

**EXAMINERS' COMMENTS**  
**FALL 2013 (FEBRUARY 2014) EXAMINATIONS**

**FUNDAMENTALS OF FINANCIAL ACCOUNTING**  
**Semester-1**

**Question No. 2**

**Preparation of Adjusting and Correcting Journal Entries:**

Examinees were required to prepare adjusting and correcting journal entries from a given set of adjustments under an unadjusted trial balance, but majority of the examinees showed poor performance in making correct adjusting entries. They made the following mistakes:

- A good number of examinees could not calculate the closing amount of 'allowance for doubtful debts' correctly, since they did not deduct the amount of additional bad debts from the given figure of 'trade receivables', which led to wrong calculation of amount of 'allowance for doubtful debts' instead of Rs.15,500  $\{(318,000 - 8,000) \times 5\}$ .
- Majority of the examinees failed to record a correct journal entry for the reduction in the 'allowance for doubtful debts'. The correct entry is:

Allowance for doubtful debts A/c	2,700
Bad debt expense A/c	2,700

- Majority of the examinees could not calculate the loss on disposal of equipment correctly. Consequently, many of the examinees recorded a wrong journal entry for disposal of equipment. The correct loss should have been calculated as Rs.600  $(40,000 - 26,800 - 12,600)$ .
- Most of the examinees could not calculate the depreciation expense of the equipment correctly i.e., Rs.44,400  $\{(214,000 - 40,000 + 48,000) \times 20\}$ .
- Some examinees surprisingly made all the entries relating to the items appearing in unadjusted trial balance.

**Question No. 3**

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

In this part of the question, examinees were required to prepare the statement of profit or loss of a company. Almost all of the examinees attempted this question but the overall performance in this question remained below average. Following mistakes were observed:

- A good number of examinees did not write the correct title of the statement along with accounting period. They wrongly mentioned the date of the statement instead.
- A few examinees wrongly added sale proceeds of office equipment to the figure of sales.
- A few of the examinees added 'freight-out' in sales, whereas 'freight-out' should have been included in 'distribution cost'.
- Although, some of the examinees prepared separate schedules/ working notes for 'cost of sales', 'administrative expenses' and 'distribution cost', but majority of the examinees did not correctly classify the expenses among 'cost of sales', 'administrative expenses' and 'distribution cost'.
- Majority of the examinees could not make the right treatment of 'wages and salaries'. The allocation percentage of 'salaries and wages' was clearly mentioned in the question, but examinees did not incorporate this correctly. Moreover, there was accrued 'wages and salaries' of Rs.5,800, which was to be added to the given figure of Rs.694,200 before making allocation. It seemed that examinees failed to understand this adjustment.
- A good number of examinees could not calculate the correct figure of 'administrative expenses' due to following reasons:
  - Not taking into account the 'accrued' and 'prepaid' amounts of 'administrative expenses'.

- Wrong calculation of depreciation of office equipment.
- Non-inclusion of 'salary and wages' component (70% of Rs.700,000).
- Similarly, a good number of examinees could not calculate the correct figure of distribution cost. The common mistakes were as given below:
  - Non-inclusion of salary and wages component (20% of Rs.700,000).
  - Non-inclusion of 'freight-out' and 'freight-out payable'.
- A good number of examinees did not include 'loss' on sale of equipment in the 'statement of profit or loss'.

**(b) Preparation of Statement of Financial Position (SFP):**

In this part of the question, examinees were required to prepare a statement of financial position of a company. Almost, all of the examinees attempted this question but the overall performance in this question was not satisfactory. Following mistakes were observed:

- A good number of examinees did not write the correct title of the statement i.e., 'statement of financial position' along with the date of the statement. Some of them wrongly wrote the period of the statement.
- A good number of examinees did not present the assets and liabilities in proper format i.e., examinees should have given heading for non-current assets first followed by current assets. Similarly, under equity and liabilities category, examinees should have given headings in the sequence of equity, non-current liabilities and current liabilities.
- Most of the examinees failed to compute correct amounts of office equipment and relevant 'accumulated depreciation' to be presented in the SFP. While computing the closing figure of cost of office equipment, they either failed to add the amount of addition of the office equipment or subtract the amount of disposal during the year from the trial balance figure. Similarly, they did not adjust the trial balance amount of 'accumulated depreciation' with the current depreciation or depreciation of the sold item of equipment.
- Most of the examinees failed to compute correct amount of 'accounts receivable' which required adjustment for further bad debt expense of Rs.8,000. Hence, the closing balance of 'accounts receivable' should have been reduced to Rs.310,000 (318,000 – 8,000). This lapse also affected the closing balance of 'allowance for doubtful debts' which was 5% of Rs.310,000.

**Question No. 4**

**(a) FIFO Method of Inventory Valuation:**

In this part, examinees were required to find out the (i) cost of sales and (ii) ending inventory using FIFO method of inventory valuation under perpetual inventory system. Overall, performance in this part of the question remained very good. Almost, all the examinees attempted this question correctly. However, a few examinees made the 'balance column' wrongly by not incorporating the units correctly and tried to use a shortcut approach instead.

**(b) (i) Bank Reconciliation Statement:**

In this part, examinees were asked to prepare a 'bank reconciliation statement' by finding adjusted cash book and bank balances. Overall, performance in this part of the question remained satisfactory. Almost all the examinees attempted this question. However, some of the examinees made following mistakes:

- Some examinees wrongly treated the overstated cheque ( $276 - 267 = 9$ ) under bank statement balance instead of treating it under cash book balance. The cheque was correctly posted in the bank statement as Rs.267 but wrongly posted as Rs.276 in the cash book.
- A few examinees had no idea, how to find out adjusted cash book balance and adjusted bank balance and tried to attempt the question without any clarity of concept.
- A few examinees wrongly included the 'uncleared' cheques under cash book balance instead of including them under bank statement balance.

**(ii) Journal Entries for Correction/ Adjustment of Transactions in Cash Book:**

This sub-part required examinees to make journal entries for correction/ adjustment of transactions in cash book. Overall, performance in this part of the question was not satisfactory. A good number of examinees attempted this part and made following mistakes:

- Examinees were required to make journal entries for correction/ adjustment of transactions in cash book. It was noticed that some of the examinees passed entries for those transactions which have already been recorded in cash book like 'uncleared' and 'uncredited' cheques.
- Some of the examinees used 'cash account' instead of using 'bank account' while making journal entries for adjustments in the bank account.

**Question No. 5**

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

In this part of the question, examinees were asked to differentiate between 'capital' and 'revenue' expenditures and to classify certain items as 'capital' or 'revenue' expenditures. It was a very simple and easy question but overall performance in this question remained average. It was surprisingly noted that some of the examinees were not clear about the differences between 'revenue' and 'capital' expenditures. It seems they just tried to use their guess work while classifying the given items.

**(b) Statement of Cash Flows:**

Here the examinees were asked to prepare a 'statement of cash flows' (indirect method) as per IAS 7. A good number of examinees attempted this part and overall performance in this part remained satisfactory. However, following mistakes were observed:

- A few examinees started the question by taking figure of 'profit after tax' in 'cash flows from operating activities', instead of figure of 'profit before tax'.
- Some of the examinees deducted the figure of depreciation instead of adding it to the 'profit before tax'.
- Some of the examinees treated 'tax paid' as 'cash flow from financing activity' instead of incorporating it in 'cash flows from operating activities'.
- A good number of examinees treated 'interest received' either under 'cash flows from operating activities' or under 'cash flows from financing activities'. It should have been included under 'cash flows from investing activities'.
- Some of the examinees attempted the question without separating the activities into operating, investing and financing activities, which was the essence of the question.

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**EXAMINERS' COMMENTS**  
**FALL 2013 (FEBRUARY 2014) EXAMINATIONS**

**BUSINESS ECONOMICS**  
**Semester-1**

**General Comments:**

It was observed that examinees tried to fill the copies, rather than focusing on providing the right concept or answer to the question asked. The following main deficiencies were found in majority of the answer scripts;

Graphical presentation:

- i) Incomplete graph
- ii) Majority of examinees did not label the graph properly
- iii) Explanation of graph was not relevant to the question asked
- iv) The table values were not incorporated into graph

Conceptual mistakes:

- v) Examinees tried to give new theories
- vi) Totally mixed the concepts of microeconomics and macroeconomics. It shows as if they couldn't understand the questions properly.

**Question No. 2**

**(a) Market Clearing Price:**

Majority of the examinees attempted this question and wrote the right answer. Some of examinees failed to define market clearing price. It is the price at which the quantity demanded by the consumers and the quantity that firms willing to supply, not only willingness of consumers or producers decides the price. It has to be mutual. As the table had conceptual mistakes therefore, graphs were also not properly constructed and explained. Moreover, the effect of shortage and surplus on price was not described properly.

**(b) Causes of shifts in supply curve:**

The shifting factors of supply are totally different from the shifting factors of demand. It was observed that examinees' majority wrote shifting factors of demand rather than of supply. Furthermore supply curve is upward sloping not downward sloping and shift is caused due to changes in other factors than price of the commodity. If price of the commodity changes, there will be movement not shift. Those who gave the right factors they gave illogical reasoning.

**Question No. 3**

**(a) Agreement with given statements:**

Very few numbers of students gave the right reasoning to support their answer but it was although incomplete. Rest couldn't justify the statement correctly. Majority found the statements to be false and those who agree with the statements couldn't provide correct reason to support their answer. Most of the students seemed to fluke about it but unable to explain their points.

**(b) Long-run average cost curve:**

Majority of students could not distinguish between long-run average cost and the average cost and their knowledge about definition of "Economies and diseconomies of scale, and constant return to scale" was very poor when they draw the U-shaped long run average cost curve. However, reply of few students was up to the mark. Many candidates attempted this question by drawing a graph to start with. This is not the right way to go about answering it.

#### Question No. 4

**(a) Cost, volume, profit analysis (CVP):**

Large number of examinees attempted this question but just few of them answered it correctly. The basic limitations of cost, volume and profit analysis are “variable cost per unit does not change as output changes and sale price is remains unchanged”. Therefore the total revenue curve, total cost curve and profit curve will be linear.

**(b) Corporate Governance:**

Majority of students wrote about the “principal- agent problem”, however, they couldn’t give the reasons for the failure of corporate governance and the recommendations for betterment of it. Students were unable to distinguish between government and corporate governance which was the common mistake made by several students.

#### Question No. 5

**(a) Impact of rise in interest rates:**

Approximately every examinee attempted this question but their answers to this question showed that they were confused in authority of monetary policy. The impacts of a rise in interest rates includes:

- Falls in spending
- Falls in investment
- Foreign funds are attracted into the country
- Rise in exchange rate
- Falls in inflation rate
- Falls in bond prices etc.

**(b) Public private partnerships (PPP):**

Examinees just tried to write their point of view regarding “advantage and disadvantage” of PPP, only few students were able to write in a proper way. Advantages of PPP include efficiency and innovation, transformation of rise to private sectors and improved provision of goods and services. While disadvantages include no real transfer of risk, detriment of quality of services etc.

#### Question No. 6

**(a) Business cycle/Trade cycle:**

The examinees knowledge about “Trade cycle” was very limited. They just wrote the ups and down in trade cycle, while it exists in the economy and their explanation regarding the part of this question was poor. However, some students have awareness about the trade cycle. But they failed to define and explain correctly. Almost every student drew wrong diagram of business cycle and did not identify the phases of business cycle which are recession, depression, recovery and boom.

**(b) Influence of globalization:**

- Majority of examinees discussed at most the impact of globalization. Majority kept on rephrasing the cost reduction impact of globalization in different manners. Many students misinterpreted the definition of globalization. They related it with trade, foreign investment and so on, which was wrong. The term Globalization referred to as the process of international integration arising from the interchange of world views, products, ideas, and other aspects of culture.

**Question No. 7**

**(a) Balance of payment:**

It was a numerical question. Majority of students produced proper and correct answer of all parts of this question.

**(b) Functions of central bank:**

It is the function of central bank to announce and make the monetary policy. Majority of examinees were confused in the authority concept of monetary policy and fiscal policy.

Some functions of Central Bank include:

- Monetary stability
- Stability of financial system
- Lender of last resort
- Bankers to the commercial bank
- Banker to the central government
- Central note issuing authority
- Manage the national debt

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**EXAMINERS' COMMENTS**  
**FALL 2013 (FEBRUARY 2014) EXAMINATIONS**

**BUSINESS COMMUNICATION AND REPORT WRITING**  
**Semester-1**

**General Comments:**

The majority of the scripts were of un-satisfactory standard evidencing unreasonable level of preparation and technical knowledge. It would appear that the examinees less marks for the following reasons:

- Wrong interpretation of the questions
- Poor examination techniques
- Lacks of appreciation of the relative importance of different factors, thus spending time on less important features, vague perception of basic concept
- Providing incomplete or incorrect answers
- Misreading or failing to comprehend questions
- Poor time management, so most of them could not complete their papers.

**Question No. 2**

**(a) Internal and external communication and formal and informal communications networks:**

This question comprised three parts. Part (i) required to differentiate between internal and external communication, which was quite easy to answer, so was correctly answered by the majority of the examinees. Part (ii) of the question was quite simple to answer so it was also answered correctly. However, some of the examinees gave unnecessary details and as a result they couldn't complete their papers. Part (iii) required to make an organizational structure of formal communication. Most of the examinees were unaware of the answer. A few of them tried to solve it but couldn't score well, which showed their lack of understanding of the topic or lack of preparation.

**(b) Unethical communication:**

This question required to discuss few examples related to unethical communications. Few examinees responded to this question in one/ two lines by giving headings of expected answer. While other used their general knowledge and ethics to respond and so their answers were not up to the mark.

**Question No. 3**

**(a) Laws of business communication:**

The question expected to state the laws of business communication; however, examinees mentioned different theories instead of the laws. Examinees responded this part of the question poorly.

They needed to explain business laws e.g. promotional communication, contracts, intellectual property, defamation etc. whereas most of the examinees wrote 7-cs of business communication which were ethical guidelines.

**(b) Collection letter:**

This question assessed writing skills of examinees in specific context. Majority of the responses showed awareness of formal letters format, however, grammatically their writing appeared weak. Although the message in letter was comprehensible but writing of examinees was substandard and poor.

**Question No. 4**

**(a) Factors to consider when choosing a media for conveying messages:**

The question was selecting the right medium according to the audiences' needs. Most of the examinees started writing advantages of media and some listed different types of media, some applied typical mode of communication such as: sender, message, medium etc which was not the requirement. Many candidates left this question unattempted.

**(b) Letter for get together ceremony:**

This question assessed writing skills of examinees in specific situation. Majority of the responses showed awareness of formal letters format, however, grammatically their writing appeared weak. Although the message in letter was comprehensible but due to poor sentences formation the overall impression of the writing was substandard and poor.

**Question No. 5**

**(a) Key points to be followed to avoid ethical lapses:**

In this part of the question, points to avoid ethical lapses while doing the research project for report writing was required to write. Question was quite easy but it appeared that majority of examinees could not understand the question or they didn't know the correct answer. Some of them answered 'how to write a report?' While the requirement was 'how to avoid ethical lapses while making a research project' e.g. don't force a specific outcome by skewing your research, respect the privacy of your research participants.

**(b) Sketch of business letter:**

In this question, producing a sketch of a business letter indicating the names of its parts was required which was quite simple for a student of business communication but almost half of them could not write the names of different parts. Some of them even didn't know where to write sender's address and where receiver's. Few were able to mention all parts of a business letter i.e. letterhead, date, inside address, salutation, body, complimentary close, signature.

**Question No. 6**

**(a) Principles of becoming an effective visual communicator:**

Writing principles for becoming an effective visual communicator was required to write, which was found very difficult by the examinees. Most of the candidates were confused between principles for becoming good visual communicator and becoming a good presenter. Some wrote points for 'how to prepare a presentation.' Some stated advantages of using visuals so most of them answered wrongly.

**(b) Drafting a circular:**

It was a very simple and easy question but examinees could not use proper format for it and also the explanations or reasons given were not impressive. In their formats proper school name with address should be mentioned which was not written properly. In some cases they did not mention the sender's name with designation and salutations etc. The sentence formation/ sequencing was again found to be weak.

**Question No. 7**

**Report writing:**

The question was about writing short report which was attempted by majority of examinees. Most of the examinees did not give headings to each section of the report, some sections were also missed. Some of the examinees wrote in haphazard manner and mixed up all the sections. Summary or recommendations were also needed to be mentioned at the end.



**EXAMINERS' COMMENTS  
FALL 2013 (FEBRUARY 2014) EXAMINATIONS**

**COST ACCOUNTING  
Semester-2**

**Question No. 2**

**(a) Journal Entries:**

Majority of the examinees correctly made first two journal entries. However, following common shortcomings were observed:

- Examinees failed to charge payroll in respective departments. Instead of charging payroll to WIP and FOH control they charged it as direct and indirect labour.
- Few examinees could not record factory overhead (FOH) to production, they credited WIP account instead of charging it to accounts payable. Similarly few of them recorded reversed entry for applied FOH. They were unaware of the fact that applied FOH is charged to WIP account.
- Some examinees recorded a combined entry for sales and costs of goods sold and treat the difference as profit on sales while it was required to close cost of goods sold to finished goods account separately.

**(b) Classification of Cost:**

Examinees were required to classify different costs as variable, semi variable and fixed. Majority of them performed well in this part however, following mistakes were committed by the examinees:

- Few examinees identified supervisor's salary as variable or semi-variable cost, although it was clear in the question that he is paid fixed amount of salary on monthly basis.
- Most of the examinees could not classify sales person's salary and their commission as semi-variable cost, and identified the same as variable or fixed cost.

**Question No. 3**

**(a) Incentive Plan:**

Overall poor performance was observed in this question. Most of the examinees did not attempt this part of the question which shows lack of study on the topic. Common mistakes committed by the examinees are as follows:

**(i) 90% Bonus Plan:**

- It was required to compute employee's earnings on the basis of 90% time saved. Examinees tried to calculate standard units per day instead of calculating normal production per day by multiplying per hour production with number of given hours per day and comparing it with the given actual per day production.
- As the number of units calculated wrong, the total earnings went wrong.

**(ii) 100% Bonus Plan:**

Examinees were required to calculate employee's earning on the basis of 100% bonus plan, only few of them attempted this part and failed to reach the answer.

**(b) LIFO/ FIFO:**

The examinees performed exceptionally well in this part of the question. However, few mistakes committed by the examinees are as under:

- Some examinees tried to find out cost of material issued and cost of ending inventory by using periodic inventory method, although it was clearly mentioned in the question to apply perpetual inventory method.
- Examinees failed to balance the quantity as per FIFO/LIFO requirements, as a result they failed to compute the correct cost of raw material issued and cost of ending inventory.

#### Question No. 4

##### (a) Process Costing:

The overall average performance was observed in this part of the question. However, following shortcomings were observed:

- A substantial number of examinees incorrectly calculated quantity of equivalent production units (EPU). EPU was to be calculated by adding closing WIP into goods completed, but examinees deducted opening inventory from goods completed/transferred and added ending inventory.
- As EPU wrongly computed in previous requirement, however per unit cost of material and conversion also went wrong in cost of production report.
- Total cost was based on per unit cost calculated in above part, Hence examinees failed to reach the correct cost due to applying wrong per unit cost.

##### (b) Job Order Costing/ Process Costing:

Examinees were required to define and decide when job order and process costing system is to be used. All the examinees attempted this part and overall good performance was observed. However, few examinees defined it in a very general way.

#### Question No. 5

##### (i) Marginal Costing:

Majority of the examinees were unable to correctly attempt this part. Common mistakes observed in this question are as follows:

- Most of the examinees were unaware of the correct format of marginal costing. As per the proper format they were required to compute contribution margin by deducting all variable manufacturing and non-manufacturing costs from sales. However, examinees directly tried to reach the net profit by deducting all variable and fixed costs together.
- Most of them did not deduct ending inventory to reach cost of goods sold. Examinees directly deducted 20,000 units of ending inventory from 170,000 units produced resulting in wrong figure of cost of goods sold.
- Few examinees used 150,000 units of sales as units produced, ultimately all solution went wrong.
- A substantial number of examinees used annual fixed marketing and administration cost, instead of using six months cost.

##### (ii) Absorption Costing:

Examinees poorly attempted this part of the question. The way examinees approached the requirement was totally wrong. Only a few examinees were able to answer the requirement by using correct approach. However, following common errors were found:

- Many examinees failed to reach the correct cost of goods sold, as they applied wrong per unit cost.
- Most of the examinees totally ignored ending inventory. Few of them calculated incorrect cost of ending inventory instead of multiplying ending units by all manufacturing cost of Rs.48 per unit, they used Rs.8 per unit which is a sum of variable and fixed overhead cost.
- Examinees failed to adjust cost of goods sold by adding under applied factory overhead in unadjusted cost of goods sold.
- Instead of using six months period cost, examinees applied annual fixed manufacturing and non-manufacturing cost.

**(iii) Reasons for Difference in Profit:**

As almost all examinees attempted this part but partially defined the reasons of difference. Following shortcomings were observed:

- Majority of the examinees wrote 'main cause of the difference is the elimination of fixed manufacturing expenses from inventory in direct costing' but they failed to elaborate it further.
- Few examinees wrote that there is no difference in profit under both the costing methods.

**Question No. 6**

**(a) Advantages of Standard Costing System:**

Almost all the examinees defined the advantages generally which show lack of study of the topic. Many of them wrote its importance instead of writing its advantages. Moreover, some examinees made following mistakes:

- Examinees defined standard costing system as target costing system or a risk reducing system.
- Few examinees wrongly mentioned that standard costing is used to determine per unit cost of material, labour and overhead.

**(b) Variances:**

Overall performance was unsatisfactory in this part. However, very few examinees performed well in this requirement. Following mistakes were observed:

- Few examinees calculated material price variance by multiplying actual quantity of units produced with per kg material cost, instead of using actual quantity of material in kgs. Similarly, they multiplied the difference in units by per kg price instead of multiplying it by per unit price.
- Most of the examinees failed to recognise the variance as favourable or unfavourable.
- Majority of the examinees were unaware of the variable overhead spending and variable efficiency variances formulae. Some of them wrote right formula but put incorrect values, resulting wrong variances.

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**EXAMINERS' COMMENTS**  
**FALL 2013 (FEBRUARY 2014) EXAMINATIONS**

**BUSINESS MATHEMATICS & STATISTICAL INFERENCE**  
**Semester-2**

**Question No. 2**

**(a) Simplification of Fraction:**

While calculating the cube root of  $125x^6/64y^{12}$ , most of the examinees correctly found the cube root of  $x^6/y^{12}$  as  $x^2/y^4$ . However, only a small number of examinees could determine the cube root of  $125/64$  correctly as  $5/4$ .

**(b) System of Linear Equations:**

This part of the question required examinees to determine the quantities of three types of coffee beans to be used to prepare a final quantity of 12,000 pounds of blended coffee so that the cost of the final product remains at Rs.26,000. Another condition was that the quantities of two of the three coffee beans should be the same. Mathematical model as a system of linear equations was not presented and solved by the examinees as per the requirement and hence satisfying the blending restrictions.

**(c) Compound Interest:**

Examinees were asked to find the compound amount after five years when an investment of Rs.100,000 is made at 15% per annum compounded semi-annually and the amount of interest earned during the period. Most of the students used the proper compound interest formula but they could not compute compound amount and hence compound interest for the period since they did not change the interest rate to semi-annual interest rate of 7.5% and number of years to semi-annual periods of times.

**Question No. 3**

**(a) Net Present Value:**

This part of the question provided the examinees with the data of cash flows pertaining to a project and the examinees were required to decide whether the project was acceptable or not. Examinees committed following mistakes:

- Present values of cash flows were not calculated for the given years by finding the present value factor for each year.
- Net present value was not determined by considering the total cash inflows and outflows at the given discount rate.
- Some students perhaps did not have the correct concept of the discount rate and used some irrelevant method to solve the problem.

**(b) Cost Function:**

This sub part asked examinees to determine the number of units to be produced to minimize the average cost per unit. A few examinees understood the requirement. Most of the students attempted to minimize the given cost function without first converting it into average cost function. Hence they concluded wrong result in finding the minimum average cost per unit and the total cost of production at the level of minimum average output.

**Question No. 4**

**(a) Median of Grouped Data:**

Most of the students wrote the correct formula of median but most of the students did not bother to identify the 'median class' prior to substituting the values in the formula. Because of continuous intervals there was no need to find the class boundaries as done by some of the examinees. Some examinees committed arithmetical mistakes in calculations.

**(b) Construction of Ogive:**

Most of the students perhaps did not know which data should be taken along x-axis and which one along y-axis. Boundaries of the classes were to be taken along x-axis and cumulative frequencies along y-axis. Neither boundaries nor cumulative frequencies were explicitly shown on the respective axes by most of the examinees. Some examinees attempted to draw histogram instead.

**(c) Confidence Intervals:**

Examinees were required to find a 95% confidence interval for the mean height of college students from a sample of 50 students. Some examinees used value of  $Z_{\alpha}$  instead of  $Z_{\alpha/2}$  in the formula. Based on this value,  $Z_{\alpha/2}$  was not consulted from the table. Even if consulted it was not correct to be  $Z_{\alpha/2} = 1.96$ . It was also observed that there was conceptual error of using 't' distribution notation  $t_{\alpha/2}$  instead of  $Z_{\alpha/2}$  even though 'n' was greater than 30.

**Question No. 5**

**(a) Equation of Regression Line:**

Some examinees did not use the correct formula for regression coefficients so that it resulted in the computation of incorrect values of the constants and hence incorrect equation of regression line. It is also noted that some of them used expression  $\frac{n\sum xy - \sum x \sum y}{n\sum y^2 - (\sum y)^2}$  in order to find the gradient term 'b' instead of using  $\frac{n\sum xy - \sum x \sum y}{n\sum x^2 - (\sum x)^2}$ .

This concludes that they attempted to use advertisement expenses as the dependent variable and sales as the independent variable. Thus they committed mistake in finding the correct equation. The fact is that the 'sales' is a function of advertisement expenses and not vice versa. Advertisement expenses must be an independent variable and sales a dependent variable as far as the reality is concerned although theoretically dependent and independent variables may be a matter of choice to give either of the form  $y = a + bx$  or  $x = d + cy$ .

**(b) 5-Year Moving Averages:**

In this part of the question, simple arithmetic was involved and the figures were to be placed at right positions. Unfortunately some students were not able do so. Some examinees did not take the correct number of years in order to perform division to compute the desired averages. Some examinees ended up writing percentages against each entry of the year against the requirement of the question.

**Question No. 6**

**(a) Normal Distribution:**

This part was related to normal approximation to binomial distribution for large value of 'n'. Most of the students left this part un-attempted. Those who did attempt, could not properly handle it. Correct z-scores were first to be found. Then the probability was to be found from the normal distribution table. Either step was not realized in the scripts.

**(b) Comparison of Variability:**

This part related to the comparison of variability of two sets of data expressed in different units of measurements. Examinees were required to decide as to which one of them was more consistent. Examinees could achieve this objective by means of computing the coefficients of variation of the given data. Coefficients of variation were not calculated through the required steps. Many students just calculated the means in two cases and stated the conclusion about the performances of two players on the basis of these values of means.

**EXAMINERS' COMMENTS  
FALL 2013 (FEBRUARY 2014) EXAMINATIONS**

**COMMERCIAL LAWS AND PROFESSIONAL ETHICS  
Semester-2**

**Question No. 2**

**(a) (i) & (ii) Definition of "Decision Reversed and Decision Overruled":**

Examinees were required to define two different types of decision taken by the appellant court against the decision of subordinate court in legal context. The overall performance of the examinees was satisfactory but following few shortcomings were observed:

- Most of the examinees defined two different decisions i.e., decision overruled and decision reversed in similar manner which means that examinees are not familiar with these decisions.
- Few examinees tried to explain the terms in a general way.

**(b) Delegated Legislation with its Advantages and Disadvantages:**

Most of the examinees attempted this part of the question and elaborated the process of making law through legislation in parliament rather than explaining the delegated legislation with its advantages and disadvantages.

**Question No. 3**

**(a) (i) Contract with Undue Influence and its Circumstances:**

Most of the examinees attempted this part of the question but could not answer in specific manner. Following observations are as follows:

- Rather than identifying the circumstances of undue influences some examinees highlighted the exceptions which make an agreement enforceable and valid without consideration.
- Some of the examinees tried to explain essentials of the valid contract.

**(ii) Breach of Contract:**

It was required to highlight the remedies available to a person in case of breach of contract and for which he can sue in the court of law. Examinees could not correctly attempt this part and committed following errors:

- Most of the examinees only highlighted one remedy i.e., damages but failed to identify other remedies such as injunction etc.
- Some of the examinees failed to elaborate the remedies in legal context and focused on more general description which was not supported by legal provisions.

**(b) Goods in the Light of the Sales of Goods Act, 1930:**

It was required to define the term goods and to elaborate its type in the light of the Sales of Goods Act, 1930 and also to highlight the status of intangible goods. Overall average performance was observed in this requirement and following errors were committed by the examinees:

- Majority of the examinees could not describe the term goods and discussed the types of goods such as tangible, intangible, seasonal and perishable goods etc.
- Most of the examinees failed to identify that intangible goods come under the definition of 'goods' as per the Sales of Goods Act, 1930 and wrongly answered that such intangible goods cannot be regarded as goods.

#### Question No. 4

**(a) Modes of Retirement, Liabilities before and after Retirement and Restrictions after Retirement:**

Examinees were required to identify the modes of retirement that can be adopted by a partner and the liabilities of a partner before and after retirement followed by certain restrictions. Most of the examinees attempted this part of the question but their answers were irrelevant.

- Examinees failed to understand the concept of retirement and mixed it with dissolution of firm.
- Many examinees elaborated the modes of dissolution rather than modes of retirement.
- In case of liabilities of a retiring partner before and after retirement, the examinees listed down the rights and liabilities of an acting partner as provided in the Partnership Act, 1932.

**(b) Ways a Bill of Exchange is Dishonored by Non-Acceptance and Its Effects:**

- The overall performance was below average. Due to lack of knowledge and concept many examinees discussed the time barred bills and un-presented instruments.
- Some examinees adopted a very wrong approach and have started irrelevant discussion on negotiable instruments.
- In case of effects of dishonored bill many examinees elaborated it in a criminal sense, which was a wrong approach and the right approach was to issue a notice. The drawer is held liable only in case of dishonor by non-payment.

#### Question No. 5

**(a) The Terms as per Pakistan Industrial and Commercial Employment (Standing Order) Ordinance:**

It was required to briefly define the terms as per law but the examinees generally described the concepts and produced irrelevant material.

- Majority of the examinees discussed the terms in more general way and unnecessary detail was given.
- Some examinees produced weak concepts of construction industry, employer and worker. They treated Principle Officer, Manager etc. as employer and in case of worker they defined a person as worker who draw a salary and failed to understand the difference between administrative staff and worker etc.

**(b) (i) Examples of a Manufacturing Process:**

Most of the examinees attempted this part of the question but they produced irrelevant answer and some of examinees explained the manufacturing process rather than focused on examples and wrote unnecessary detail in a general way.

**(ii) Procurement Methods:**

- Most the examinees adopted wrong approach to answer this part of the question and they explained the process of procurement rather than listing alternative methods of procurement.
- Examinees also explained irrelevant methods of procurement.

#### Question No. 6

**(a) Terms Under SAFA Code of Ethics:**

This part of the question was accurately answered by most of the examinees. However, some of the examinees defined these terms in general manner rather than specific manner.

**(b) Conflicts of Interest:**

Majority of the examinees attempted this part and overall performance was not satisfactory. Examinees committed following errors:

- Majority of the examinees did not understand this part and discussed the types of threats faced by an accountant such as advocacy threat, self review threat etc.
- Some of the examinees start discussing the fundamental principles of SAFA Code of Ethics.

**EXAMINERS' COMMENTS**  
**FALL 2013 (FEBRUARY 2014) EXAMINATIONS**

**FINANCIAL ACCOUNTING**  
**Semester-3**

**Question No. 2**

**Financial Statements:**

In this question, examinees were required to prepare the (a) Statement of Profit or Loss and (b) Statement of Financial Position. Only a small number of examinees answered this question well. Approximately every one of the examinees attempted this question and performed well in terms of calculation of figures or amounts but they were poor in presentation as per relevant IFRS or IAS. Mistakes committed by the examinees and suggested approach are as under:

- In the statement of profit or loss, some examinees could not deduct sales proceed of plant Rs. 300,000 from sales revenue, which was wrongly included in revenue.
- Mostly, examinees could not compute the correct figure of ending inventory. Damaged goods were included in the given figure of closing inventory, which should have been adjusted for loss on this damaged inventory taking into account the cost of remedial work and NRV.
- Majority of the examinees did not compute the current depreciation of plant on book value of the plant. They wrongly computed the same on the cost of the plant.
- Another major mistake observed was in the calculation of deferred tax and current tax. As per question, deferred tax liability was reduced to Rs. 560,000 at December 31, 2013, which should have been reported in the balance sheet. Examinees simply reported Rs. 600,000 as mentioned in the trial balance of the question. Examinees did not correctly calculate tax charge to profit or loss account as well. Tax charge should have been adjusted to Rs. 110,000 due to the reduction in deferred tax by Rs.40,000.
- Some examinees overlooked the 'revaluation reserve' which was created due to revaluation of land. It should have been incorporated into the financial statements.
- Presentation of financial statements was below standard.

**Question No. 3**

**Statement of Cash Flows:**

Examinees were asked to prepare 'statement of cash flows' using 'indirect method' in accordance with IAS 7. Satisfactory performance to some extent was found in this question. The presentation was satisfactory as well. Mistakes committed by the examinees were as follows:

- Some examinees could not put some items into their proper heads of activities. Sale of government securities and receipt of government grants should have been presented under 'investing activities' rather than 'financing' or 'operating activities'.
- Interest on the loan notes is paid each year on June 30, and December 31. For the first six months to December 31, 2012, examinees charged interest on Rs. 100 million correctly, but for the next six months to June 30, 2013, interest should have been charged on Rs. 60 million rather than on Rs.100 million because Rs. 40 million of loan notes were redeemed at par on December 31, 2012.
- In order to compute cash inflow from government grants, some examinees only considered the figures of government grants account from non-current liabilities, while both current and non-current portions of government grants, should have been accounted for.



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

##### **(a) Users of Financial Statements:**

Examinees were required to list down the users of financial statements. This theoretical question was designed to test the knowledge of examinees regarding the purposes of the Framework of IASB. Question was plain and uncomplicated. Most of the examinees attempted this part appropriately with the exception of some students who presented the formats of income statement and balance sheet instead of mentioning the users of financial statement namely investors, employees, lenders, suppliers, other trade creditors, customers, government and their agencies, and public.

##### **(b) Contract Accounting:**

In relation to a contract, examinees were asked to (i) compute the amounts of gross profit to be recognized in the years 2012 and 2013 and (ii) prepare relevant journal entries for 2013. Average performance was observed in this part of the question. Following shortcomings were witnessed:

- A few students applied wrong formula to compute the 'stage of completion' of the contract. The cost incurred to date should have been divided by total estimated cost in order to achieve the foregoing objective.
- Poor performance was observed in the calculation of gross profit to be recognized for the year 2013. Some of the examinees did not exclude the revenue recognized in previous year in order to calculate the gross profit for the year 2013 and consequently ended up computing the gross profit to date instead of that of for the year 2013.
- Majority of the examinees was poor in making journal entries of the contract.

##### **(c) Accounting for Taxation:**

Examinees were required to compute current/ deferred tax expense and current/ deferred tax liability to be recognized by the company in the statement of profit or loss and statement of financial position for the year to December 31, 2013. Majority of the examinees could not attempt this question properly. Examinees were unable to identify deferred tax liability at December 31, 2013. Examinees were generally found weak in the concept of deferred taxation.

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

##### **(a) Impairment Loss:**

In this question, examinees were required to work out the carrying values of various assets after recognizing the impairment losses at (i) March 1, 2013 and (ii) June 30, 2013. Below average performances by the students were witnessed in this part. A few examinees did not attempt the question at all. Only a few candidates could answer correctly. The conceptual understanding of the topic was not satisfactory. Following common mistakes were observed:

- Some examinees allocated impairment loss of Rs.2,000,000 on pro rata basis while the loss of Rs. 1,200,000 should have been allocated on pro rata basis. As per question, three of the rickshaws were blasted due to explosion of CNG cylinders and they no longer existed, therefore, Rs. 300,000 must first be written off in this regard. Then goodwill of Rs. 500,000 must have been eliminated and the balance of Rs. 1,200,000 was to be allocated on pro rata basis to the remaining net assets other than the rickshaws, which could not be reduced below their net selling prices of Rs. 100,000 each.
- Mostly, examinees could not answer the question regarding the allocation of second impairment loss, i.e., Rs. 600,000 as per the situation given in the question. Firstly, Rs. 134,000 should have been applied to the license to write it down to its net selling price, and then the remaining amount of Rs. 466,000 was to be equally allocated to parking area and workshop.

**(b) Revenue Recognition:**

Examinees were required to prepare an extract of statement of profit or loss showing the revenue, cost of sales and gross profit. Examinees were tested on the workings of a commission-based business and an independent business in trading. Mistakes noted during the assessment are as under:

- Examinees were unable to segregate the 'commission-based activities' and 'normal trading activities'. Due to this misunderstanding, many examinees computed wrong revenue, cost of sales and gross profit.
- Major mistake was found in the working of commission, Rs. 42,593 (10% of selling price of Rs. 425,926) in respect of mobile batteries. In respect of mobile chargers, selling price, Rs. 142,667 (cost of sales Rs.  $107,000 \times 100 \div 75$ ) was not computed correctly.

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**EXAMINERS' COMMENTS**  
**FALL 2013 (FEBRUARY 2014) EXAMINATIONS**

**ENTERPRISE MANAGEMENT**  
**Semester-3**

**General Comments:**

While checking the answer scripts following observations were found:

- It appeared that examinees have superficial understanding of concepts, except few students who had a good understanding.
- Makes appropriate but somewhat vague connection between issue/ problem and theory.
- Limited use of concepts from the theory.
- The students had very weak expression and were not able to synthesis their idea appropriately.
- Spellings mistakes are frequent.

**Question No. 2**

**(a) Four types of culture:**

In this question the examinees were required to discuss briefly four types of cultures in organizations differentiated by their structures, processes and management methods, as suggested by Harrison and Handy i.e. i) Zeus – Power culture ii) Apollo - Role culture iii) Athena - Task culture iv) Dionysus - Person culture. Most of the students answered the question in very general way. Some of the students mentioned types of different cultures but the explanation to each type was not up to the mark.

It is advised the students must read the question carefully and must understand what is being required in the question. The answers should have briefly described four types of culture as suggested by Harrison.

**(b) Five categories of management processes:**

The examinees had to explain the work of managers grouped into five categories of management processes as described by Peter Drucker. A majority of students gave their own explanations regarding planning, organizing, directing and controlling. They were unable to describe as per details given by Peter Drucker. The students should be vigilant about the requirement of the question.

Peter drucker grouped the work of the manager into five categories:

- Setting objectives for the organization.
- Organizing the work.
- Motivating employees and communication information
- The job of measurement covering/establishing objectives or yardsticks of performance for all personnel, analyzing actual performance against the objectives and communicating the findings and explaining their significance both to subordinate employees and also to superiors.
- Developing people.

**Question No. 3**

**(a) Six team roles:**

Examinees were required to identify and describe Belbin's six team roles. Few students were able to mention and explain them. Some of the students were able to write the role heading but were unable to explain them in respect of cover team role contribution and allowable weaknesses. Most of examinees were not in a position to understand the requirement of the question.

The students were supposed to describe at least six team roles which are as follows:

- Plant: Creative, imaginative, unorthodox
- Resource investigator: Extrovert, enthusiastic, communicative
- Co-ordinator (chairman): Mature confident, a good chairperson
- Shaper: Challenging, dynamic and thrives on pressure
- Monitor-Evaluator: Sober, strategic discerning
- Team worker: Co-operative, mild, perceptive and diplomatic
- Implementer: (company worker) Disciplined, reliable, conservative & efficient
- Completer-Finisher: Painstaking, conscientious, anxious
- Specialist: Single-minded, self-starting, dedicated

**(b) Three levels of control:**

Examinees were required to discuss three basic levels of control of managerial activities. Few students answered satisfactorily as they were able to elaborate Strategic Control, Tactical Control and Operational Control with all their sub points. This was a simple question however, it is felt that most of the students' were not prepared properly for the examination. The answers were vague and of sub standard.

**Question No. 4**

**(a) Principles of scientific management:**

The question carries two parts first one was about the principles of scientific management and second, to identify some new trends that have emerged from the focus on flexibility as a key organizational value. It was observed that most of the students missed the second part of the question. This shows either they did not study properly or did not pay attention to this part of the question. Most students had a vague idea about different points about principles of scientific management i.e.

- (a) The knowledge which the workers have should be gathered and recorded by management.
- (b) Workers should be carefully trained and given jobs to which they are best suited.
- (c) The bringing together of the science and the scientifically selected and trained men be willing to maximize output should result in maximum productivity.
- (d) The constant and intimate co-operation between management and workers results positively.

**(b) Methods of measuring quality:**

This question was simple and required to describe two methods of measuring quality. It was observed that some of the students were successful to elaborate methods of measuring quality successfully while others failed. The other examinees gave very different reply. Methods of measuring quality include SERVQUAL, balanced scorecard, and value for money (VFM) audit. SERVQUAL measured five aspects of quality and it also known as RATER (reliability, assurance, tangibles, empathy, and responsiveness). Balanced scorecard focuses on four perspectives: customer, internal operations, innovation and learning. Value for money (VFM) audit measured key aspects of performance, such as: money spent, inputs purchased, outputs and outcomes achieved.

**Question No. 5**

**(a) Corporate governance:**

Overall performance in this part found satisfactory. Most of the students were able to explain factors which play vital role in failure of good governance. The answers of some students were irrelevant and found unsatisfactory. They should have explained these points for the failure of good governance i.e.

- i) domination by a single individual
- ii) lack of involvement of board of directors
- iii) lack of adequate control function
- iv) lack of independent scrutiny
- v) lack of contact with shareholders
- vi) emphasis on short-term profitability
- vii) misleading accounts and information
- viii) lack of supervision.

**(b) Marketing Strategy:**

This question required to discuss the key activities involved in marketing strategy through which an organization decides which market to attack and how to position itself within each market. A majority of examinees did mention marketing strategy headings but the explanation was imperfect. They must have a clear idea about marketing strategy. A small number of examinees were able to explain the key activities of marketing strategy successfully.

**Question No. 6**

**(a) Principles of continuous improvement by Kaizen:**

This question carries two parts of process discussing the principles of continuous improvement by Kaizen and the tools used in this process. It was observed that most of the students missed the second part of the question. The emphasis was on principles of continuous improvement. Here many students gave a very general answer where as it was restricted to Kaizen. This shows either they did not study properly or carelessness on their parts. The answer should have covered the principles of continuous improvement by Kaizen,

**(b) Buyer behaviour:**

Examinees were required to identify and briefly explain the five steps in continuous decision making. It was noted with pleasure that a major number of students understood the requirement of the question and they had all the necessary knowledge and data to answer the question. Nearly all the students answered the question in a befitting manner. In this regard the steps were i). Need/problem recognition ii). Pre-purchase/ information search iii). Evaluation alternatives iv.) The purchase decision v). Post Purchase evaluation, Most of the examinees were able to explain it suitably.

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**EXAMINERS' COMMENTS  
FALL 2013 (FEBRUARY 2014) EXAMINATIONS**

**INFORMATION SYSTEMS AND I.T. AUDIT  
Semester-3**

**General Comments:**

Mostly examinees discussed irrelevant details and lacking in technical concepts. Expert system, disk-based backup, SLA and Network security was the weakest areas of majority of the examinees. Answer scripts showed that examinees do not cover/ read whole syllabus, but read selected topics. Examinees wrote whatever they know without keeping relevance with given questions. Students are required comprehensive study and special attention in this subject. They are advised to consider the following points:

- Technical concept should be improved.
- Answer should be relevant and precise.
- IT Audit was the weakest area of examinees which is need to be more focused during theory sessions.
- Students must be aware with latest development in the field of I.T.
- Students should read question paper carefully before answering. Avoid irrelevant details which were not asked in question paper.

**Question No. 2**

**(a) Hyper Media Database:**

This part of question was required to explain the features of hypermedia database and elaborate difference between traditional database and using worldwide web metaphor approach. Majority of examinees attempted this question, however, while differentiating between traditional & web database searching approach, majority of examinees knew but unable to precisely explain the basic structure, information retrieval & query mechanism and method of controlling data quality. Searching these two types of database.

**(b) Forward vs backward chaining:**

Majority of examines had failed to explained these two type of logics used by expert system in effective decision making. Forward chaining starts with data and tries to draw conclusion from the data, especially if trying to determine all of the conclusion implied by the data when there is no clear goal. While Backward chaining starts with a tentative conclusion and then looks for facts in the database supporting that conclusion. As a part of backward chaining, the expert system may identify facts that would confirm or deny the conclusion and then look up these facts in a database or ask the user questions related to these facts. After that any suitable case based example is required to differentiate between these two logics.

**Question No. 3**

**(a) Disk based backup systems:**

This was the simplest question but majority of the examinees just explained superficial information in this part. Examinees are expected to explain different types of disk-based backup systems as a part of BCP strategies, some of disk-based back up systems are as follows.

- i. Virtual tape libraries (VTLs)
- ii. Host-based replication
- iii. Disk-array-based replication
- iv. Snapshots

**(b) Forward vs reversed e-auction:**

It was expected to differentiate between forward and reversed e auction activity in Ecommerce. Also suitable example of each type of auction is required in this part. Further it is required to explain briefly the role of broker and barter in e-marketplace.

This was one of the easiest part of the question paper, but answer scripts reflected that majority of the examinees did not grasp the question and wrote mostly details about Ecommerce business models like B2C, B2B, C2B, G2B and G2C rather than focused on Forward and Reverse auction mechanism. Majority of the examinees had failed to present relevant examples of forward and reverse e auction, however examinees knew about role of broker and barter in e-marketplace. Overall progress in this part remained below average.

**Question No. 4**

**(a) Hardware maintenance program:**

In this part it is required to elaborate mandatory information, which should be included /maintained in any hardware maintenance program document. It was expected from examinees to include all required activities, preventative & corrective measures, spare parts lists etc which should be a part of any service level agreement (SLA) document. Also it was required to discuss hardware monitoring procedures and reports for monitoring the effective and efficient use of hardware.

Most examinees attempted the question by discussing non-relevant details like CPU utilization/ performance, storage, memory etc in hardware maintenance program that clearly showed the lack of understanding of operation and maintenance SLA document. Majority of examinees have no idea about mandatory procedures and reports required for monitoring hardware maintenance program effectiveness/ progress.

**(b) Request for proposal (RFP):**

Request for proposal is an important document which should be evaluated prior to assignment of any project. It was required to enlist and explain seven different areas which should be included in any RFP documents contents. Progress of entire group was unsatisfactory in this part. Mostly examinees have no idea about main contents of any RFP document which should be evaluated by technical and than financial aspects. Majority of examinees answer was not precise and up to the mark.

**Question No. 5**

**(a) Data conversion process:**

Data migration is a critical activity and becomes a project within a project. It is required to discuss necessary steps for a successful data conversion process.

This part of question was easy and majority of examinees knew steps which required for data conversion process, however, some of the examinees technical concept was found weak and often repeat same steps intermittently. Proper sequence of data conversion procedure was not observed in many answer scripts. Mostly students have good concept but unable to represent their knowledge in required sequence precisely.

**(b) Remote access:**

It is required to describe different remote access methods and elaborate different techniques to implement remote access security on organizational intranet against any intruder, cracker and hacker.

Mostly answers were irrelevant and without showing any knowledge and concept of remote access techniques and its security implementation. Mostly examinees had discussed firewall and its different types. Majority of examinees had weak concept of remote access connectivity methods using Telnet, SSL, VPN, RAS, AAA etc and techniques how to ensure remote access security aspects.

**Question No. 6**

**TPS/MIS/EIS:**

It is required to explain first function of Transaction processing system, Management information system and Executive information system. After that it was required to explain why MIS preferred over TPS and similarly why EIS preferred over MIS. Further examinees were expected to comment that "Do MIS and EIS really solve manager's problems" with proper justification.

Majority of examinees have good concept in this part and explained function of TPS, MIS and EIS and why MIS preferred over TPS and similarly EIS preferred over MIS. However, it was observed that some examinees had confusion while justifying, either MIS and EIS fulfil requirement of middle and senior level managers or not.

Do MIS and EIS really solve Manger's problem: In fact, different mangers have different types of responsibilities. An MIS for a first line manger deeply involved in the details of how work is done would be very different from an MIS for a high-level manager, who is more concerned with making an entire organization operate effectively. Top managers are also concerned with developing and instilling a long-range vision of where the organization is going.

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**EXAMINERS' COMMENTS  
FALL 2013 (FEBRUARY 2014) EXAMINATIONS**

**MANAGEMENT ACCOUNTING  
Semester-4**

**Question No. 2**

**(a) Capital/ Revenue Expenditure:**

Examinees were required to define capital expenditure and then to state how it differs from revenue expenditure. Following common errors were observed:

- Most of the examinees attempted this question in financial management accounting terms instead of management accounting. They focused on how to finance capital expenditure instead of writing its definition.
- Some examinees mixed up capital expenditure with initial investment.

**(b) (i) Quarter-Wise Trend:**

Overall poor performance was observed in this requirement, moreover following shortcomings were noticed:

- Examinees were required to calculate trend from the data given, instead of taking the total of four quarters examinees made calculation for 3 quarters resulting in wrong moving average and trend.
- Some examinees calculated an independent increase in demand by 10% for each quarter as trend which was totally wrong.
- Few examinees gave theoretical explanations for this requirement.

**(ii) Seasonal Variances:**

- Some examinees gave a theoretical explanation for this part as well which was totally irrelevant. Moreover as the trend calculated in requirement 'a' was wrong, resultantly the seasonal variance also went wrong.

**Question No. 3**

**Variances and Operating Statement:**

Majority of the examinees correctly attempted this part. However, most of the examinees could not completely solve the question. Moreover, few mistakes committed by the examinees are as under:

- Few examinees did not deduct the idle time from the actual direct labour hours for calculating the variable production overhead expenditure and efficiency variance. Majority of the examinees did not place the calculated variances in the operating statement.
- Few examinees placed the calculated variances in the boxes given in the question paper instead of preparing the operating statement in the answer script.
- Some of the examinees made errors in determining whether the variance was favourable or unfavourable.

**Question No. 4**

**(a) (i) In-House Packing:**

Only few examinees were able to attempt this part, majority of the examinees failed to understand the concept and applied wrong approach hence, could not reach the answer. However, following mistakes were pointed out:

- Examinees used the cumulative factor for determining the NPV instead of using PV factor for each year.
- Most of the examinees used constant amount of depreciation for each year, instead of applying 10% depreciation rate on WDV.
- The cash flow at the beginning of the project was ignored by most of the examinees.

**(ii) Outsourcing:**

Most of the examinees were unable to calculate the amount of depreciation correctly as they did not determine the correct amount on which depreciation was to be calculated. The amount had to be determined by adding the tax WDV before investment to the amount of investment.

- (b)** Most of the examinees could not correctly answer this part. Since part 'a' of this question was not correctly solved by the examinees therefore, they were unable to state the other factors which should be considered while taking a decision.

**Question No. 5**

**(a) (i) Production Mix:**

Majority of the examinees performed exceptionally well in this requirement, except few of them who had lack of understanding of the topic. However, following common errors were noticed:

- Few examinees could not identify the limiting factor, and thus ranked the products wrongly, resultantly the suggested production mix was wrong.
- Some examinees tried to rank the products on given contribution margin, instead of calculating contribution margin on limiting factor.

- (ii)** Overall poor performance was observed in this part of the question. However, majority of examinees failed to apply appropriate approach and committed following mistakes:

- As most of the examinees could not identify the limiting factor in requirement 'i' and ranked the products wrong, resultantly the amended production mix was also wrong.
- Few of the examinees gave their answers in theoretical form and negated the idea of accepting the order, although in the beginning of this part it was clearly stated that they wish to guarantee the supply which meant they will alter their plan.

- (b) (i)** A very few examinees were able to comprehend the question.

- Majority of the examinees defined the environmental cost and management accounting separately instead of defining the complete term "environmental cost and management accounting".
- None of the examinees could clearly define the term and it was clearly evident that the topic was not reviewed by any of them.

- (ii)** The examinees had to narrate the main elements of environmental management system. They did not understand the requirement and answered the ways to manage internal/external environment, which was a wrong approach.

**Question No. 6**

**(a) Income Statement:**

Average performance was observed in this part and they committed following errors:

- Most of the examinees did not calculate the interest on year 2013 of both the companies, resultantly the taxable income, tax calculated and net income went wrong.
- Most of the examinees had not followed a proper format in making the income statement and therefore, missed out many of the figures and failed to reach the correct figure of net income.
- Many of the examinees compared net income of one company to another of the same year, although the requirement was to compare the performance of each company of its own comparative data of its past 2 years.
- Some of the examinees did not mention the figures correctly and added extra zeros as they did not carefully read the amounts in the question paper.

**(b) Riskier Company and Reasons:**

Examinees had to identify the riskier company and explain its reasons, as the net income calculated was wrong they could not answer this requirement. Moreover, instead of analysing the liquidity, profitability and gearing ratios of the companies, examinees just commented on profitability.

**(c) Various Ratios:**

Almost all the examinees correctly calculated current and quick ratios. However, only few could solve the other parts in correct manner. Following shortcomings were observed:

- Most of the examinees wrongly calculated the receivable, inventory and payable turnover ratios. They were unclear of what turnover means and how it is to be determined.
- Some of the examinees had tried to calculate the turnover in percentage form which was useless.
- Some examinees used 360 days to calculate the turnover, although 365 days have to be used unless mentioned in the question.
- Many examinees tried to calculate the turnover for both the years, although the question clearly stated that the turnover had to be calculated for the year 2013 only.
- Since the examinees could not calculate the turnovers correctly, the cash conversion cycle could not be determined by any of them.

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**EXAMINERS' COMMENTS  
FALL 2013 (FEBRUARY 2014) EXAMINATIONS**

**BUSINESS TAXATION  
Semester-4**

**Question No. 2**

**(a) Electronic Record:**

Majority of the examinees attempted this part of the question but answered on the basis of general knowledge instead defining in the context of Income Tax Ordinance, 2001. Following shortcomings were observed:

- Most of the examinees mentioned that the records which are kept in electronic form i.e., in CDs, tapes and computers are called electronic record.
- Some examinees defined electronic record as e-filing system which individual file for the Income tax purpose.

**(b) (i) Advance Tax Liability:**

Most of the examinees did not read the question carefully and misinterpreted the answer. Some common errors were observed are as under:

- The question relates with "sole proprietorship business" which comes under the ambit of 'individual' as per the Income Tax Ordinance, 2001 but examinees wrongly presumed it as a 'company'. Most of the examinees quoted formula " $A \times B/C-D$ " of calculation of advance tax, which is used for "company and association of person" and not for an individual.
- Some examinees wrote correct formula i.e.,  $A/4 - B$  but unable to explain 'A' and 'B' mentioned in formula.

**(ii) Period of Quarter and Last Date of Payment of Advance Tax:**

Almost all the examinees attempted this part of question and performed well. However, few of them did not clearly mentioned the "**quarter period**" and following mistakes have been observed:

- Few of the examinees quoted "last date of the quarter end month" i.e., 25<sup>th</sup> or 30<sup>th</sup> September, 25<sup>th</sup> or 30<sup>th</sup> December etc.
- Some examinees wrote "three (3) months" as a period of quarter instead of specifying the name of period such as January to June, July to September etc.
- Many of the examinees quoted the name of period as the last month of quarter i.e., June/ September.

**(iii) Sources of Income not included in Computation of Tax and Taxable Income for Advance Tax:**

Most of the examinees attempted this part of question but only few were able to mention the correct answer. Majority of the examinees wrote dividend income, royalty income, income from other sources, income from property etc., but not mentioned as "separate block income" and "incomes under the PTR/ FTR", which is a broader heading in which all above mentioned incomes comes.

**(iv) Adjustment of Advance Tax Instalments:**

Majority of the examinees attempted this part but overall performance was poor in this question. Moreover, examinees answered in the following manner:

- A very few examinees were able to elaborate that a taxpayer has the right to make revise estimate of his income or adjust the last quarter instalment according to actual facts and figures of tax withholding receipt basis.
- Most of the examinees wrote that the excess advance tax paid would be adjusted from the tax liability.
- Few examinees explained that the CIR adjust the instalments on the basis of estimates in case of less income expected as compared to previous year.

### Question No. 3

#### (a) (i), (ii) & (iii) Residential Status:

Examinees were required to determine the residential status of the clients under given scenarios. This question was well attempted by the examinees. Most of the examinees knew about the number of days required for residential status and also residential criteria of Federal Government employees. However, few examinees committed following mistakes:

- In scenario (iii), many examinees counted days during stay in Karachi due to cancellation of flights for residential purpose which was wrong.
- Mostly examinees considered wrong tax year to calculate the days for determining residential status of a person. Instead of considering that tax year ends on June 30, they took January to December as tax year.

#### (b) (i) Normal Tax Regime (NTR):

Majority of the examinees attempted this part but poor performance was observed due to their wrong understanding of tax computation under Normal Tax Regime. They wrote incorrectly about how to calculate the tax computation under this regime, how and which of the deductions are allowable and which of the other incomes are to be clubbed and which are not, before charging tax rate.

#### (ii) Separate Tax Regime (STR):

Majority of the examinees due to their wrong understanding of tax computation under Separate Tax Regime incorrectly attempted this part. They did not know about the separate computation of tax under this regime for other income and allowable deductions. They even had no idea about whether STR incomes are clubbed with total income or not before charging total tax rate.

#### (iii) Final Tax Regime (FTR):

Final Tax Regime is deducted or collected at source, full and final discharge of tax liability in respect of such incomes/transactions is considered. But examinees defined this regime generally, which shows lack of study on the topic.

#### (iv) Minimum Taxation Regime (MTR):

Poor performance was observed in this part. Examinees were not clear, whether taxpayer is taxable under NTR or under MTR, how minimum tax is calculated and adjusted in the annual tax return. They just attempted in a general way.

### Question No. 4

#### (a) Calculation of Taxable Income and Tax Liability of Individual:

All examinees attempted this question and performed exceptionally well in this requirement, but no one was able to calculate the correct taxable income and tax liability. Following short comings were observed in this question:

- Some examinees mentioned in the notes that House Rent Allowance is taxable up to 45% of basic instead of mentioning that it is totally taxable.
- Many examinees had not included Leave Encashment in the computation of taxable income and treated as exempt income.
- Many examinees did not know the treatment of gratuity and ignored the exemption limit of Rs.200,000 available to approved gratuity scheme.
- Almost all examinees failed to calculate the taxable income on property. The major mistakes were calculation of advance not adjustable against rent, addition and deletion of property tax paid by tenant and repair allowance which is  $1/5^{\text{th}}$  of Rent Chargeable to Tax.

- Few examinees ignored share from unregistered person (AOP) to be included in taxable income for rate purposes.
- Few examinees deducted zakat from the tax liability instead of deducting it from total income.

**(b) Tax Rebate to Senior Citizens:**

Many of the examinees failed to explain “50% senior citizen tax rebate” and its basic requirement for entitlement both “60 years of age and taxable income below Rs.1 million”, they only considered age factor for decision making.

**Question No. 5**

**(a) (i) Withholding Agents (WA):**

Examinees were required to define the categories of withholding agents under the Sales Tax Special Procedure (Withholding) Rules, 2007 and majority of them attempted this part and performed well.. However following common errors were observed:

- Few of the examinees were confused whether it is same as income tax withholding or something else. Therefore they quoted importers, whole seller and retailers as withholding agents (with conditions) whose turnover exceeds limit of Rs.50 million, just as given under section 153(1) & (7) of the Income Tax Ordinance, 2001 (for individual and AOPs) under the definition of “Prescribed Person”.
- Some examinees wrote ICAP, ICMA Pakistan, accountant as withholding agent which is wrong.

**(ii) Withholding Certificate (WC):**

This part was well attempted by the majority of the examinees. However, some of them attempted in a general way while some wrote irrelevant particulars of withholding certificates. Few examinees wrote the date of issuance of certificate.

**(b) (i) Goods on which Input Tax not be Claimable:**

Majority of the examinees attempted this part of question but very few of them answered correctly. Following shortcomings were noticed:

- Majority of the examinees quoted names of various goods.
- Examinees tried to list down the goods on which input tax cannot be reclaimed, with respect to the non-registered person instead of registered person.

**(ii) Cases related to Reclaim of Input Tax:**

**Case I:**

Most of the examinees were unable to write the correct reason for claiming the input tax which is on taxable supplies only. Majority of them wrote input tax can be claimed on both type of goods i.e., taxable and non-taxable.

**Case II:**

Almost all the examinees gave the correct answer except few examinees who mentioned that the “unregistered person can claim input tax in respect of taxable supplies”.

**(c) Procedures for Returning the Goods:**

Overall poor performance was observed in this part of question. Moreover, following common mistakes were committed by examinees:

- Majority of examinees failed to mention the time within which goods are returnable i.e., 180 days.
- Many examinees ignored few steps of procedure i.e., “Issue of Debit and Credit Notes in Duplicate”.
- None of them mentioned information parts of Debit and Credit Note.

**Question No. 6**

**(a) Sales Tax Liability of a Private Limited Company:**

Worst performance of examinees was observed in this part of the question. Following shortcomings were observed:

- None of the examinees calculated the total sales tax liability correctly.
- Very few of the examinees applied 3% in addition to 17% sales tax for import of finished goods, either detergent or other than detergents.
- Most of the examinees applied 16% rate instead of 17%.
- Majority of the examinees were failed to mention the restriction for claiming 90% of output tax.

**(b) (i) Establishment:**

Almost all the examinees attempted this part and better performance was observed.

**(ii) Non-Fund Banking Service:**

Examinees were confused about non-fund banking service and mixed it with other banking services. Examinees had no idea that non-fund banking service includes all non-interest based service against the consideration in the form of a fee, commission or charges.

**(c) When the Capital Value Tax (CVT) is Payable:**

Majority of the examinees answered generally. Most of them mixed up the capital value tax with capital gain or applied some rates i.e., 10%, 15%, 20% on value of assets etc.

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**EXAMINERS' COMMENTS**  
**FALL 2013 (FEBRUARY 2014) EXAMINATIONS**

**CORPORATE LAWS AND SECRETARIAL PRACTICES**  
**Semester-4**

**Question No. 2**

**(a) Removal of CEO:**

- (i) All the examinees attempted this part and average performance was observed. However, following common mistakes were committed by examinees:
- None of the examinees have mentioned the relevant legal provisions of the Companies Ordinance, 1984.
  - Very few examinees mentioned the date on which the director can be removed.
  - The legal requirement of number of directors is three-fourth of the total number of directors, but majority of the examinees wrote 3/4th of the members of the company.
- (ii) Following shortcomings were observed in this part of the question:
- Many examinees mentioned members' authority without the requirement of passing special resolution.
  - Some examinees misconstrued that there is no other authority.
  - Some examinees wrongly described the other authority as SECP or court.
- (iii) Very few examinees mentioned the exact requirements of section 199 (1) of the Companies Ordinance, 1984 while rest of the examinees committed following common errors:
- Many examinees did not know the correct time period of 14 days.
  - Few examinees correctly described the tenure of CEO office as upto 3 years while others mentioned that the new CEO will hold the office for remaining tenure of the outgoing CEO etc.

**(b) Eligibility of CEO:**

Majority of examinees attempted this part of the question correctly. However, some of them made following mistakes:

- Majority of the examinees wrongly answered that the chief executive must be a member of the company.
- Some examinees opined that disclosure of interest is sufficient for the CEO.
- Some examinees suggested that a person can/ should obtain membership before becoming CEO.

**(c) Share Subscription Money:**

- (i) Unsatisfactory performance was observed in this part. Majority of the examinees committed following mistakes:
- Most of the examinees were unaware of the exact number of days, on which decision was required to be taken for closure of subscription list and refund to applicants. Very small number of examinees were able to answer it correctly.
  - Many examinees mentioned incorrect time/dates and some of them mixed-up the two items.
  - Some examinees could not identify the significance of acceptance before time and mentioned the maximum time of refund.
- (ii) In this part, examinees were required to specify last dates for acceptance and refund of money but they committed the following mistakes:
- Many examinees calculated the last date of refund from the maximum time available for acceptance rather than the actual date when the decision was made.
  - Some examinees omitted the first part of the question.



**(iii) Responsibility for Delay:**

It was required to identify a person responsible for delay in refund but many examinees mentioned incorrect persons e.g., company secretary, CFO, management, chairman. Some examinees identified the director as responsible but without specifying that he is 'jointly and severally' liable.

**(iv) Surcharge Payment:**

Examinees made following mistakes in this part of the question:

- Many examinees erred in giving the time period and some of them even mixed up with the time for refund.
- Many examinees were also not aware of the prescribed rate and wrongly wrote 1%, 10%, 15% etc.

**Question No. 3**

**(a) Place of AGM:**

**(i)** Majority of the examinees have given the correct answer in this part. However, few of them committed following mistakes:

- Examinees misconstrued the place i.e., places of stock exchange, province where registered office is situated etc., instead of mentioning the town where registered office is situated.
- Some examinees had the misconception that AGM is to be held at the registered office itself rather than the town where registered office is situated.

**(ii)** In this part, examinees were asked to mention the options if the AGM is held in the city other than Karachi. Majority of examinees could not answer and made these errors:

- Many examinees discussed about the particular place that could be chosen rather than the legal options available for alternative place.
- Some examinees mentioned registrar is the authority to grant permission for alternative place rather than the Commission.
- Some examinees misconstrued that choice of Islamabad is automatically available i.e., no need of permission.

**(iii) Authority for Permission:**

Majority of examinees performed well but few of them answered generally. Following shortcomings were observed:

- Some examinees wrongly mentioned that the board or registrar is competent authority to give the permission.
- Few examinees did not discuss the condition part of the question and some restricted it to the specific condition given in the question.

**(b) Non-Payment of Dividend:**

Majority of the examinees were not able to understand the true sense of the question and instead of explaining the justification which the company can use for her protection; they explained the various types of dividend, which was not required.

- Many examinees discussed non-declaration instead of the non-payment of dividend.
- Some examinees discussed stock dividend that was not relevant at all.
- Most of the examinees discussed the process of declaration and distribution of dividend.

**(c) Dissenting Note in Minutes of Meeting:**

Majority of examinees attempted this part but very few answered the correct rights of director to be incorporated in dissenting note of minutes, under the code of corporate Governance, 2012. Common mistakes are as follows:

- Majority of examinees answered that the directors are required to refer the dissenting note to the board or to the commission directly, which was a wrong concept.
- The examinees did not answer that the objection should be filed with the SECP within 30 days from the date of confirmation of minutes of the meeting.
- Some examinees mentioned irrelevant remedies e.g., calling AGM/EGM, suit in the court etc.

**Question No. 4**

**(a) CSR Disclosure/ Activities:**

Majority of the examinees wrongly answered this requirement, they also failed to mention that the disclosure is required at end of financial year in the director's report. Following shortcomings were noticed:

- Many examinees discussed irrelevant matters e.g. nature, purpose etc. of the CSR rather than the disclosure requirements.
- Some examinees mentioned disclosure in the notes of final accounts instead of the requirement for disclosure in the directors' report.
- Most of the examinees opined to describe the activities.
- Some misconstrued it as good treatment of employees by the employer and some others thought it as dispensing good governance.

**(b) SECP Policy Board:**

- Almost all the examinees failed to mention that the board will be appointed by the Federal government.
- Most of the examinees used wrong perception regarding the board members and its number and they answered 10 instead of 9 members.
- Some examinees discussed the tenure of the board or the functions of SECP without relevancy.
- The ex-officio positions were mostly incorrectly described.

**(c) Securitization:**

- The examinees failed to write the proper definition of securitization which is given in the Companies (Asset Backed Securitization) Rules, 1999.
- Some examinees discussed 'security' instead of 'securitization'.
- Some examinees wrongly discussed buy back process of shares.

**Question No. 5**

**(a) Modaraba, Modaraba Company, and Modaraba Fund:**

Majority of the examinees have given the correct answer, very few examinees misinterpret the requirement and wrote the functions of Modaraba, instead of writing definitions. Few mistakes committed by the examinees are as under:

- Some examinees discussed 'Modaraba Company' instead of 'modaraba'.
- Some examinees wrote 'modarba' as representing the entire Islamic mode of financing.
- Some examinees wrote that modaraba companies are registered under the Modaraba Ordinance, 1980 instead of engaged in the business of floating and managing modaraba.
- Some examinees misconstrued that it represents money available with Modaraba Company.

**(b) Liquid Assets:**

Examinees mentioned correct definition of liquid assets. Examinees were also required to list the liquid assets in respect of non-banking finance companies and notified entities but almost all the examinees become confused and explained general liquid assets instead of non-banking finance companies liquid assets.

**Question No. 6**

**(a) Board Resolution:**

None of the examinees mentioned the extract of minutes for opening of bank account which was the main requirement. However, examinees wrote a letter to the bank in which they tried to mention the extract of minutes for opening of bank account.

**(b) Legal Obligations of Company Secretary:**

Majority of examinees performed well in this requirement, however following mistakes were committed by some of them:

- Some examinees discussed all duties of company secretary instead of the legal obligations.
- Few examinees unnecessarily described the qualities and skills of company secretary.
- Some of the examinees repeated the duties of company secretary.

**(c) Qualifications of Company Secretary:**

Majority of the examinees have mentioned the qualification requirements of company secretary of public limited company, whereas the question was to write the qualification requirements of single member company. Many examinees mentioned lots of irrelevant qualifications.

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**EXAMINERS' COMMENTS**  
**FALL 2013 (FEBRUARY 2014) EXAMINATIONS**

**ADVANCED FINANCIAL ACCOUNTING AND CORPORATE REPORTING**  
**Semester-5**

**Question No. 1**

**(a) Consolidated Financial Statements:**

In this question, examinees were required to prepare (i) Consolidated Statement of Profit or Loss and (ii) Consolidated Statement of Financial Position of a limited company. Majority of the examinees attempted this question but overall performance was not satisfactory as the examinees seemed to lack the knowledge of the relevant topics. Following are the common mistakes as given under the heading of each statement:

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

- The Excel Ltd., acquired interest in two companies Good Ltd., (80% holding) and Fair Ltd., (30% holding). Only the statements of profit or loss of Excel Ltd., (parent company) and Good Ltd., (subsidiary company) were to be consolidated. A good number of examinees could not distinguish this relationship and prepare consolidated statement of profit or loss of all three companies.
- The amounts of goods sold by parent company to subsidiary and by subsidiary to parent company were not eliminated from consolidated revenue and cost of sales by some of the examinees.
- Likewise, the consolidated cost of sales was not correctly calculated mainly because the total amount of the unrealized profits (Rs. 2.4 million and Rs. 2.0 million) was to be added to the consolidated cost of sales. Examinees failed to add the same.
- Similarly, majority of the examinees did not calculate finance cost correctly as they failed to take into account the mark-up of Rs.429,000 on deferred consideration.

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

- In this case also only the statements of financial position of Excel Ltd., (parent company) and Good Ltd., (subsidiary company) were to be consolidated but a good number of examinees repeated the same mistake as they wrongly prepared consolidated financial statement of all the three companies.
- The majority did not calculate the correct amount of property, plant and equipment due to the reason as discussed above and due to ignoring the net revalued amount of the property, plant and equipment of the subsidiary at the year-end i.e. Rs. 4 million (revalued amount Rs.5 million – additional depreciation of Rs.1 million).
- The majority of the examinees did not calculate the correct amount of other intangibles due to failing to take into account the net amounts of cliental base (Rs.4.8 million) and brand name (Rs.4.5 million) belonging to the subsidiary, which was taken into account at the time of acquisition of the subsidiary.
- A good number of examinees were not able to calculate correct amount of goodwill mainly due to wrong calculation of purchase consideration, since they failed to take into account the present value of deferred consideration.
- The majority of the examinees did not calculate the correct amount of consolidated figure of inventories as majority of the examinees did not subtract the amounts of unrealized profits from the consolidated inventory. Majority of the examinees could not calculate the correct figure of unrealized profit of sale from associate to the parent. They computed it as Rs.500,000 instead of Rs.150,000 (30% x Rs.500,000).
- Majority of the examinees did not calculate the amount of consolidated retained earnings properly as majority of the examinees could not take into account the share of profit from associate, finance cost on deferred consideration or unrealized profits.

- Majority of the examinees did not calculate the amount of deferred consideration properly as they ignored the present value concept.
- Majority of the examinees lacked clarity of presentation while preparing the workings to support their answers.

**(b) Management Commentary and its Elements:**

In this part of the question, examinees were required to define 'management commentary' and describe the 'elements of management commentary'. Majority of the examinees attempted this question and the overall performance of the examinees was satisfactory. A few of the examinees did not understand the question and wrongly resorted to list down the components of 'financial statements' and 'corporate social responsibility'.

**Question No. 2**

**Consolidated Statement of Cash Flows:**

In this question, examinees were required to prepare consolidated statement of cash flows using 'indirect method' as required by IAS-7. Majority of the examinees attempted this question and answered the question very well. Nevertheless, following are some common mistakes as given under each category:

*Cash Flows from Operating Activities:*

- Some of the examinees did not make adjustment for the gain on sale of non-current assets i.e., Rs.300,000 (500,000 – 200,000).
- Most of the examinees did not calculate the amount of income tax paid correctly as Rs.704,000, since they failed to take into account the tax of Rs.55,000 of the subsidiary acquired during the year.

*Cash Flows from Investing Activities:*

- A few examinees did not take into account the proceeds of Rs.500,000 from the sale of non-current asset.
- A good number of examinees were not able to calculate the correct amount of cash outflows for the purchase of non-current asset, mainly due to wrong or no adjustments for the disposal of non-current asset and current depreciation amounts.

*Cash Flows from Financing Activities:*

- Most of the examinees did not correctly calculate the amounts of cash inflows from issue of equity shares, Rs.5.040 million and Rs.2.168 million raised through share premium account, because they could not segregate the cash and non-cash issue in both the heads as mentioned above.
- Most of the examinees did not correctly calculate the amount of cash outflow for payment of finance lease, Rs.800,000, mainly due to non-consideration of current portion of finance lease in their workings.
- A good number of candidates calculated the relevant figures of cash flows correctly but a few of them were unable to identify whether they were cash inflows or outflows.
- A few examinees did not prepare the sufficient workings to support their calculations of cash flows.

**Question No. 3**

**(a) Post Employment Benefit Plan:**

In this part of the question, examinees were required to calculate the amounts to be shown in the statement of financial position, statement of profit or loss and statement of other comprehensive income. A good number of examinees attempted this question correctly. Nevertheless, following shortcomings were observed:

- Examinees directly mentioned the present value of plan obligation and fair value of plan assets without showing the relevant workings in support of their answers due to lack of presentation skills.
- Some candidates included the remeasurement gain/ loss on the obligation and plan assets in the statement of profit or loss instead of showing the same in the statement of other comprehensive income.

**(b) Issuance and Redemption of Convertible Bonds:**

In this part of the question, examinees were required to show how the issue and redemption of convertible bonds will be shown in the statement of financial position (SFP). Hardly any of the examinee could attempt this part correctly, which required calculation of present values of principal to be paid after 3 years and the interest to be paid at the end of each year. The aggregate of the present values of the principal and interest for three years was to be shown in SFP as liability component. The difference between face value and the liability as computed above was required to be shown as equity component in the SFP. Following common mistakes were noted:

- Examinees had no idea of calculation of present value of principal/ interest and equity component of the bond.
- They were unable to calculate the correct amount of contributed equity, share capital, and share premium arising due to redemption of the bonds at the end of the three-year term.

**Question No. 4**

**(a) Operating Segments:**

In this part of the question, examinees were required to list down the quantitative thresholds as provided in IFRS-8 (Operating Segment), which shall require an entity to report separately the information about an operating segment. Majority of the examinees did not attempt this part of the question. It seems that examinees do not study the IAS/ IFRS and perhaps that is why they produced wrong answers to the question.

**(b) Calculation of Basic and Diluted Earnings per Share (EPS):**

In this part of the question, examinees were required to calculate the basic EPS under the normal circumstances and diluted EPS after the issuance of convertible bonds. Majority of the examinees attempted this part of the question and answered very well. However, following common mistakes were noted:

- A few of the examinees calculated the basic EPS on profit before tax instead of calculating it on profit after tax.
- A few of the examinees calculated the consolidated EPS considering the impact of both the debt instruments on EPS. They should have calculated incremental EPS of both the loans separately to decide which loan was dilutive. Then dilutive EPS should have been computed considering the effect of dilutive loan only on the basic EPS.

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**EXAMINERS' COMMENTS**  
**FALL 2013 (FEBRUARY 2014) EXAMINATIONS**

**RISK MANAGEMENT AND AUDIT**  
**Semester-5**

**Question No. 1**

**(a) Financial Statements Assertions for Non-Current Assets:**

Almost all the examinees attempted this part but majority of the examinees explained assertions in a general way. Some common mistakes made by examinees are as follows:

- A large number of examinees failed to list and explain the main financial statement assertions; either the list of such assertions was incomplete or contained irrelevant material.
- Significant number of examinees listed down accuracy, disclosure, presentation, and ownership etc.
- Some examinee wrote deficiencies in the inventory counting system as assertions i.e., found difference in counting sheets and damaged inventory or treated unsold inventory as zero.

**(b) Evidence to Verify Ownership and Cost of Land and Building:**

Most of the examinees discussed verification procedure instead of identifying relevant evidences. Following common errors were noticed:

- A significant number of examinees specified only title deed and company accounts as source of evidence.
- Some examinees mentioned customer, supplier and trade chamber as source of evidence.

**(c) Procedure for Appropriateness of Depreciation Rates:**

Examinees were required to describe the audit procedures to check the appropriateness of the depreciation rates on four categories of non current assets. This part was attempted by majority of examinees but in improper manner.

- Most of the examinees described that the non current assets are depreciable or amortizable, and specified the methods of depreciation etc.
- None of the examinee described that review of board of directors (BOD) minutes, disposal policy and replacement policy is also necessary to check the appropriateness of depreciation rates.

**(d) Deficiencies in Inventory Counting System and its Solution:**

Overall performance of examinees was satisfactory in this requirement. However, some examinees expressed in a general way the weakness in the internal control system which was not required.

**(e) Impact of Insufficient Evidence on Audit Report:**

This part was based on general knowledge and instead of approaching the question in a simple way lengthy narrations were given by examinees.

- Majority of examinees were not able to discuss the impact on the audit report correctly.
- Most of the examinees couldn't identify that whether the matter is pervasive or not, so they just narrated that either auditor would issue a qualified opinion or disclaimer of opinion. Some of them just narrated that auditor will issue a modified opinion.

**Question No. 2**

**(a) Transaction Risks Based on Foreign Exchange Exposure:**

This part of the question was attempted by most of the examinees but in a general way. Following common errors were made by the examinees:

- They unnecessarily described the economic and political conditions of neighbor countries impacting on proposed expansion.
- Significant number of examinees defined transaction risk as the risk due to quality, quantity and productivity in certain transaction.

**(b) Factors Causing Exchange Rate Fluctuations:**

Majority of the examinees did not have a clear idea that what were the factors that cause exchange rate fluctuations. Moreover, following shortcomings were also noticed:

- Majority of the examinees could not clearly mention the main factors i.e., purchasing power parity, balance of payments, speculation etc. Several examinees answered in a very general way expressing political and economic factors.
- Instead of mentioning the main factors, examinees wrote increase in petroleum prices, unavailability/knowledge of open markets etc. are causes of exchange rate fluctuations.

**(c) Key Methods/ Ways to Deal with Transaction Risks:**

Majority of the examinees could not list down six methods to deal with risks pertaining to foreign exchange exposure. However, they committed following mistakes:

- Many examinees narrated the names of such methods and could not explain any two methods.
- Examinees wrote Economic Order Quantity (EOQ) and opening of Letter of Credit (LC), timely recording of transactions etc. are methods to deal with transaction risk which is wrong.
- Except few examinees no one wrote matching receipts and payments, leading and lagging, netting and multilateral netting as methods to deal with transaction risk.

**Question No. 3**

**(a) External Confirmation, its Purposes and Use of Direct Confirmation:**

Most of the examinees attempted this part satisfactorily. Majority defined it in a general way and committed following mistakes:

- Many examinees could not identify the purpose of external confirmation. Moreover, some of them could not narrate the four (4) situations where external confirmation is used.
- Few examinees mixed up the purposes of external confirmation and uses of direct confirmation.

**(b) Use of Positive Confirmation and Associated Risk:**

Examinees were required to answer the positive confirmation and its usage, and then risk related to it. Most of them had no idea about the risk related to positive confirmations.

**Question No. 4**

**(a) Fraud and its Two Major Categories:**

Examinees were required to define fraud and its two major categories as described in ISA's. Most of the examinees generalized the answer. However following errors were noticed:

- Most of the examinees defined fraud satisfactorily, while defined two categories of fraud generally.
- Many examinees had knowledge but could not correctly name the types and most of them couldn't describe the main components of the two types of fraud, i.e., how fraud occurs in these two categories.

**(b) Presence of Three Conditions for Existence of Fraud:**

Majority of the examinees could not explain risk factors related to fraudulent financial reporting and misappropriation of assets based on three conditions that are present when fraud exists.

**Question No. 5**

**(a) (i) Compliance of Requirements ISA 620 "Using the Work of an Expert":**

Examinees were required to state the requirements with respect to the competence objectivity, understanding of field of expertise and agreement with the expert. Majority of examinees attempted this part in a general way and partially answered the question. Following mistakes were committed by examinees:



- Majority of examinees did not demonstrate fair knowledge as per ISA-620. None of them described that evaluation of objectivity shall include inquiry regarding interests and relationships that may create a threat to that expert objectivity.
- Few examinees wrote that there should be some agreement between auditor expert but did not discuss matter of agreement i.e., nature, scope and objectivity, respective roles and responsibilities and the nature, timing and extent of communication.

**(ii) & (iii) Adequacy of Auditor Expert's Work and Course of Action:**

Examinees wrote that auditors shall evaluate relevance and reasonableness of expert conclusion but did not describe that if auditor's work involves use of significant assumptions and the source data then auditor should evaluate the relevance, reasonableness and completeness. Few examinees wrote that if auditor thinks the work of expert is not adequate they can assign another expert, which is totally wrong.

**(b) Difference between External and Internal Auditor:**

Overall performance was better in this requirement, while few examinees generally differentiate the concepts rather than with respect to objectives, scope of work and reporting responsibilities.

**Question No. 6**

**(a) Cost Audit:**

Almost all the examinees attempted this part correctly but majority of them did not write that evaluation of adequacy of proper cost accounting records and their maintenance are also part of cost audit.

**(b) Purposes of Cost Audit:**

It was required to enumerate the seven purposes of cost audit to explain the importance of cost audit before senior management. Many examinees attempted this part generally and committed following mistakes:

- Many examinees include economic growth, social justice and controlling of prices by government etc. as purpose of cost audit.
- Some examinees wrote verification of cost ingredients i.e., material, labor and overhead separately which can summarize in one point i.e. to verify the cost of production reports are properly drawn up as per the records and that they show true and fair views of the cost of production.

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**EXAMINERS' COMMENTS  
FALL 2013 (FEBRUARY 2014) EXAMINATIONS**

**STRATEGIC FINANCIAL MANAGEMENT  
Semester-5**

**Overall Comments:**

The overall performance of examinees was below average. In fact, many examinees could not understand the requirement of the questions fully and committed some very basic conceptual mistakes which are not expected from aspiring management accountants. It seems that examinees are not having full knowledge of the contents of the syllabus. It was also observed that examinees had not acquired in-depth knowledge of the subject which was a major cause of their failure. A few other observations are as under:

- Wrong annotation of question number
- Attempting various parts of the question at different places without cross referencing
- Producing irrelevant comments
- Producing answer of a question without showing workings which is integral part of the question.
- Lack of understanding of basic concepts of finance.
- Improper approach to solve the question; applying irrelevant formulae and in-accurate principles.

**Question No. 1**

**(a) Viability of the oven project:**

Majority of the examinees did not compute the correct amount of sales, materials, labour and overhead for the year 1 to 5. Majority of them took the value of sales, material, labour and overheads figures as shown in the table. A few common mistakes committed by the examinees are as under:

- Most of the examinees could not grasp how to tackle the inflation of sales price, material, labour and overhead expenses. For instance, sales figures for year 1 to year 5 were given in the question and it was clearly stated that selling prices would be increased by 5% each year. The examinees were required to increase the sales of first year by  $(1.05)$  and sales of year 2 by  $1.1025(1.05)^2$  and so on. However, almost all the examinees incorrectly increased the sales of first year by 5% and again increased the figure of year1 by 5% instead of taking the sale of year2 and increased it by 1.1025.
- A large number of examinees incorrectly shown the interest expenses as cash outflow for year 1 to year 5. Interest was not to be deducted since net cash flows were to be discounted at nominal weighted average cost of capital which is given in question as 15%. Resultantly, they could not correctly calculate EBT, EAT, net cash flows and present values of the oven project accordingly.

**(b) Financial leverage and financial risk:**

A large number of examinees correctly stated that financial leverage referred to use of debt and preferred stock in financing the firm. However, they could not express that financial risk is the additional risk borne by the stockholders as a result of the firm's use of debt. Besides, there were hardly few examinees who have differentiated between financial risk and business risk.

**(c) EPS and ROE under three scenarios:**

The examinees performed well in this part of the question and secured good marks. However, a few mistakes committed by the examinees are as under:

- In case of proposed capital structure with debt of Rs.4 million, many examinees did not correctly calculate interest @ 15% amounting to Rs.600,000. Resultantly, they could not correctly calculate EBT and EAT, EPS and ROE accordingly
- Many examinees, in case of proposed capital structure with 50% debt, incorrectly divided the earning after tax by 400,000 shares instead of 200,000 shares. So, they could not correctly calculate EPS under all scenarios. Besides, they also incorrectly calculated ROE under each scenarios due to dividing the EAT by 8 million instead of 4 million.

**(d) Working capital:**

Most of the examinees correctly calculated the working capital and percentage change in working capital. However, few examinees were not having fair idea how to calculate the working capital. Instead of deducting the current liabilities from the current assets, they also incorrectly considered sales, cost of good sold, and purchases as part of the working capital in current year and for the next period.

**(e) Forecasting the cash operating cycle:**

A large number of examinees did not correctly calculate the days in raw material inventory due to incorrectly dividing the raw material inventory by cost of good sold instead of purchases. Moreover, a few examinees also did not correctly calculate the days in work in process and finished good inventory for the current year as well as for the next period. Accounts payable and raw material inventory was to be divided by purchases, Work in process inventory and Finished goods inventory by cost of goods sold and Accounts receivable by sales then multiplied by 365 days to know the days for each item of working capital.

**(f) Need of additional finance for the working capital:**

Majority of the examinees did not attempt this question and those who have attempted; they showed the working answer on account of their wrong calculations of part (e).

**Question No. 2**

**(a) Dividend per share (DPS):**

Majority of the examinees wrongly computed the dividend per share. They either took the wrong number of shares or wrong available residual profit in order to calculate the dividend per share. Most of the examinees did not deduct the project capital investment amounting to Rs.1,600,000 from the projected net income of Rs.4,000,000 while calculating the dividend per share using the residual dividend model.

**(b) Payout ratio:**

In this part examinees are required to compute payout ratio which can be calculated by dividing dividend per share by earning per share. Earning per share is computed correctly by most of the examinees but majority of them could not correctly calculate dividend per share.

**(c) Present market price of the common stock:**

There were hardly few examinees who correctly calculate the present market price of common stock ( $P_0$ ). Most of the examinees could not calculate  $P_0$  of Rs.100 and Rs.66.67 under different growth rates due to incorrectly considering  $D_1$  of Rs.6 and Rs.2 as  $D_0$  after CEO's death and during his life respectively. As a result, many examinees were not able to express that existing assets of the company would continue to provide good income stream which would be passed to the existing share holders as the slow internal growth had reduced the need for funds.

**Question No. 3**

**Present value of lathe machine under lease and purchase option:**

Majority of the examinees did not correctly calculate the depreciation and tax depreciation allowance for the fifth year due to not taking into account Rs.240,000 scrap value at the end of fifth year. So, they were not able to correctly calculate present value of purchase cost of lathe machine. Many examinees showed Rs.84,000 as cash outflow on scrap value ( $\text{Rs.}240,000 \times 0.35$ ) incorrectly treating the scrap value as gain. A few examinees were having no idea that interest on loan and tax benefit on interest are not relevant to show as cash outflow and cash inflow respectively under the purchase option. Many examinees did not correctly calculate the depreciation and tax relief under the lease option of the lathe machine. Few examinees did not deduct the scrap value from the cost of the machine while calculating the depreciation under straight line method. Most of the examinees were also not able to calculate the implicit interest @ 6.4% given in the question. Consequently, they could not also correctly calculate the tax relief on implicit interest and net present value of leasing cost of lathe machine. A few examinees incorrectly used the discount factor @ 14% instead of 9%. Hardly, few examinees correctly recommend the purchase option having less cost as compared to lease option.

#### Question No. 4

**(a) Viability of the project:**

The examinees performed quite well in this part of the question. Most of the examinees were having fair idea of the topic and were able to secure good marks. A few mistakes committed by the examinees are as under:

- A few examinees could not correctly calculate the weighted average cost of capital (WACC) due to either not correctly calculating the equity multiplier or multiplying the debt interest rate with equity and cost of equity rate with debt. As a result, the examinees could not correctly calculate the present value of the project.
- It was clearly stated in the question that after tax cash savings of Rs. 14 million would be at the end of first year. However, many examinees incorrectly considered these cash flows at the beginning of the year. Therefore, they could not find the correct present value of the project.
- Most of the examinees could not correctly calculate the flotation cost of the project. Many examinees did not correctly calculate the weighted average flotation cost (fA). Resultantly, they were also not able to ascertain the true value of the project by dividing the initial investment of the project by  $[1-(fA)]$ .

**(b) Key areas of feasibility:**

Most of the examinees were not having any fair idea of the topic. They just produced lengthy irrelevant and illogical arguments. Most of the examinees did focus to explain the value of the project in terms of NPV, payback period and profitability aspect of the project. They did not focus on the key areas i.e., operational feasibility, technical feasibility, social feasibility etc.

#### Question No. 5

**(a) Expected value, coefficient of variation and NPV of project 'A' and 'B':**

The examinees performed well in this part of the question. Almost all the examinees attempted this part of the question and secured good marks. However, a few mistakes committed by the examinees are as under:

- A few examinees could not correctly calculate the standard deviation. So, they were not able to correctly calculate the coefficient of variation.
- Few examinees incorrectly used the cash flow against each probability figure instead of expected annual cash flow for calculating the NPV of each project. A few examinees incorrectly categorized the "A" as riskier project instead of project B and incorrectly discounted the cash flow of Project-A @12% and Project-B @ 10%.
- There was hardly any examinee that mentioned portfolio of company would be less risky due to Project-B, being negatively correlated with other cash flow of the firm, and it would substantiate the acceptance of Project-B.

**(b) Recommendation to accept or reject the project:**

Majority of the examinees correctly calculated the Net profit after tax of Rs.42,900 but they failed to calculate the correct figure of present value of the project. When not considering the inflation, net profit after tax should have divided by 15% cost of capital and subtracting the investment of Rs.300,000 gives the net present value. Also in case of considering the inflation examinees were confused. Instead of adjusting the discount factor they multiply 1.06 with Rs.42,900. Examinees also gave wrong recommendations of acceptance of the project due to wrong calculations of NPV of the project.

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**EXAMINERS' COMMENTS**  
**FALL 2013 (FEBRUARY 2014) EXAMINATIONS**

**STRATEGIC MANAGEMENT ACCOUNTING**  
**Semester-6**

**General Comments:**

The principal reason for failure of the students was that they were insufficiently prepared. The poor time management, leaving questions and subparts not attempted and reading question carelessly were the major causes of the failure. The following common weaknesses were observed:

- Failure to understand the requirements of the question.
- Lack of complete coverage of the syllabus.
- Poor communication and writing skills.
- Lacking in organizing the answers.
- Due to the careless attitude most of the candidates did not write question number on every page.
- Some candidates wrote the incorrect question numbers.

Students are advised to give due concentration on theoretical parts also and get their concepts crystal clear. They should not rely on one book. More concentration and practice on all areas should be given. They must improve their communication skills. Student should be good in time management and allocate time according to respective marks. They should not waste their precious time in providing unnecessary details. Last but not least they should improve their hand writing and also writing speed.

**Question No. 1**

This question was on decision making with limiting factors and expansion of manufacturing facilities by purchasing another company. The question was long but not very difficult. It required more concentration. Majority of the candidates attempted this question, but due to insufficient practice and improper concentration/ understanding, very few could attempt completely.

**(a) Product mix decision with constraints:**

In this part of the question production schedule with maximum contribution was required. This section was attempted correctly by most of candidates, but some candidates computed contribution margin without considering variable overheads. This mistake can't be expected from candidates of this level. It seems that examinees did not read the question carefully, so few of them perform the requirement of part (b) in this part. A few examinees were also not able to calculate the correct figure of maximum contribution margin of each product due to incorrect ranking of the products.

**(b) Effect of making 50,000 units of product B on contribution margin:**

Sales manager stated that at least 50,000 units of product B must be produced for customer who wants to buy full range. Product-B in part (a) was allocated maximum 29,400 machine hours available to produce 42,000 units having contribution margin of only Rs.120 per machine hour. Increasing its units from 42,000 units to 50,000 units required 35,000 machine hours. 5,600 machine hours had to be transferred from product-A leaving 22,400 hours with contribution margin of Rs. 140 per machine hour. This change in product mix resulted in reduction of contribution margin by Rs. 112,000  $[(140-120)*5600]$ . This part was attempted generally well.

**(c) Possible outcomes to meet demand:**

Most of the examinees answered this part of the question correctly. However, some examinees restricted to one or two possibilities.

**(d) Acquisition decision:**

Majority of the examinees failed to understand it and ended up with poor performance. Majority could not compute contribution margin per bed sold. Minimum profit required to compensate for new manager's salary computed correctly by most of the examinees. Hardly any examinee calculate the correct required volume of 15,000 beds (Rs.330,000 / Rs.22)

**(e) Estimation of annual demand:**

This part of the question required calculation of weighted average life of a bed. Most of the examinees were not able to calculate the estimated annual demand of 12,500 beds based on weighted average life of 7.3 years per bed.

**(f) Acquisition decision:**

This part of the question was linked with part (d) and (e), examinees failed to understand it. Majority could not give right answer due to incorrect calculation to requirement of part (d) and (e).

**(g) Possible reasons for inaccurate estimation:**

Majority of the examinees answered this part of the question correctly.

**(h) Expansion of bed department:**

This part of the question was also related to making product mix decision with constraints. A most profitable product mix was to be determined in a multiple-product situation by relating the contribution margins of the products to the constraint of 3,000 square meter of storage space available to bed department after expansion. Most of the candidates ignored the constraint of space and hence could not correctly compute the departmental profit. Another common mistake was observed in the treatment of departmental fixed overhead of Rs. 400,000 was in total. Most of the candidates considered this for each model and hence the answer became incorrect

**Question No. 2**

**(a) Product-wise profitability using traditional costing:**

This question required to compute the product-wise profitability using a traditional volume-related costing system based on:

- (i) Past practice (Overhead allotted on the basis of direct labour hour)
- (ii) Current practice (Overhead allotted on the basis of machine hour and material handling)

Most of the students calculated overhead cost using direct labour rate correctly in case of past practice. However, there were only few examinees who managed to compute overhead in case of current practice. This question was not very difficult, but due to insufficient practice and revision, most of the candidates could not solve this correctly.

**(b) ABC system:**

Most of the examinees were not able to compute correctly the product-wise profitability by using activity based costing system as they failed to link the cost drivers to relevant costs to compute the per unit cost of cost drivers for applying to the products according to actual usage of different cost drivers.

**(c) Difference between traditional costing and ABC:**

Although the values calculated in part (a) (ii) and part (b) were incorrect, most of the students managed to elaborate part (c) correctly by highlighting the basic differences between traditional costing and ABC systems.

**Question No. 3**

**Outsourcing the local operations:**

This question was on outsourcing decision and was attempted by fairly large number of candidates. However, many could not complete the question correctly. The most common mistake was on the treatment of fixed cost of 700,000 and vacant facilities cash flow of Rs. 800,000. The amount of fixed cost was supposed to be reduced by Rs. 100,000 so the benefit was of 100,000, while most of the examinees considered it as Rs. 600,000. As far facility cash flow, it should be deducted from total outsourcing cost but most of the students added it to cost of outsourcing.

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

**(a) Performance report to evaluate each store/ manager:**

This question required preparation of a comparative performance report of old area store and new area store on the basis of contribution margin approach. All the costs of the two departments were required to be reclassified in the following groups:

- Variable costs/ direct costs of the store.
- Expenses controllable by respective store managers.
- Expenses controlled by others
- Allocated costs

The question was very easy but the performance was not as per expectations. The most common mistake was allocation of unallocated costs, which were supposed to be deducted from total and not be allocated between the two stores. A fairly large number of candidates have ignored the cost of merchandise sold and hence the contribution margin became wrong. While evaluating performance of each store and store manager examinees were confused between store performance and manager performance.

**(b) Balanced scorecard:**

The part of the question related to balance scorecard. The overall performance was satisfactory; however number of candidates were ignorant of the concept and described other concepts like total quality management, Standard costing, productivity evaluation etc. Balance scorecard measures the performance of an organization using four measures i.e., financial, internal business process, learning and growth and customer. Few examinees mixed these four measures with each other. Like return on assets is a financial measure but it is included in customer measures etc.

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

**International transfer pricing:**

In this question examinees were required to decide for UK branch to purchase cosmetic products from the branch in Pakistan or from cosmetic market in UK keeping in view the cost and tax differences in Pakistan and UK. Only a few students were able to understand the logic of the question to solve it properly. Examinees showed poor performance in answering this question. Two options were given with a change in tax percentages. The question was not so difficult but it seems that most of the candidates did not read the question properly and hence could not attempt it correctly.

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**EXAMINERS' COMMENTS  
FALL 2013 (FEBRUARY 2014) EXAMINATIONS**

**STRATEGIC MANAGEMENT  
Semester-6**

**General Comments:**

**Question No. 1**

**(a) Resource-based view:**

This part of the question was well attempted by the examinees. A good number of students mentioned that Resource-Based View (RBV) contends that internal resources are more important for a firm than external factors in achieving and sustaining competitive advantage.

**(b) Industrial Organization (I/O) approach:**

It was noted that few students had an idea about the Industrial Organization (I/O) approach to competitive advantage. Most of the students failed to successfully analyze the point factors for achieving competitive advantage and their answers were unsatisfactory.

**(c) Merger/acquisition strategy:**

A large number of students presented solid reasons as to why Mr. Zack, the new CEO will not like to go for merger/acquisition as a possible method of growth for Pan Pacific.

They mentioned that different sources have proved to be a more effective to enhance corporate growth than mergers and acquisitions. The answers of some students were incomplete and unsatisfactory as they missed many points.

**(d) Rational change strategy:**

Some examinees were successful to answer this question. They were able to mention Jack Duncan's a rational or self-interest change strategy consisting of four steps employees' participation.

**(e) Customer analysis:**

This part of the question was well attempted. Except few students who wrote incomplete answers and missed some important points.

**Question No. 2**

**(a) Chandler's framework:**

Majority of the students did not understand what is being asked in the question. The question was related to Chandler's framework which helps in understanding the relationship between the organizational structure and changes in company's strategy.

**(b) Technological forces:**

It was noted that majority of students had clear idea about technological forces representing major opportunities and threats.

**Question No. 3**

**(a) Role of directors in strategic management:**

The question was simple and easy. It was noted that a good number of students knew that board of directors consists of individuals elected by the owners of an organization and their purpose is to protect interests of shareholders. However few students were unable to cover the topic comprehensively.

**(b) Business code of ethics:**

It was observed that majority of examinees had a clear idea about the importance of business ethics but few students were able to answer it satisfactorily.



**Question No. 4**

**(a) Environmental strategies:**

A good number of students answered the question satisfactorily. They were able to explain some of the possible environmental strategies that an organization can adopt to relate it more closely with its environment. The answers of other students were not up to the mark.

**(b) Three basic activities in evaluating strategies:**

A good number of students did not understand what was asked in the question. Their answers were disappointing. Few students were able to reply suitably.

**Question No. 5**

**(a) Performance measurement system:**

The examinees were required to mention some of the factors an organization need to consider to develop a performance measurement system. A good number of students answered the question satisfactorily.

They knew that Understanding, measuring and managing critical success factors is increasingly important to ensuring the prosperity of organizations. CSFs, and the performance measures within them, need to link daily activities to the organization's strategies. They were successful to mention factors which are important in developing a performance measurement system, Identify the key outputs required from an activity, the key processes in providing the output, the interfaces of the activity with other parts of the firm; or with other processes in the value chain, to develop KPIs for key processes and data sources for KPI information.

Could no cover the aspects that could be measured i.e. Physical efficiency, Perceptions and attitudes, Compliance, Competence and Comparators.

**(b) Balanced scorecard:**

The question required to explain particular information a Balanced Scorecard requires to adequately and more effectively evaluate strategies being implemented. Only few students answered the question satisfactorily and covered the requirement of the question. However, majority of examinees just answered in very common way which does not fulfil the purpose.

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