost of Rs.204,750 for calculating missing figure of actual hours. So actual hours were wrong and similarly the labour rate per hour was wrongly calculated.
- Price variance was wrong due to taking direct material purchased instead of actual quantity consumed.
- Purchase price instead of standard price resulted into wrong calculation of material usage variance.
- Standard hours of 6,000 were taken instead of actual hours with the result that labour rate variance was wrong.
- Labour efficiency variance was wrong due to not taking actual hours of 6,500 resulting nil variance of labour efficiency.

### Question No. 5

#### Variable production cost budget:

- The examinees valued raw material at the purchase rate of Rs. 90 during the month of April and May and failed to calculate the material consumption considering the rate of opening inventory @ Rs. 86.40 per kg during these months.
- The per unit rate of Rs.130 was consolidated rate both for labour and overhead but the examinees applied the rate twice i.e., on direct labour and variable overhead.

### Question No. 6

#### Rate of return on capital employed (ROCE):

- Requirement of this question was to calculate the ROCE for each division and total for the company. Few examinees ignored to calculate the overall rate of the company, and some did not calculate the ROCE of division "A" due to its net loss.
- Rate of return on capital employed had not been shown in percentage (%).
- Divisional capital employed were wrongly divided by net operating income/ (loss) for calculation of rate of return on capital employed instead of dividing net income/ (loss) by capital employed.

#### Re-construction of profit statement:

- Re-construction of profit-statement was prepared after discontinuation of Division "A".
- Common fixed cost was shown in divisional results as mentioned in the question instead of showing it in overall result of the company.
- Activities after discontinuation of Division "A" was wrongly ignored in the reconstructed profit statement.
- Common fixed cost was incorrectly shown before contribution margin.

#### Impact of discontinuation of Division "A":

- Concept of "contribution margin lost" after discontinuation has been ignored.
- Impact of discontinuation was shown without working and presentable format.
- Fixed avoidable cost was not properly reflected in overall result of the company.
- Overall profitability of the company was wrongly identified as increased instead of decrease.

**EXAMINERS' COMMENTS**  
**SUMMER (MAY) 2011 EXAMINATIONS**  
**PRESENTATION & COMMUNICATION SKILLS**  
**Stage – 3**

**Question No. 2**

**(a) Eight steps in communication:**

This part of the question required examinees a brief introduction of business communication and eight steps of communication process. Majority of examinees failed to write the required eight steps. They either simply defined only business communication and failed to write the eight steps (channel) of communication, left the question incomplete or described the steps planning of effective communication. Some of them mistook it for the communication principles known as 7Cs.

**(b) Credibility and key components which inculcate credibility for effective managers:**

The examinees were required to define the word 'credibility' and important characteristics of an effective manager. Hardly any candidate could define credibility correctly. They also failed to give aspects and main characteristics of an effective manager. Credibility stands for the known ability to get results.

**(c) Business letter:**

A business letter was required to be written as a reminder for payment of loan to a party, which stopped payment after three instalments. The examinees were advised not to use threatening words, contrary to the advice, the examinees generally used threatening sentences to the borrower for serious consequences. Some ignored the format of business letter. Some letters also contained the grammatical mistakes.

**Question No. 3**

**(a) Importance of recognizing cultural variations and categories of cultural differences:**

The examinees were asked to explain the importance of recognizing cultural variations and briefly explain eight categories of cultural differences in the context of organizational communication. Hardly any examinee could exhibit the correct understanding of the cultural variations. They could not explain the required eight categories of cultural differences in the context of organizational communication. Peoples' cultural background influence the way they prioritise what is important to them in life. We encode our message using the assumptions of our culture while the audience (receiver) decodes the message according to the assumptions of their culture. Understanding of cultural variations, therefore, is important while directing a communication by encoder to the decoder.

**(b) Feasibility report:**

The examinees were asked to prepare a feasibility report regarding installation of a power generator, to enhance the production, in view of frequent power failure in the recent past in city. Majority did it satisfactorily in proper format. But some of them ignored the proper format with lot of grammatical mistakes. Overall answers to this part of the question were generally correct but written in pedestrian style.

**Question No. 4**

**(a) Importance of ethics in business communication and various aspects of unethical communication:**

Importance of ethics in business communication was required to be discussed along with evil consequences of unethical communication. The examinees' discussions about the importance of ethical communication were not expressed clearly. Perhaps, this was the most misunderstood question. Hardly any could answer this question correctly. Ethical communication includes relevant information, which is true in all respects, and is not deceptive in any way. As against this, unethical communication may include falsehood information, which is untrue and misleading. Accordingly, unethical communication is reflected in actions like plagiarism, selective misquoting, misrepresenting numbers, distorting visuals etc. These aspects were missing in the answers.

**(b) Sales letter:**

The examinees were asked to write a solicited sales letter to the perspective customers inviting them to a summer tour to the northern areas of Pakistan at concessional rates, as a general manager of Pakistan Tourism Development Corporation. The answers were generally correct though the style of writing was superficial.

**Question No. 5**

**(a) Effective process of conducting business research and primary and secondary research:**

In this part of the question, examinees were first asked to produce effective process of conducting business research and then to define primary and secondary research along with their usage. For research to be effective, the researcher must have a solid plan, locate the data, process them, apply the findings, manage the information efficiently etc. The examinees did not seem to have enough knowledge on these aspects. Similarly, primary and secondary research were not correctly identified and explained.

**(b) Report:**

As an advisor to the Vice Chancellor of a renowned university for preparation of a report, to be submitted before the board of the university regarding low number of new comers to the university. The major contents of the report were • admission schedule during the year • location of university • fee structure as compared with others • education standards • higher education commission rating • extra curricular activities • infrastructure facilities • faculty members • job placement of students etc. The report was written satisfactorily by most of the examinees.

**Question No. 6**

**(a) Phases for making team effective and productive:**

In this part of the question, examinees were required to clarify five phases for making a team effective and productive. They were expected to identify and explain the phases like orientation, conflict (establishing the roles), brainstorming (discussing pros and cons and settle on a single solution to the problem), emergence and reinforcement (making arrangements for implementation) etc., for making a team effective. These aspects were not identified by them.

**(b) Circular letter:**

In this sub-part, examinees were required to draft a circular letter, drawing attention of all office workers in different sections, towards work environment and seek their suggestions to help enhance productivity and achieve management targets. The circular letter was also not written correctly. Some of them ignored the format of writing circular.

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**EXAMINERS' COMMENTS  
SUMMER (MAY) 2011 EXAMINATIONS**

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

**Question No. 2**

**Consolidated Statement of Comprehensive Income:**

In this question the examinees were required to prepare *consolidated statement of comprehensive income* for the year ended December 31, 2010. Overall performance of the candidates was satisfactory. Following common mistakes were observed:

- A few candidates did not calculate the correct amounts of un-sold inventory and unrealized profit thereon hence could not arrive at the correct amounts of *cost of sales* (Rs.52,500) and *non-controlling interest* (Rs.1,625).
- Majority of the candidates did not differentiate between the pre and post-acquisition profits of the subsidiary hence could not calculate the amount of *consolidated retained earnings* (Rs.123,125) correctly.
- While preparing the workings to support their answer, the candidates were lacking clarity of presentation.

**Question No. 3**

**Statement of Cash Flows:**

This question required the candidates to prepare *statement of cash flows* using indirect method as per the requirements of IAS-7. Overall performance of the candidates was satisfactory. However, following shortcomings were observed:

- While calculating *cash flows from operating activities*, the examinees were required to make adjustments to the *net profit before taxation* amount. A few candidates failed to calculate the correct amounts of *depreciation for the year*, *loss on sale of securities* and *loss on sale of equipment*, apparently, due to lack of clear concept of accounting treatment for disposal of assets and sale of investment.
- A few examinees did not make adjustment to the *profit before taxation* amount for the financial charges paid during the year.
- Many examinees did not classify interest and dividend paid in the *operating* and *financing activities* respectively.
- Some of the candidates could not calculate the amount of tax paid (Rs.21 million) during the year and cash outflow of (Rs.180 million) against purchase of equipments correctly
- A good number of the candidates did not prepare working notes to show calculation of cash flows, and eventually lost marks.

**Question No. 4**

**(a) (i) Financial Ratios:**

This sub-part of the question asked the candidates to (i) calculate such financial ratios as Accounts Receivable Collection Period, Dividend Yield, Gearing Ratio and Interest Cover. Overall performance of the examinees was very poor . Following shortcomings were noted:

- A good number of the examinees did not either apply the correct formulae or could not write the answer correctly. For instance, the answer to the *interest cover* was 7.0 times, they wrongly wrote it as 7.0%.
- While calculating the *accounts receivable collection period*, some resorted to calculate the *receivable turnover ratio* only and did not calculate the number of days (i.e., 36.4 days or 36 days).
- Majority of the candidates could not calculate the *gearing ratio* correctly. Mostly, they did not use the correct formula i.e., the ratio of the interest bearing debts and the aggregate of interest bearing debts and

shareholders' equity.

**(ii) Common Size Analysis (Vertical Analysis):**

In this sub-part of the question, the examinees were required to prepare the *common size analysis* for the *income statement*. A good number of the candidates attempted this question correctly. Nevertheless, there were a few candidates who seemed to have no knowledge of the *common size analysis*; they only resorted to calculate *gross profit* and *net profit ratios to sales*.

**(b) Investment Accounting (Valuation Methods):**

This part of the question consists of different scenarios of investment transactions and examinees were required to classify the transactions in terms of *consolidation*, *equity* or *fair value methods of valuation* for each scenario. Majority of the candidates attempted this question correctly. However some students answered incorrectly, particularly for the transactions (ii) and (v), which required *consolidation* and *equity methods of valuation*, respectively.

**Question No. 5**

**(a) Taxation (IAS-12):**

In this part of the question the examinees were required to define (i) Current Tax (ii) Deferred Tax Liabilities (iii) Deferred Tax Assets as per IAS-12. A good number of the candidates attempted this question but a few were able to define the *deferred tax liabilities* and *deferred tax assets* completely as per the relevant IAS. Especially the candidates appeared to have no clear concept of *current tax*.

**(b) Accounting for Leases:**

In this part, examinees were asked to (i) calculate *minimum lease payments* (ii) prepare relevant journal entries in the books of the lessee (iii) prepare extract of *statement of comprehensive income (SCI)* and *statement of financial position (SFP)* and (iv) prepare journal entries in the books of the lessor. Following mistakes were witnessed:

- Majority of the examinees could not calculate the correct amount of *minimum lease payments* (Rs.80,000 x 5 = Rs.400,000). Some candidates answered with Rs.313,100 which is the present value of *minimum lease payments*.
- Some students recorded the *leased asset* and *liability against leased assets* as Rs.320,000 while the IAS-17 requires to record the *leased asset* at amounts equal to the *fair value* of the asset or, if lower, the present value of the *minimum lease payments* (in this case Rs.313,100).
- Some did not mention the *financial charges* in the SCI at all.
- While preparing extract of the SFP, a good number of the students could not mention the *liability against leased assets* correctly separating it into non-current and current liabilities.
- They appeared to be lacking in understanding the accounting treatment for leases in the books of the lessor as regards to recording the *leased assets* and recognition of the financial income and adjustment of lease receivable account on receipt of lease installment.

**Question No. 6**

**(a) Construction Contract:**

The examinees were required to calculate (i) the percentage of completion and (ii) the revenue and gross profit to be recognized. Majority of the examinees had attempted this question very well. However, a few candidates did not have clear concept of revenue and gross profit for the period; they mentioned the cumulative revenue and gross profit in year 2012 (Rs.630m and Rs.105m) and in year 2013 (Rs.900m and Rs.150m). Some candidates did not prepare sufficient workings to support their answer which resulted in losing marks.

**(b) Accounting for Available for Sale Investments:**

This part of the question required the candidates to prepare necessary journal entries in the books of the investor to record the transactions related to investment in ordinary shares of different companies classified as *available-for-sale* investments. A good number of the candidates attempted this question but majority of them could not make correct journal entries. Following shortcomings were found:

- Some candidates even could not calculate the total amount of various investments (Rs.1,250,000) correctly at the beginning.
- Dividend income from Kings Ltd. (Rs.16,000) was credited to investment account instead of dividend income account.
- Majority of the examinees could not calculate the unrealized gain or loss on fair value adjustment of shares portfolio based on the market price as of June 30, 2010 (i.e., Rs.59,000).

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**EXAMINERS' COMMENTS  
SUMMER (MAY) 2011 EXAMINATIONS**

**INTEGRATED MANAGEMENT  
Stage – 4**

**SECTION "A"**

**Question No. 2**

**(a) Three modes or approaches of making strategies and the role of CEO in strategic management process:**

Description of three modes or approaches of making strategies and the role of CEO in strategic management process was asked in this sub-part. The concept of strategic management was not applied to the real-world examples and scenarios. Instead of writing about modes or approaches they wrote whole strategic management process. Hence, they showed below average performance in this part. Three modes of strategy making are entrepreneurial mode, adaptive mode, and planning mode. CEO is the person most responsible for strategic management. Many attempts at strategic management have failed because a CEO professed commitment but never personally involved.

**(b) Defensive strategies and circumstances under which each is likely to occur:**

In this sub-part of the question examinees were required to discuss various defensive strategies, including circumstances under which each is likely to occur. Their answers showed sensibility on the topic and the overall performance was satisfactory. Defensive strategies, sometimes referred to as retrenchment strategies, are used when a company wants or needs to reduce its operation. Most often, defensive strategies are used to reserve a negative trend or to overcome a crisis or problem. Defensive strategies include turnaround, divestiture, liquidation, filing for bankruptcy, and becoming a captive.

**(c) Involvement of lower-level management in objective formation process and actions a manager can take to implement power effectively:**

This question was based on involvement of lower-level management in objective formation process and to discuss four possible actions a manager can take to implement power effectively. They also performed average in this part. Ultimately all decisions made by strategic managers must be interpreted and implemented by individuals throughout the organization. If this process is to be successful, the different individuals must not only understand the decisions but also accept them.

**Question No. 3**

**(a) Strategic management evolutionary process:**

Examinees were asked about strategic management evolutionary process in this part of question. The application of various strategy concepts was totally missing. The researchers segmented the evolutionary process into four sequential phases. Phase 1 – financial-based planning, Phase 2 – forecast-based planning, Phase 3 – externally oriented planning, and Phase 4 – strategic management.

**(b) Sectors of an organization's environment:**

Four sectors of an organization's environment were not endorsed by the factors that influences these sectors, for instance, the e-commerce, e-business etc., by the majority. Every organization is subject to general trends which are felt in many industries and that are not usually amenable by a single organization. These trends or sectors can be classified as technological, economic, social and political.

**SECTION "B"**

**Question No. 4**

**(a) Project plan execution and its inputs and outputs:**

In this part of the question, examinees were required to first explain project plan execution and then to describe inputs to it and outputs from it. This was the worst attempted question by most of them. Concepts of majority of them were not clear on the given topic. Project plan execution is the primary process for carrying out the project plan – the vast majority of the project's budget will be expended in performing this process where the project manager and the project management team must coordinate and direct the various technical and organizational interfaces that exist in the project.

**(b) Difference between project phases and project life cycle (PLC):**

In this sub-part, the examinees were asked to differentiate between project phases and project life cycle (PLC). Performance of majority of examinees remained poor. Because projects are unique undertakings, they involve a degree of uncertainty. Organizations performing projects will usually divide each project into several project phases to provide better management control and appropriate links to the ongoing operations of the performing organizations. Collectively, the project phases are known as the project life cycle. The project life cycle serves to define the beginning and the end of a project. The phase sequence defined by most project life cycles generally involves some form of technology transfer or hand-off such as requirements to design, construction to operations, or design to manufacturing.

**Question No. 5**

**(a) Processes involved in project time management:**

Processes involved in project time management were not satisfactorily elaborated by majority of the examinees. The answers provided by them were not related to the question asked. Ambiguity of the concept and knowledge was shown in their answers. In general, they failed to give the required answer. Project time management includes the processes required to ensure timely completion of the project. Major processes involved in project time management are activity definition, activity sequencing, activity duration estimating, schedule development, and schedule control.

**(b) Team development and tools and techniques for team development:**

Examinees were supposed to answer the team development and tools and techniques for team development in this sub-part of the question. Average performance was noticed in this part of the question. Team development includes both enhancing the ability of stakeholders to contribute as individual as well as enhancing the ability of the team to function as a team. Tools and techniques for team development are team-building activities, general management skills, reward and recognition system, collocation, and training.

**SECTION "C"**

**Question No. 6**

**(a) Critical management skills:**

Critical management skills like technical, interpersonal, conceptual, and diagnostic skills were asked in this sub-part of the question. Application of these skills was missing in majority cases.

**(b) Politics and the political behaviour in organizations:**

In this part of the question, politics and the political behaviour in organizations were required to be answered by the examinees. The question was adequately answered by majority of them. Organizational politics are activities people perform to acquire, enhance, and use power and other resources to obtain their preferred outcomes in a situation where there is uncertainty or disagreement. Thus, political behaviour is the general means by which people attempt to obtain and use power.

**Question No. 7**

**Power, its relationship to authority and influence and its types:**

Here examinees were examined in the area of power, its relationship to authority and influence and its types. Most of them answered this question in their own words rather than giving the concept. The difference of power and authority was either not understood properly or not communicated properly. Authority and influence are also closely related to the concept of power. Power is one of the most significant forces that can exist in organizations. Moreover, it can be an extremely important ingredient in organizational success – or organizational failure. Power is undoubtedly a pervasive part of organizational life. It affects decisions ranging from the choice of strategies to the colour of the new office carpeting. It makes or breaks careers. And it enhances or limits organizational effectiveness. French and Raven identified five general bases of power in organizational settings: legitimate, reward, coercive, expert, and referent power(s).

**EXAMINERS' COMMENTS**  
**SUMMER (MAY) 2011 EXAMINATIONS**  
**CORPORATE LAWS & SECRETARIAL PRACTICES**

**Stage – 4**

**Question No. 2**

**(a) Definitions:**

The examinees were required to define the following terms under section 2 of the Companies Ordinance, 1984 (i) Private Company and (ii) Document. Most of the examinees correctly defined the term private company. However, some of them could not give complete answer. So far as the term “document” is concerned only a few examinees could define the term as per law. Following shortcomings were noticed:

- Some examinees mentioned one or two condition(s) in respect of private company, that is, private company limits the number of its members to fifty or restricts the right to transfer its shares. Hence they could not score full marks in a relatively easy definition.
- As regards sub-part (ii), majority of the students failed to define the term “Document” as specified in the ordinance. Examinees referred the books of accounts, profit and loss account written evidence, bill etc., instead of summons, notice, requisition, other legal process, voucher and register as mentioned in the Ordinance.

**(b) Contents of a memorandum of a company:**

Examinees were asked to list down the contents of a memorandum of a company limited by shares under section 16 of the Companies Ordinance, 1984. Majority correctly listed the contents of the memorandum. However, some of the students failed to specify the details of contents of the memorandum, for example, students could not elaborate the name clause as specified under said section as the name of the company with the word “limited” as the last word of the name in case of a public limited company and the parenthesis “(Private) Limited” as the last words of the name in the case of a private limited company.

**(c) Liability of the members carrying on business of a company with less than the legal minimum members:**

Section 47 of the Companies Ordinance, 1984 deals with the liability of the members carrying on business of a company with less than the legal minimum members. Majority of the students misunderstood this question and answered incorrectly or in general terms. Following shortcomings witnessed:

- Some of them mentioned the number of minimum members for private and public company which was not required.
- Some examinees answered as “members are severally and jointly liable for all the damages”. Whereas the answer as per said section is “they shall be severally liable for the payment of the whole debts of the company contracted during that time and may be sued therefore without joinder in the suit of any other member.”

**(d) Circumstances in which proceedings of a general meeting declared invalid:**

In this sub-part, examinees were asked to state the circumstances in which proceedings of a general meeting may be declared invalid under section 160A of the Companies Ordinance, 1984. All the students attempted the question but only few could be able to properly and correctly state the circumstances in which the proceedings of the general meeting may be declared invalid under the said section. Their responses were not as per said section and, for example, they answered as under:

- Quorum is not present;
- If any person who held more than( 20% or 15% or 12.5%) shares filed any petition in the court against the outcome of meeting etc.

### Question No. 3

**(a) Grounds on which a director shall cease to hold office:**

This sub-part related to section 188 of the Companies Ordinance, 1984. Majority of the examinees attempted the question but a few were able to correctly state the grounds on which a director shall cease to hold an office. Most of the students mentioned the conditions of section 187 (a-h) due to which they could not gain full marks. In addition to the conditions as outlined in section 187, there are other conditions such as if a director absents himself from three consecutive meetings of the directors or from all the meetings of the directors for a continuous period of three months, whichever is the longer, without leave or absence from the directors were not answered by most of the examinees.

**(b) Term of office of director:**

Section 180 of the Companies Ordinance, 1984 specify the term of director, which majority of the students correctly mentioned. In few cases, examinees could not answer it correctly and related it to the term of first director.

**(c) Time period within which a company is required to file with a registrar a list of persons who have consented to act as directors:**

Section 184 specify that within fourteen days from the date of appointment or nomination a company is required to file with a registrar a list of persons who have consented to act as directors. The performance of the examinees in this sub-part was not up to the mark and answered it as 7 days, 21 days etc.

### Question No. 4

**(a) Mortgages or Charges required to be registered:**

As per section 121 of the Companies Ordinance, 1984 examinees were required to list down the mortgages or charges required to be registered. It was a very simple question and the overall performance of the students on this part was up to the mark, but some students tried to attempt this question from accounting point of view instead of said section.

**(b) Restriction on commencement of business:**

This sub-part asked examinees to state the restrictions under section 146 of the Companies Ordinance, 1984. Many examinees could not understand the basic concept of this section, which showed that they were confused and could not follow the gist of the question. Majority for instance could not mention the restriction such as no money is or may become liable to be repaid to applicants for any shares or debentures which have been offered for public subscription by reason of any failure to apply for or to obtain permission for the shares or debentures to be dealt in on any stock exchange etc.

**(c) Statutory meeting of the meeting and statutory report:**

This was a very simple question asking examinees to state when the statutory meeting of the company is held and when the statutory report is forwarded to every member. Most of the examinees correctly answered the question and got full marks. However, some examinees were not able to give correct responses. For example, they answered sub-part (ii) as statutory report is to be forwarded within 15 days or 30 days or 7 days etc. instead of at least 21 days before the date on which the meeting is held.

### Question No. 5

**(a) Promoter or Sponsor:**

It was a simple definition under Non-Banking Finance Companies (Establishment & Regulation) Rules, 2003. Majority responses were general and as per their own understanding about the promoter or sponsor. Some responses of students were as promoter are company or individual or AOP or Modaraba Company etc., rather than discussing a person who has made an application to commission to form an NBFC under Rule 4 and has contributed initial capital in the proposed company or a person who replaces him.

**(b) Investment Finance Services:**

This sub-part of the question was also taken from NBFC (Establishment & Regulation) Rules, 2003). Again, it was a very simple question but the responses of the examinees were not encouraging, which showed that examinees by and large did not pay attention to this important part of the syllabus. Majority responses were general and not up to the mark. Their responses, for example, contained investment finance services including providing loan, advances, deposits to other companies etc. Whereas, under the said rules it includes money market activities, capital market activities, project finance activities, corporate finance services and general services as (specified by the Commission by notification in the official gazette).

**(c) Permission to form a NBFC:**

In this sub-part examinees were asked to specify the period of validity of permission granted to form a Non-Banking Finance Company and period of extension in this respect. Reasonably better performance was witnessed in this sub-part. Despite the question was simple and clear, even then some students made mistakes in specifying the period such as one year instead of 6 months for the validity of permission and its extension up to maximum period of 3 months as per the law.

**(d) Financial or Chief Officer of an NBFC:**

Majority performed well in this sub-part of the question. Examinees were clear in respect of the qualification of the Financial/chief officer but they could not specify the wordings under the said rule as “having three years experience”.

**Question No. 6**

**(a) Broker, Underwriter, Stock Exchange:**

Examinees in general correctly defined these terms and scored good marks. But in some cases, examinees' responses were general and as per their own understanding about these terms. Examinees are advised to answer such type of questions specifically as per the law only for better scoring in this paper.

**(b) Registration:**

In this sub-part examinees were asked to specify the criteria in respect of granting a certificate of registration to the Exchange under section 5 of the Securities and Exchange Ordinance, 1969. Overall performance of the students was average in this question. Examinees could not provide the complete answer as per said section and hence lost the opportunity of scoring full marks in a very simple question. Some examinees even stated unnecessary details such as it is for economic benefit for the economy of country. Whereas, as per said section “The (commission), if it is satisfied, after such inquiry and after obtaining such further information as it may consider necessary (i) that the Exchange is eligible for registration and (ii) that it would be in the interest of the trade and also in the public interest to register the Exchange, may grant a certificate of registration to the Exchange.”

**Question No. 7**

**(a) Qualification and disqualification of auditors:**

In this sub-part examinees were asked to state who cannot be auditors under section 254 of the Companies Ordinance, 1984. On average, the examinees seemed to be conceptually clear as to the appointment of the auditor. However in some cases, examinees mixed this part with Q.3 (a) and have written conditions of section 187(a-h).

**(b) Advertisement for the placement of Quarterly Accounts:**

This part tested the skills of the examinees with respect to drafting of an advertisement in the newspaper for the placement of quarterly accounts. Majority attempted the question well but they did not seem to possess the requisite knowledge of English grammar and language which is very important and necessary for company secretary. Practically few had the idea what they were writing about. Drafting skills is the main hurdle.

**(c) Notice of extra ordinary general meeting:**

In this part, the task was drafting of a notice of extra ordinary general meeting of the company. Examinees responses were not upto the mark as none of them had proper command over drafting formal correspondence. Some of the examinees failed to provide the headings of the notice and even missed to mention day, date, time and place of the meeting.

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**EXAMINERS' COMMENTS**  
**SUMMER (MAY) 2011 EXAMINATIONS**  
**FINANCIAL REPORTING**  
**Stage – 5**

**Question No. 2**

**Consolidated Statement of Cash Flows:**

In this question, the candidates were required to prepare *consolidated statement of cash flows* using indirect method as per requirements of IAS-7 (Statement of Cash Flows). Overall performance of the candidates was satisfactory. However, following common mistakes were noted:

- Some candidates made adjustment of the gain on *available for sale financial assets* (Rs.2 million) to the *profit before taxation* amount, which was not required.
- A few examinees could not calculate the correct amount of income tax paid during the period (Rs.3.4 million) by ignoring income tax expense for the current year.
- A good number of the examinees could not calculate the correct cash outflow for purchase of *property, plant and equipments* (Rs.9.2 million) since they failed to take into account the current depreciation. Some candidates did not calculate correct cash inflow against proceeds from sale of *property, plant and equipments* (Rs.4.05 million), which could be obtained by adding written down value of and the gain on the sold property.
- Majority could not calculate the cash paid for the purchase of intangible assets by ignoring the amount of amortization for the period.
- Majority could not calculate the cash inflow against dividend received from associate (Rs. 0.6 million) while calculating the *cash flows from investing activities*, which was achievable by aggregating the opening balance of investment in associate and share of profit from associate and then subtracting the closing balance of investment in associate from the resultant total.
- While calculating *cash flows from financing activities*, the majority failed to calculate the correct amount of dividends paid to non-controlling interest (Rs.1.1 million) and dividend paid by the parent company to its own shareholders (Rs.6 million).

**Question No. 3**

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

In this part of the question, the examinees were required to prepare *consolidated statement of financial position* (CSFP) after the entire share-holding in the subsidiary was sold. A good number of the examinees attempted this question but a few could answer correctly. Following common mistakes were observed:

- Examinees wrongly included the non-current assets of the subsidiary in the CSFP. Some other included the current assets of the subsidiary in the CSFP instead of the sale proceeds of the subsidiary.
- A fair number of the candidates could not calculate the correct amount of the retained earnings by ignoring the profit on disposal.
- A few candidates could not calculate the correct amount of gain on sale of subsidiary company i.e., Rs.400 million (Rs.750 million – Rs350 million).

**(b) Sale and Leaseback Transactions:**

This part of the question pertained to sale and leaseback of non-current assets under (i) Operating Lease and (ii) Finance Lease. The candidates were required to state as to how the above transactions would be dealt with and reported as per IAS-17 in the books of the seller/lessee. A good number of the examinees attempted the question but a few of them could answer satisfactorily. Following observations were observed:

**(i) Sale and Operating Leaseback:**

- A good number of the candidates did not have clear concept of the seller in the context of a *sale and lease back transaction*. They treated the seller as lessor and stated the accounting treatment required by the lessor as well, although the seller and lessee were the same person.
- Some examinees, instead of giving their comments on the transactions, passed journal entries of the transactions, which were not required.
- The candidates did not have clear concept of *operating lease*. Some even recognized the *assets under finance leased account* in the books of the lessee and recorded the lease rental payments in *liability against leased assets account* instead of charging the same to *profit or loss account*.
- Majority was unable to state the correct accounting treatment that difference between the fair value and carrying value (Rs.6 million) would be recognized immediately and the difference between the sale price and the fair value (Rs.9 million) of the asset will be deferred and amortized over the lease period.

**(ii) Sale and Finance Leaseback:**

- A good number of the candidates explained satisfactorily the recording of assets at fair value of (Rs.11 million), creation of liability against leased assets, depreciation of asset and bifurcation of lease installment into principal amount and financial charges.
- Majority could not state correctly that the gain being the difference between the fair value and the carrying value of the asset (Rs.5 million) would be deferred and amortized over lease period.

**(c) Long Term Loans:**

This part of the question required the examinees to calculate (i) the amount of liability to be mentioned in the *statement of financial position* at the time of issue of the loan note (ii) the amounts of finance costs to be charged to *income statement* for the years ended December 31, 2011 to 2013 and (iii) the amounts of financial liability to be shown in the *statement of financial position* as at December 31, 2011 to 2013. Overall performance of the candidates was unsatisfactory. Following common mistakes were noted:

- Majority of the candidates could not calculate the correct amount of liability of loan notes (Rs.0.75 million) at the date of issue, which could be arrived at by deducting the amounts of discount and issue costs from the nominal value of the loan note.
- Finance cost was to be calculated by applying effective rate of interest of 16.16% on net proceeds of the loan note. Instead, the majority calculated the same on the face value of the loan note (Rs.1 million). Some of them even calculated the finance cost by wrongly applying the interest rate of 5%. Consequently examinees could not calculate the correct amounts of *financial liability* to be shown in the *statement of financial position*.

#### Question No. 4

##### (a) Employees Benefit Plan:

This part of the question required the candidates to (i) determine the actuarial gains or losses for the period, (ii) calculate the amounts of liability to be shown in the *statement of financial position* as at December 31, 2010 and 2011 and (iii) calculate the amounts of expenses to be charged to the *income statement* for the years ended December 31, 2010 and 2011. Majority attempted this question. Overall performance was satisfactory. In spite of this, following shortcomings were observed:

- Some candidates could not calculate the actuarial gain / loss on obligation and plan assets correctly. The candidates seemed to be confused with the treatment of actuarial gain and loss in the obligation account (a liability account) and plan assets account (an asset account) e.g., the gain is to be credited to *profit or loss account* and corresponding debit to be given to the obligation account (to decrease) and the plan asset account (to increase) but the candidates either increased or decreased both the accounts with the amount of the gain.
- Likewise, some examinees could not calculate the amount of liability to be recognized in the *statement of financial position* as of December 31 2010 (Rs.125,000) and as of December 31, 2011 (Rs.65,000) correctly, which was achievable by taking the difference of the closing balances of fair value of plan assets and present value of obligation for the respective years.
- Majority of the candidates could not calculate the correct amounts of expenses to be charged to *profit or loss account* mainly due to wrong calculation of actuarial gain / loss of the obligation and the plan assets.

##### (b) Taxation:

In this part, examinees were given income tax related data and were required to prepare extracts from (i) Income Statement and (ii) Statement of Financial Position incorporating therein tax expense for the year, deferred tax liability and tax payable. A good number of candidates attempted this part of the question but a few could answer correctly. Following common mistakes were committed by the examinees:

- While preparing the extract from *income statement*, majority of the examinees did not correctly calculate the tax expense of Rs.31 million (an aggregate of current income tax, under-provision in previous year and current deferred tax expense i.e.,  $18+6+7$ ) to be charged to *profit or loss account*.
- Like wise the candidates could not prepare the extract from *statement of financial position* correctly. Most of the candidates could not correctly calculate the deferred tax liability by combining the deferred tax liability brought forward and increase in the deferred tax liability in the current year i.e., Rs.28 million ( $21+7$ ).
- Majority of the examinees could not calculate the correct amount of profit after tax due to mistake made in deferred tax calculation.

#### CASE STUDY

In this case study, examinees were given comparative financial statements for two years of a company. This company is facing a problem that in the year 2010, its sales have increased more than the industry's average but its net profit is less than the last year's. The director suggested that "we should reduce our cost by process automation, rather than increasing the prices and competitive advantage using cost leadership strategy. This will increase our fixed cost but variable cost will reduce and economic variable will not affect directly".

Examinees were required to (a) analyze the performance of the company and suggest the areas of improvement and (b) comment on the director's suggestions. A good number of the examinees understood the contents of the project/case study properly and carried out the company's performance analysis accordingly. Overall performance of the examinees was satisfactory. Following observations were made:

- A few examinees presented the report in a professional way. They included some necessary parts of the report such as *title page, table of contents, introduction, executive summary, evaluation of the problem, conclusion and recommendations*.
- Majority of the candidates had prepared either vertical or horizontal analysis or both of the financial statements to support their views / suggestions. They calculated the relevant ratios i.e., profitability, liquidity, activity, gearing and investors' ratios as well but a few were able to interpret these analyses and ratios correctly.
- A good number of the examinees could not calculate the gearing ratios correctly.
- Only a few examinees used the bar charts, pie charts, trend charts and other visual aids to make their reports more meaningful.
- They should have observed and commented on the increasing financial cost in context with the decreasing debt / equity ratio and decreasing profit before and after taxes. A few examinees prepared the report accordingly.

A fair number of the examinees' performance was not up to the mark while commenting on the director's suggestions. Following was witnessed:

- A good number of the candidates had recommended for the automation of the processes without evaluating suggestions from other departments. The candidates were expected to briefly mention the suggestions / proposals received from Finance, Marketing and Production department for improvement of the performance of the company; evaluate each suggestion giving pros and cons of each and then offer their recommendations.
- A few examinees asked for further information in order to do the in-depth analysis of the problem.

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**EXAMINERS' COMMENTS**  
**SUMMER (MAY) 2011 EXAMINATIONS**  
**MANAGEMENT ACCOUNTING-DECISION MAKING**  
**Stage – 5**

**Question No. 2**

**(a) Break even point under capital intensive and labour intensive manufacturing methods:**

Some examinees made mistakes in calculating contribution margin by just deducting variable manufacturing cost from selling price to arrive at contribution margins and failed to deduct variable selling and administrative expenses.

**(b) Sales units at which operating income is same in both manufacturing methods:**

Common mistakes observed were that examinees just wrote break even units calculated in part (a) for both methods. Some examinees calculated break even sales volume again.

**(c) Degree of operating leverage under two manufacturing methods:**

Examinees made mistakes in calculating contribution margins and operating income under given sales volume. Most of the examinees were not able to understand the concept of operating leverage. In answering this question examinees had to divide only the contribution margin by net operating income to arrive at operating leverage.

**(d) Recommendations to management for use of either capital intensive or labour intensive method:**

As examinees in general could not properly attempt the first three parts, they were not in a position to give concrete recommendations.

**Question No. 3**

**(a) Relevant cost, net benefit/ loss and maximum proposed price for decision to make or buy:**

Common mistake of the examinees made was non-inclusion of unavoidable fixed cost in the relevant cost. Net total benefit/ loss was also wrongly calculated by those examinees who could not correctly calculate per unit relevant manufacturing cost. Similarly, maximum acceptable price was incorrectly calculated for the same reason. Most of the examinees worked out the minimum cost relevant for decision to make or buy while the maximum cost was to be calculated which could be paid by the company to the outside supplier.

**(b) Purchase price, operating income, percentage mark-up and impact of reduced prices:**

It was surprising that examinees did not appear in the examination with presence of mind as they failed to calculate the target operating income which may simply be calculated just using two given figures i.e., 25% (return on investment) and Rs.9,600,000 (Capital invested). As a result, examinees failed to correctly calculate other figures as required.

**Question No. 4**

**(a) Major features of graphical method used in linear programming:**

Majority failed to answer this part of the question. The examinees seemed very weak in their studies as they failed to express the conceptual aspect of the subject.

**(b) Net cash flows for each year and initial cash flows to evaluate the project:**

Common flaws observed were inclusion of depreciation in cash flows and incorrect calculation of initial outflows. Salvage value of the investment and spare parts were also not taken into account by most of the examinees. Most of the examinees even though they arrived at correct answers failed to give working of the steps followed. It is advised that examinees should consult/ read the question paper at each step and proper working should be presented to help them producing the right and to the point answers.

**Question No. 5**

**(a) Probable sales:**

Some of the examinees attempted it wrongly because they could not understand the requirement of the question properly and applied the probability rate of 30% for each sale in first year, 60% in second year and 10% in third year instead of applying all percentages on all three years under the heads of above average, average and below average demand of consumers.

**(b) Probable net income using the given amount of sales:**

Some examinees used sale values calculated in part (a) for working out net income instead of using the sales values given in the requirement of the question. Most common shortcoming was the calculation of depreciation as different depreciation methods were used by the examinees whereas it was clearly mentioned in the question that they were required to use sum-of-the-years-digit method.

**(c) Schedule of net cash flows:**

Most of the examinees did not add back depreciation to the net income. Depreciation is a non-cash expense and have no cash outflows hence, it should be added back to the net income.

**Question No. 6**

**(a) Activity based management (ABM):**

Activity Based Management was not properly elaborated by most of the examinees. They just limited their answer to the allocation of overheads costs on the basis of activity rates and failed to explain it with reference to process improvement.

**(b) Difference between cost controls and cost reduction:**

The concept of cost control and cost reduction was not properly understood and differentiated by the examinees. They just tried to write five points which were just the repetition and sometimes irrelevant.

**EXAMINERS' COMMENTS**  
**SUMMER (MAY) 2011 EXAMINATIONS**  
**RISK MANAGEMENT AND AUDIT**  
**Stage – 5**

**Question No. 2**

**(a) Risk assessment procedure:**

Risk assessment procedures i.e., inquiry, analytical procedures and observation and inspection were not described properly. Some examinees even put long unnecessary explanations which were not required at all. In some cases, they explained the entity's risk assessment process under this concept.

**(b) Risk identification, risk assessment and risk management:**

The overall performance showed lack of thorough study as majority failed to define all three terms.

**(c) Entity's risk assessment process:**

This question was poorly attempted by majority of the examinees. They were unable to describe the process i.e., identifying business risks relevant to financial reporting objectives, estimating significance of risks etc. In some cases, examinees even put some lengthy unwanted explanations instead of briefly describing the same.

**Question No. 3**

**(a) Responsibility upto the date of the audit report and after the date of the audit report:**

Most of the examinees attempted in a manner that they held auditor responsible for subsequent events without actually mentioning the specific procedures to be carried out as per ISA 560 i.e., reviewing management procedures for identifying events, reviewing minutes of meetings, reviewing latest financial information etc. As regards the auditor's responsibilities after the date of audit report, examinees' responses were very poor. Except few, most of the examinees could not able to describe that the auditor has no responsibility for further work (passive responsibility). On the basis of an event which materially affects the financial statements the auditor may consider to amend the financial statement, discussing it with the management.

**(b) Appropriate audit evidence for Going Concern:**

This question was attempted by majority of examinees in an improper manner. A small number of examinees was able to specify the audit procedures like performing subsequent event procedures to identify any events that affect the entity's ability to continue as a going concern, analyse and discuss entity's latest interim financial statements etc.

**(c) Auditor's opinions:**

Overall performance of examinees was good. Few examinees failed to comply the requirements of question especially with respect to scenario 2 and scenario 3 which were related to the paragraph of "Emphasis of Matter" and expressing an "Adverse Opinion".

**Question No. 4**

**(a) The technique of verification:**

Instead of describing the techniques of verification i.e., physical existence, correct valuation, ownership, correct disclosure, assets suffering from charge and proper authorization, majority of the examinees described general techniques in terms of inspection, inquiry, recalculations etc. Few examinees did not attempt the question at all due to lack of comprehension.

**(b) Assertions about classes of transactions and events:**

This part was attempted well by almost all examinees showing the correct understanding of the requirement and mentioned successfully the concepts of occurrence, completeness, accuracy etc., about classes of transactions and events.

**(c) Verification of directors' fee in the financial statement of a listed company:**

This part was poorly attempted by majority of examinees without addressing the requirement. They simply pointed out one aspect of verification i.e., checking of memorandum and articles of association and could not able to describe the checking of payment made and adequate disclosure in financial statements.

**Question No. 5**

**(a) Terms 'true and fair view' as used in the statutory audit report by the auditor:**

Majority of examinees could not express the meanings of "true and fair view" to the full extent. They just wrote one point that true and fair view means the accounts are free from material mistakes and biasness.

**(b) Quality control policies adopted by the audit firm:**

Majority of the examinees attempted this part of the question satisfactorily. However, instead of listing the policies some examinees put lengthy and unnecessary details. A few examinees did not attempt the question due to either non understanding or absence of concept of quality control policies.

**(c) Factors should be considered by auditor while planning the audit approach:**

This was attempted well by majority of the examinees. Except few examinees who mixed audit planning concept like assessment of clients' system, subsequent changes in clients' business etc., with general planning functions.

**Question No. 6**

**(a) Difference between the roles of cost auditor and financial auditor:**

Most of the examinees presented the differences in a proper manner. Few examinees were not able to present the basic difference i.e., the cost auditor checks the proper treatment of scraps whether these are sold at some reasonable price or the company has to incur further amount in its disposal. If scraps have been sold, the auditor has to see whether the amount realized has been credited to the profit and loss account, the treatment of by-products and the adequacy of wastage, whereas, the financial auditor is responsible to check the authenticity of vouchers, receipts, and issuance of notes in respect of purchases and issuance of materials to the production department etc. This shows lack of proper study and professional approach towards the subject.

**(b) (i) Labour cost audit:**

This was also attempted in a good manner by most of the examinees showing their proper understanding of issues related to labour cost audit.

**(ii) Cost audit of sales:**

Majority of examinees was successful in mentioning the factors other than factors like selling and distribution expenses, excise records and procedures which were not accounted for. Duplication of some points was also observed just to increase the points by the examinees. However, most of the factors were mentioned correctly representing the good approach and understanding cost audit of sales.

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**EXAMINERS' COMMENTS**  
**SUMMER (MAY) 2011 EXAMINATIONS**  
**STRATEGIC FINANCIAL MANAGEMENT**  
**Stage – 6**

**Question No. 2**

**Working Capital Management:**

The examinees did not perform well in this question and overall poor performance was observed. There were a large number of examinees that were not having the fair idea how to calculate the working capital requirement. The few mistakes committed by the examinees were as under:

- (i) Most of the examinees did not deduct the depreciation amounting to Rs. 47,000 (10% of Rs. 470,000) from finished goods inventory of Rs. 340,000 while calculating the working capital requirement of finished goods stock.
- (ii) Most of the examinees also failed to calculate the working capital requirement for debtors. Most of them either did not deduct the 90% of depreciation from the cost of goods sold or missed to add the administrative expenses and selling expenses to get the figure of Rs. 3,177,000 to calculate the credit sales being 80% of total sales. Examinees also failed to calculate two months' credit sales and put the whole figure of annual sales as debtors.
- (iii) A substantial number of examinees also could not calculate the correct figure of 10% contingencies due to incorrect calculation of net working capital i.e., current assets minus (less) current liabilities.

**Question No. 3**

**(a) Cash budget and pro forma balance sheet:**

The examinees performed very well especially while preparing the cash budget for the quarter. However, several examinees did not correctly calculate the amount of additional bank borrowings necessary to maintain a cash balance of Rs. 150,000 at all times. Moreover, there were a large number of examinees that either did not calculate the correct figure of accounts receivable, inventories, accounts payable and retained earnings or calculated the figures without showing any workings.

**(b) The target (optimum) cash balance using the Baumol Model:**

Almost all the examinees failed to prepare the topic lacking fair idea how to tackle with the question. Though, many examinees calculated the target cash balance but they were not able to calculate the opportunity costs of holding cash and the trading/ transaction cost. They failed to recall that both costs are equal like the cost of ordering and carrying cost of inventory when economic quantity is ordered. Besides, hardly a few examinees correctly calculated the annual cash requirement taking into consideration the target cash balance of Rs. 75,000.

**Question No. 4**

**(a) Operating cash flow (OCF) of base-case, best-case and worst-case scenario:**

The examinees did not perform well in this question. Though, almost all the examinees attempted this question and correctly calculated the OCF of base-case but they could not correctly calculate the OCF of best-case and worst-case scenario. Other shortcomings were as under:

- Most of examinees were not having clear concept of best-case scenario. They were supposed to increase the number of units sold and sale price per unit by 10% but they decreased the variable cost per unit and cash fixed cost by 10%. Moreover, they incorrectly increased the variable cost per unit and cash fixed cost by 10% under the best-case scenario.
- In the same way, most of examinees were having very vague concept of worst-case scenario. They were supposed to decrease the number of units sold and sale price per unit by 10% but increased the variable cost per unit and cash fixed cost by 10%. Moreover, they also incorrectly decreased the variable cost per unit and cash fixed cost by 10% instead of the sales units and sales price under the worst-case scenario.
- Many examinees either did not calculate the correct figure of depreciation of Rs. 300, 000 (1,500,000/ 5 years) or omitted to add back the depreciation into earning after tax (EAT) to calculate the OCF.

**(b) Project's base-case, best-case, and worst case NPVs:**

Most of the examinees could not calculate the correct figures of NPVs under the best-case scenario and worst-case scenario due to incorrect calculation of OCF though they correctly calculated the NPV of base-case scenario.

**(c) Cash, accounting and financial break even sales levels under base-case scenario:**

The examinees did not perform well in this part of the question. There was hardly any examinee who could calculate the financial break even point under base case scenario. Moreover, many examinees were unable to differentiate between cash and accounting break even points.

**Question No. 5**

**(a) Earning per share (EPS) under three alternatives:**

The overall performance was remained below average in this part of the question. Most of the examinees incorrectly calculated the interest on TFCs under alternative (i) for the whole year instead of six months. Many examinees also did not correctly calculate the number of shares under each option. Resultantly, they were not able to correctly calculate the EPS and retained earnings under each option.

**(b) Financial plan offering highest cash balance:**

Overall poor performance was observed in this part of the question. Most of the examinees failed to calculate increase in working capital and cash in hand under each option.

**(c) Preparation of the balance sheet under each alternative in columnar form:**

Most of the examinees did not perform well in this part of the question. They were not able to correctly calculate the liabilities under each option. Besides, examinees were asked to prepare the balance sheet under each alternative in columnar form but there were many examinees that did not follow the very instruction. Moreover, there was hardly any examinee that offers his/ her comments on the most viable alternative as they committed various mistakes in calculating the figures as per requirement.

**Question No. 6**

**(a) Why companies go global?**

The overall performance was just an average in this part of the question. There were many examinees that did not justify their arguments. Most of the examinees produced irrelevant or incomplete answers, which shows the lack of study on the part of the examinees. The answer of the question was simple and a person having knowledge of business could point out the reasons that companies go global to seek material, new technology, production efficiency. But it seemed that examinees, despite knowing these points failed to express them properly.

**(b) Maximum amount of capital expenditure under strict residual dividend policy and dividend yield ratio:**

The overall poor performance was observed in this part of the question. The examinees did not understand the requirement of the question. A few mistakes committed by the examinees are as under;-

- (i) Most of the examinees incorrectly stated that Natural Food Ltd could incur maximum capital expenditure of Rs. 2,500,000. Although, It was clearly mentioned in the question that the company maintain a capital structure of 60% debt and 40% equity. Therefore, the examinees were required to calculate the debt equity ratio i.e., 1.50. So the new borrowing amounting to Rs. 3,750,000 could be calculated while keeping the debt equity ratio unchanged (Rs. 2,500,000 x 1.50). As such the maximum capital expenditure amounting to Rs. 6,250,000 (Rs. 2,500,000 + Rs. 3,750,000) could be incurred without external equity.
- (ii) Most of examinees again incorrectly answered that the company would not pay any dividend provided the planned investment outlay for the coming year is Rs. 4,000,000. In fact, the dividend of Rs. 900,000 could be paid after deducting the needed equity of Rs. 1, 600,000 (Rs. 4,000,000 x 0.40) from the profit for the year amounting to Rs. 2,500,000.
- (iii) Most of the examinees also did not correctly calculate the dividend per share and dividend yield ratio due to incorrect calculation of dividend paid to shareholders.

**(c) Calculation of maximum price for acquiring the company:**

Invariably the examinees performed exceptionally well in this part of the question and secured very good marks. However, there were few examinees that just use the present value (PV) factor at 8% on all four periods. As a result, the present value of first five-year period was correct but present values of three remaining periods were incorrect due to not deducting (cumulative) PV factor of earlier periods.

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**EXAMINERS' COMMENTS**  
**SUMMER (MAY) 2011 EXAMINATIONS**  
**INFORMATION SYSTEMS & I.T AUDIT**  
**Stage – 6**  
**SECTION "A"**

**Question No. 2**

**(a) Information system type, its impact on communication and on decision-making:**

The question was very clear about asking three things specifically: (i) information system type (ii) its impact on communication, and (iii) its impact on decision-making. Some examinees just listed impacts under information system type. Also office automation system and communication systems are the two prime types of information system that must have been listed. Many of them missed this. Examples regarding impact on decision-making were also ignored.

**(b) (i) Process performance variables:**

In this sub-part examinees were required to describe process performance variables. Majority of the examinees were able to identify performance variables but they failed to elaborate that how can these improve the performance. Activity rate and output rate are separate performance variables. Majority could not distinguish between them. Activity rate is the number of interim work steps that are performed per unit time whereas, the output rate is the amount of output (completions) that a process produces per unit of time. This distinction is important mainly for processes that take a long time to complete.

**(ii) Phases of building and maintaining a system:**

The question asked examinees regarding the phases of building and maintaining a system. It was not meant to be something that requires description of steps of software development life cycle (SDLC), which was a general misconception carried by the majority.

**Question No. 3**

**(a) Sequential access, direct access, and indexed access methods for accessing data:**

Sequential access, direct access, and indexed access methods for accessing data was the requisition of this sub-part. Most of the examinees answered this question correctly and their replies to this part were satisfactory. However, few of them were not able to describe it correctly. The main missing thing was correct examples usage to describe each type of access. The weak component in this part was indexed access method.

**(b) Five levels of integration and kinds of problems resulted from it:**

The examinees' knowledge was tested in the area of five levels of integration and kinds of problems resulted from it. The levels of integration were missing in majority examinees' replies. These five levels of integration include: • common culture • common standards • information sharing • coordination and • collaboration. Horizontal integration, vertical integration forward integration and backward integration are not levels of integration. Mentioning them as levels of integration by many shows lack of understanding of the question.

**SECTION "B"**

**Question No. 4**

**(a) IS auditors' conclusions and determinants of evaluating the reliability of audit evidence:**

This sub-part of the question required examinees to elaborate IS auditors' conclusions and determinants of evaluating the reliability of audit evidence. The determinant for evaluating the reliability of audit evidences that was missed by many examinees was 'objective of evidence'. The overall performance in this part was remained below average.

**(b) Project phases of physical analysis:**

This section was concerned with project phases of physical analysis. Project architecture analysis is not software development life cycle. It was noticed that procurement phase was mentioned by majority. Almost same case was witnessed with the illustration plan. Actually students duplicated question 2 (b) (ii) i.e., phases of building and maintaining a system, and ignored the technical differences.

**Question No. 5**

**(a) Objectives of Control self assessment (CSA) and its benefits and disadvantages:**

Examinees were required to discuss objectives of control self assessment (CSA) and its benefits and disadvantages in this sub-part. Very poor answers were provided by many examinees regarding the objectives of CSA. Also disadvantages were not illustrated properly. CSA is a management technique and is not an alternative to auditing. Mixing CSA with auditing is uncalled for. Many of the benefits of CSA (increased employee awareness/ satisfaction, improved communication) were not elaborated/ mentioned by many examinees.

**(b) (i) Elements of a software testing process and its classifications:**

This was a purely software testing process question and was no way related to substantive testing, corrective testing, preventive testing etc. Unit testing, UI testing, security testing, load testing, UAT etc., are the types that should have been described. Most of the examinees did not answer it either or attempted it wrong. No responses were given regarding its classifications.

**(ii) Corporate governance and I.T governance and role of audit in I.T governance:**

Corporate governance (the system by which business corporations are directed and controlled) was not defined properly and hence not differentiated with I.T governance. Also the role of audit in I.T governance was completely missing. I.T governance comprises the body of issues addressed in considering how I.T is applied within the enterprise.

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**EXAMINERS' COMMENTS**  
**SUMMER (MAY) 2011 EXAMINATIONS**  
**MANAGEMENT ACCOUNTING-BUSINESS STRATEGY**  
**Stage – 6**

**Question No. 2**

- (a) Brief explanation of terms i.e., competitive advantage, vision and mission statement, internal strength and weaknesses, strategies and polices:**

Most of the examinees performed well in this part of the question and secured good marks. However, many examinees produced irrelevant or incomplete answers specially in explaining the terms of competitive advantage and internal strength and weaknesses.

- (b) When related and unrelated diversifications are considered to be effective strategies:**

Mistakes committed by the examinees were as under:

- (i) Many examinees did not comprehend this part of the question and incorrectly produced the corporate level, business level and functional level strategies.
- (ii) There were also few examinees who discussed all sort of diversification strategies instead of mentioning the situations when related and unrelated diversification may be considered effective strategies.
- (iii) A few examinees mentioned “unrelated diversification” under the heading of related diversification and vice versa.

**Question No. 3**

- (a) The importance of vision statement in the light of quotation of the Theodore Hesburgh:**

The overall performance remained good in this part of the question. However, a number of examinees did not emphasize the need for managers and executives in any organization to agree on the basic vision that the firm strives to achieve in the long-term.

- (b) Most important critical factors for a successful company based on competitive profile matrix (CPM):**

An average performance was observed in this part of the question. A few shortcomings committed by the examinees were as under:

- (i) A large number of examinees, instead of mentioning the major strength of each of the three companies, just penned down all the critical success factors (major as well as minor strengths) for each company.
- (ii) There was hardly any examinee that could correctly mention the other critical factors like breadth of product line, effectiveness of sales distribution, location of facilities, production capacity and efficiency etc.

- (c) Three steps of opportunity (cost-benefit) analysis and important questions to be included in the marketing audit check list:**

Most of the examinees performed very well in this part of the question. However, few mistakes noted were:

- (i) They had no idea of the three steps of opportunity (cost-benefit) analysis. They just produced irrelevant details and wasted their precious time.
- (ii) Most of the examinees did not mention all the ten questions about marketing audit check list that must be examined in strategic planning.

**Question No. 4**

- (a) Stages in a comprehensive strategy formulation and techniques used in each stage:**

A good number of examinees performed exceptionally well in this part of the question. Some of the flaws noted were as under:

- (i) The examinees were required to briefly mention the main tools and techniques used in many stages of strategy formulation but they produced unnecessarily very lengthy answers.
- (ii) Most of the examinees did not justify their answer by giving relevant argument while explaining the “The Decision Stage”.

(iii) A few examinees were also not able to correctly mention/ point out the abbreviations of techniques like EFE Matrix, IFE Matrix, SPACE Matrix, BCG Matrix IE Matrix and QSPM with reference to each stage of strategy formulation.

**(b) The difference between strategy formulation and strategy implementation processes:**

The overall performance was remained average in this part of the question. However, there were many examinees that incorrectly kept on explaining the strategy formulation and strategy implementation being the various processes of strategic management. A few examinees produced incomplete answers by mentioning just one or two points of differences between strategy formulation and strategy implementation processes.

**Question No. 5**

**(a) Five tests that are often used to determine usefulness of a performance-pay plan:**

The poor performance was observed in this part of the question. A large number of examinees did not prepare the topic. Resultantly, they just produced irrelevant answers. The examinees who attempted this part of the question correctly also did not even briefly elaborate the points like “Does the plan capture attention? Is the plan improving communication?”

**(b) The facilities offered for balancing work life and home life:**

The overall poor performance was observed in this part of the question. The examinees were required to give some specific measures the firms may take to address work/ family issues. But, most of the examinees just supported the statement given in the question that balancing work life and home life is considered important for strategic decisions. The examinees that correctly attempted this part of the question did not sufficiently elaborate their arguments and produced very short answers.

**(c) Reasons of becoming strategy evaluation more difficult now than in recent past:**

The overall performance remained below average in this part of the question. Most of the examinees either produced irrelevant details or just elaborated the reasons already given in the question like faster technological changes and more competition etc.

**Question No. 6**

**Calculation of Pay Back Period, NPV, Profitability Index, and IRR of the replacement decision:**

Most of the examinees did not perform well in this numerical question although the examinees could secure good marks as question was based on few very basic techniques of capital budgeting. The mistakes committed by the examinees were:

**(a)** Although it was clearly mentioned in the question that the elevator (lift) was purchased ten years ago and depreciated to salvage value 10 years from now on the straight-line basis, even then the examinees took the life of the elevator as 10 years instead of 20 years. Resultantly, they arrived at incorrect depreciation as well as book value of the elevator (lift).

**(b)** Most of the examinees did not take into account the tax savings of Rs. 10,000 due to loss on disposal of elevator(lift) amounting to Rs. 40,000 while calculating the initial outflow on replacement.

**(c)** Most of the examinees also could not correctly calculate the incremental depreciation due to incorrect calculation of depreciation of elevator (lift) in part (a) of the question. Resultantly, they were not able to calculate the correct figure of incremental cash flows on replacement.

**(d)** Most of the examinees incorrectly calculated the payback period mainly due to incorrect figures of annual cash flows.

**(e, f, g)** The wrong figures of initial cash flow on replacement calculated in part (b) and incremental cash flow on replacement also caused the incorrect figures of NPV and Profitability Index and IRR in the rest of the question.

**(h)** Most of the examinees also failed to express the qualitative factors like decrease in potential sales day by day provided that the elevator (lift) is not replaced.