

**EXAMINERS' COMMENTS
SPRING (AUGUST) 2014 EXAMINATIONS**

**FUNDAMENTALS OF FINANCIAL ACCOUNTING
Semester-1**

Question No. 2

Statement of Profit or Loss:

From a given trial balance of a company, examinees were asked to prepare statement of profit or loss. Examinees committed following mistakes:

- Examinees were not able to differentiate between 'statement' and 'account' as they made profit or loss account instead of statement.
- Examinees forgot to deduct 'purchases return' from purchases and add 'carriage inward' to purchases.
- Most of the examinees did not segregate operating expenses between marketing and administrative expenses.
- Some examinees erred by including 'carriage outwards' into 'cost of goods sold' instead of marketing expense.
- A good number of examinees did not write the correct 'heading' of the statement i.e., name of the company, name of the statement and accounting period. Examinees should know that statement of profit or loss covers transactions for the period and does not depict the balances at the reporting date.
- Accounts balances of statement of financial position were also shown in the statement of profit or loss by few examinees, e.g., accounts receivable.
- Majority of the examinees calculated depreciation on the opening cost of delivery vans without including Rs.4,000 being the amount paid for registration and painting the name of the business on the newly acquired vehicle. This amount had been wrongly charged to vehicle expenses account in the accounting records.
- It was noted with concern by the examiner that mostly examinees did not read the requirement of the question carefully and, therefore, they passed adjusting journal entries and prepared statement of financial position against the requirement of the question.
- 'Sales return' was treated as an operating expense and was incorporated in selling expenses instead of deducting it from sales revenue.

Question No. 3

(a) Measurement Bases of Elements of Financial Statement:

Examinees were expected to describe various measurement bases on which the amounts of elements of financial statements (i.e., assets, liabilities, expenses etc.) shown in the financial statements are computed. Responses of the examinees reflected their indifference towards theoretical part of the syllabus. Following weaknesses were noted:

- Most of the examinees failed to understand this question and they discussed the qualities of the final accounts instead.
- It seemed that examinees never heard about the Conceptual Framework and those who attempted this part, did not write even a single measurement base correctly, which are historical cost, current cost, realizable value and present value.

(b) Credit and Total Purchases:

In this part, certain data such as cash purchases, discount received, payments to suppliers etc., was given. Examinees were required to calculate (i) credit and (ii) total purchases. It was a simple question just testing their knowledge of 'ledger' and calculation skills. Responses were below average. Following mistakes were noted:

- It was observed that transactions were not added/ deducted correctly, resulting in wrong working of credit purchases. For instance, discounts received from suppliers and payments made to suppliers were both deducted from closing balance of accounts payable whereas they should have been added while calculating the credit purchases.

- A few of the examinees even included the cash purchases in the calculation of credit purchases, whereas cash purchases were to be added to credit purchases to arrive at total purchases for the month.
- A few of the examinees surprisingly passed journal entries of all the given transactions instead of finding credit purchases/ total purchases.
- A few examinees wrongly took the difference between opening and closing balances of accounts payable to find out credit purchases.

(c) Books of Prime Entries:

From a given set of transactions of a trader, examinees were expected to suggest an appropriate 'book of prime entry' to which each transaction pertained. Following mistakes were noted:

- Most of the examinees failed to understand the requirement of the question and answered this question by making journal entries, which was not required.
- Instead of suggesting a separate book of prime entry for each transaction, they suggested one book for all the transactions e.g., purchases day book, sales day book or cash book etc.
- Some of the examinees treated purchase of van for cash under purchases journal instead of treating it under 'cash journal'.
- A few examinees suggested purchases journal for purchase of furniture on credit instead of general journal.

(d) Financial Ratios:

In this part, examinees were required to calculate **(i)** gross profit as a percentage of sales, **(ii)** earnings per share and **(iii)** price/ earnings ratio. It was the least attempted question by the examinees. There were following common shortcomings:

- Most of the examinees calculated the 'gross profit as a percentage of sales' either on cash sales or on credit sales, which was incorrect. In fact, 'total sales' should have been used to calculate the 'gross profit as a percentage of sales'.
- A few of the examinees wrongly used figure of net profit to calculate gross profit as percentage of sales.
- A good number of examinees seemed to have no idea about the correct formula to calculate earnings per share i.e., net profit after tax and preference dividends ÷ number of ordinary shares. Some of the examinees also wrongly deducted ordinary dividend paid from the figure of net profit.
- A good number of examinees were not conversant with the correct formula to calculate price earnings ratio i.e., market price per share ÷ earnings per share.

Question No. 4

(a) Bank Reconciliation Statement:

The majority knew how to make the above mentioned statement. Nevertheless, following shortcomings were noted:

- Outstanding cheques were deducted from cash book balance instead of bank statement balance.
- Payments of rent and mark-up were not deducted from cash book balance.
- Bills collected by the bank were not added to the cash book balance.
- Some examinees wrongly treated the wrong debit of Rs.102,000 by the bank under cash book balance instead of adding it to bank statement balance.
- A cheque received from a customer was erroneously recorded as Rs.50,000 (instead of Rs.5,000) in cash book. Its correct treatment should have been a deduction of Rs.45,000 from cash book balance. Examinees wrongly adjusted this amount in bank statement balance.
- Some of the examinees failed to write company name, name of the statement and period at the start of their answers.

(b) Subscription Income:

This sub-part was related to a non-profit oriented organisation. Subscription income was to be calculated by the examinees for the current period. Examinees' performance remained below average. They committed following mistakes:

- Subscription received in advance in 2012 was not properly treated. This amount pertained to 2013 and was to be added to the subscription income received in 2013.
- Subscription due from members in 2012 pertained to 2012 but this amount was actually received in 2013. It was to be deducted from the subscription income received in 2013. Examinees did not perform the required action.

(c) Sales Tax:

Examinees were given amounts of purchases (net of sales tax) and sales (net of sales tax). In addition, payments to suppliers and receipts from customers were also given. Examinees were required to prepare accounts of **(i)** accounts payable, **(ii)** accounts receivable and **(iii)** sales tax. Following common errors were observed:

- Most of the examinees did allocate amounts of sales and purchases in accounts receivable and accounts payable. However, they did not post sales tax amounts in these accounts resulting in wrong calculation of ending balances. It also affected ledger account of sales tax and examinees could not compute the amount of sales tax payable to the tax authority.
- A few examinees solved this question without making 'T' accounts, which was the requirement of the question.
- A few examinees passed journal entries instead of making ledger accounts.

Question No. 5

(a) Statement of Cash Flows:

In this part, a number of cash receipts and cash payments were given, which were to be classified into operating, investing and financing activities by the examinees. Good performance was shown by the examinees. However, following common errors were committed by the examinees:

- Acquisition of land was treated as financing activity instead of investing activity.
- Cash proceeds from disposal of old factory was treated as operating activity, although, it should have been treated as investing activity.
- Cash paid to and on behalf of employees (an operating activity) was treated as financing activity.
- Repayment of borrowed money was treated as investing cash flow, which was in fact a financing activity.
- Few examinees passed journal entries for the transactions against the requirement of the question.

(b) Non-Current Asset:

Examinees were provided with such data as opening/ closing balances of cost and accumulated depreciation of non-current assets. In addition, information regarding disposal of machinery was also provided. From the aforesaid data, cost of new machinery acquired during the year and current depreciation for the year were to be computed. Poor responses were made by the examinees. Following weaknesses were noticed:

- Most of the examinees calculated gain/ loss on disposal, which was not required.
- In accumulated depreciation account, opening balance was shown on the debit side and closing balance was shown on credit side.
- It seemed that examinees had no idea about the journal entries related to non-current assets.

(c) Weighted Average Cost Method:

In this part, data of sales and purchases of an item of inventory was given. The task given to the examinees was the determination of the amounts of cost of sales and closing inventory. It was a simple and marks-gaining question. In spite of it, examinees committed following mistakes:

- Some of the examinees tried to calculate closing stock and cost of sales by calculations without making desired format.
- As regards the portion relating to receipts, the majority did well, however, in respect of issuance of inventory, they used wrong values (sales values instead of cost price) to work out cost of sales.
- Few examinees calculated cost of sales by multiplying the units sold with 'unit cost' computed as follows:

$$\text{Unit cost} = \text{Total purchase value} \div \text{Total purchased quantity}$$

Cost of sales of each sale was valued by using this 'unit cost' and this resulted into wrong total 'cost of sales' and ending inventory. It was wrong method of determining 'cost of sales'. In 'weighted average cost method', cost per unit changes after each receipt, which should be computed by dividing the cost of remaining units by the number of remaining units. This unit cost is used for next sales transaction.

- Some of the examinees did not add the units received with the previous units in the balance, while updating the balance, instead they recorded the units separately in balance column as done in FIFO and LIFO methods.

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**EXAMINERS' COMMENTS
SPRING (AUGUST) 2014 EXAMINATIONS**

**BUSINESS ECONOMICS
Semester-1**

Question No. 2

(a) Demand curve:

While defining the law of demand, most of the students didn't mention the ceteris paribus assumption i.e., "other things remaining the same". Most of the students gave one-way definition of the law. Such as they mentioned that when price increases, demand decreases but didn't define the case of decrease in price. Furthermore, most of the students used incorrect scales on the graph of demand curve. Majority failed to give the reasons for downward sloping demand curve. Some students did not understand the second part of this question. They described and drew the shifting of demand curve and the movement along with the curve. With the help of schedule and diagram candidates were required to explain the law of demand.

(b) Perfect and imperfect markets:

It was observed that majority did not know the conditions of perfect and imperfect markets competition. They just wrote the general view about it. Very few students have written the correct answer of this question. Conditions of perfect market are large number of buyers and sellers, homogeneous products, free entry and exit of firms, perfect knowledge of market, no transportation cost, perfect mobility of factors, firms are price-taker etc. These conditions are reversed in case of imperfect markets.

Question No. 3

(a) Price elasticity of supply and factors affecting it:

The examinees wrote wrong formula of elasticity of supply whereas the correct formula is defined as the ratio of percentage change in quantity supplied to the percentage change in price of the good. They drew correct diagrams showing perfectly elastic supply curve (horizontal supply curve), unit elastic (upward sloping supply curve) and perfectly inelastic supply curves (vertical supply curve). Many examinees failed to explain the factors effecting elasticity of supply instead they wrote factors of demand.

(b) Price elasticity of demand and the effect on total revenue:

Many students calculated change in quantity and price by subtracting final amount from initial amount and divided the change by final amount rather than initial amount. Some students used the formula of arc elasticity rather than point elasticity. According to point method, price elasticity of demand (PED) is equal to the percentage change in quantity demanded divided by percentage change in price i.e.:

$$PED = \left(\frac{\text{Final } Q_d - \text{Initial } Q_d}{\text{Initial } Q_d} \times 100 \right) \div \left(\frac{\text{Final } P - \text{Initial } P}{\text{Initial } P} \times 100 \right)$$

Many students correctly calculated elasticity of demand but were not able to write the correct answer of second part i.e., fall in total revenue.

Question No. 4

(a) Maximum and minimum prices:

Majority of the students wrote the correct answer with appropriate explanations of maximum and minimum prices and diagrams. Students must be able to differentiate between the floor price and ceiling price. The difference will become clear if they know the reasons why and when government uses such policies. Ceiling price is set by government below the market equilibrium to prevent exploitation of buyer and to encourage consumption, whereas floor price sets above the market equilibrium to ensure that supplier receives at least the minimum price of the good.

(b) Reasons of disappearance of a firm:

Most of the students failed to answer this part correctly. Some of the students drew and explained the graph showing shut-down point of the firm, which was irrelevant as graph was not required in the question. They didn't give the reasons for shutting down the firm, which was the requirement of the question. Most of the students did not write the accurate reasons of disappearance of firm from market and the ways of reduction in profit of a firm during competition. Only few students wrote the right answer. Giving the reasons for disappearance of the firms from the market i.e., running short of cash, investor pressure and leave the industry – Two ways of reduction in profits of a firm during competition i.e., reducing prices and increasing cost were also not properly defined by many candidates.

Question No. 5

(a) Balance of payment and current account deficit:

Most of the students knew the meaning of surplus or deficit but many of them defined current account deficit as budget deficit. Some students did not figure out the question and they wrote about surplus budget and deficit budget instead of surplus or deficit in current account. While some of them gave partially correct answers. The reasons of current account deficit were not discussed properly by the candidates.

(b) Rise in general price level and effect on exchange rate:

Some students explained the reverse case. That is, how exchange rate affects the general price level or inflation. Majority of students gave the answer of this question at an average. Several students provided the right but insufficient explanation of the effects of rise in price level on exchange rate. The rise in general price level may leads to fall in purchasing power, demand for exports fall, demand for imports increases, surplus of currency on the forex market etc.

Question No. 6

(a) Characteristics and policies of supply-side economics:

Very few students gave answer to this question correctly. Most of them did not attempt it. Some of them explained the determination of equilibrium in the long-run graphically. Students were not asked to give the graphical explanation of price determination in supply-side economics. Characteristics of supply-side economics such as, long-term influences, free market, inflexibility in the labour market and the existence of trade unions, high wages, effects of direct taxation on incentive to work and limited role of government should be discussed. As far as policies are concerned, the main supply-side policies should be given i.e., greater involvement of private sector, reduction in government spending and taxes, curbing power of trade unions, abolition of exchange controls etc.

(b) Advantages of financial intermediaries:

The overall performance of the examinees was not satisfactory. Only few candidates gave the correct answer. Advantages of financial intermediaries like ease of saving and providing liquidity should be explained.

Question No. 7

Causes and consequences of inflation:

Students were required to explain the consequences of inflation, that is, how inflation affects the economy. Such as, influence on balance of payment, balance of trade and exchange rate, wage-price spiral due to expectation effect, hoarding of goods etc. On the other hand, the three causes of inflation should be explained in detail which are demand pull inflation, cost pull inflation and money supply growth. It is observed that majority of the students did not know the appropriate concepts of demand pull inflation and cost push inflation as well as money supply growth and consequences of inflation. The overall performance of the examinees in this question remained below average.

**EXAMINERS' COMMENTS
SPRING (AUGUST) 2014 EXAMINATIONS**

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

General Comments:

Candidates, on the whole, did not seem well prepared for the examination, however, the questions given in the examination were quite simple and clear. The majority of the scripts were of un-satisfactory standard. Following are the reasons of poor performance:

- Wrong interpretation of the questions
- Poor examination techniques, spending time on less important features, vague perception of basic concepts
- Providing incomplete or incorrect answers
- Poor time management, so most of them could not attempt the paper completely
- Most of the questions were not started from fresh pages
- Not attempting the questions or sub-parts of the question
- Poor handwriting, spelling mistakes and incorrect grammar

Question No. 2

(a) Steps of communication process:

This question was answered by majority of the examinees with invalid structuring of a communication process. Some of the examinees disorganized the answer with defining, how a workshop can be turned effective. Some misunderstood the question as they have explained irrelevant points.

(b) Difference between effective and ineffective listeners:

The examinees had the concept of effective and ineffective listeners. However, in explaining, the repetition of the same points was observed.

Question No. 3

(a) Technological tools for developing reports and proposals:

Due to lack of understanding of the question, majority of the examinees did not score well. They overlooked the word "Technological" which left the answers vague and unclear. Examinees explained how a report is structured rather than the technological tools involved. The examinees failed to mention points such as templates, linked and embedded documents, electronic forms, electronic documents, multimedia documents and proposal-writing software.

(b) Response of complaint letter:

The formats and sentence formation/ sequencing were again found to be weak. Majority of the examinees were able to draft the letter with appropriate understanding of the matter as per requirement of the question but the letters lacked grammar and sentence structuring. Some of the examinees also misunderstood the question, whilst writing from the shareholder's side to the company rather than from the company to shareholder. Majority of examinees did not know the proper format of a letter and standard parts i.e., heading, inside address, salutation, body, complimentary close, signature block and reference initials.

Question No. 4

(a) Key attributes of effective business documents:

The question was wrongly answered by the majority with mixed up answers explaining communication steps or 7c's of business communication. However, the question demanded the points like, provide practical information, give facts rather than vague impressions, present information in a concise and efficient manner, clarify expectations and responsibilities and offer compelling, persuasive arguments and recommendations.

(b) Presentation to the audience around the world:

The requirement of this question was writing tips for making presentation as an expert to audiences around the world. Many of the examinees could not mention the following distinctive points:

- Speak slowly and distinctly – to avoid complaint of being fast speaker
- Repeat key words and phrases
- Aim for clarity – unfamiliar (cultural) idioms.
- Communicate with body language – up, down or under
- Support your oral message with visual aids – prepare captions in English and audience language

Question No. 5

(a) Short message media at work:

Many of the examinees failed to highlight the six options available for sending short messages i.e., memos and letters, email, instant messaging, text messaging, blogs and podcasts. The examinees who mentioned the options did not explain their usage.

(b) Letter informing change of business name:

In this part examinees were required to write circular letter. Most of the examinees found easy to write but some of them did not understand to whom the letter should be written and what points to be mentioned in the letter. Some candidates became confused with the correct salutation and complementary close for this style of letter. Many candidates did not address the letter correctly. Some did not know the blocked style and open punctuation.

Question No. 6

(a) Making the meeting productive:

Many of the examinees failed to highlight the task whilst focused their answers on tips for making presentations more attractive by pointing out reasons such as communicate with body language and support your oral message with visual aids. They did not mention the points such as keep the discussion on track, follow agreed upon rules, encourage participation, participate actively and conclude the meeting effectively.

(b) Collection letter to subscribers of magazine:

The examinees were confused whether it was a memo or letter. Most of them used memorandum format which was incorrect because it was not being written within the company. The contents written were satisfactory except few who did not know how to write a buffer statement. They put up incorrect details to the subscriber of the magazine. Majority of the examinees follow the wrong format of letter covering all seven essential parts. Sentence structuring and grammatical errors were seen commonly in the answers.

Question No. 7

Report to determine the reasons of continued losses:

Formal reports are usually written by a committee or group after fairly detailed investigation or research. Most of the examinees wrote well, however, they did not know how to write introduction and conclusion of the report. Some examinees found confused between report writing and formal business letters.

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**EXAMINERS' COMMENTS
SPRING (AUGUST) 2014 EXAMINATIONS**

**COST ACCOUNTING
Semester-2**

Question No. 2

(a) Statement of Cost of Goods Manufactured:

Majority of the examinees attempted this part but could not perform well. Examinees failed to differentiate between factory overhead and selling and admin expenses. They charged depreciation of both sales equipment and factory equipment to selling and admin expenses.

(b) Statement of Cost of Goods Sold:

Majority of the examinees attempted this part but failed to calculate correct figure of cost of goods manufactured.

(c) Income Statement:

Some of the examinees correctly answered this part and calculated the correct amounts of the statement, while rest of them calculated the wrong amount of selling and admin expense due to wrong classification of depreciation, utilities, insurance as factory overhead, selling and administrative expense.

Question No. 3

(a) Procedure to Attribute Overhead Costs to Cost Units:

It was observed that the examinees were not well aware of the procedure and described the answer in their own way. Moreover, following shortcomings were also noticed:

- Few of the examinees described the method of apportionment instead of defining the procedure.
- Few examinees defined the direct labour cost and factory overhead cost instead of describing procedure of attributing overhead cost to cost unit.

(b) Distribution of Service Department Cost:

Overall poor performance was observed in this part of the question as the examinees failed to calculate the correct amount of service department cost. Examinees also committed following mistakes:

- Most of the examinees wrongly calculated rates of building services, health and recreation and repair and maintenance by using wrong bases of allocation (i.e., area, number of employees, value of equipment etc.).
- Some examinees wrongly took the total costs and calculated one rate at which all costs were distributed.

Question No. 4

(a) Monthly Income Statement:

Almost all the examinees attempted this part but few of them reached the correct answer. Following shortcomings were observed in this part:

- Majority of the examinees made a combined statement of all months instead of preparing monthly statements as clearly required in question.
- Most of the examinees did not understand the treatment of fixed cost and they treated it as variable cost and changed the amount every month.
- Some examinees faced difficulty in assessing the value of variable cost of sales and could not relate the costs to the correct month.

(b) Marginal and Absorption Costing:

Majority of the examinees correctly differentiated between two concepts, while rest of them wrote general and irrelevant answers.

Question No. 5

(a) Gross Profit using Hypothetical Market Value:

Following shortcomings were observed in this part:

- Most of the examinees were unable to allocate the joint cost correctly as they used market value as the base instead of the hypothetical market value.
- A few of the examinees could not determine the hypothetical market value.
- Some examinees deducted the total cost from the hypothetical market value instead of the market value.
- Some examinees did not add the processing cost after split off to determine the total cost from which the gross profit had to be determined.

(b) Decision of Selling at Split Off Point:

Majority of the examinees were unable to determine whether required product should be sold at split off point or after further processing, which showed lack of knowledge of the examinees about method of calculation.

Moreover, following mistakes were also committed by examinees:

- Most of the examinees used different approaches to reach the decision instead of using hypothetical market value.
- Some examinees took the joint cost of the product instead of taking the additional cost after splitting off the required product for calculating the net advantage in further process.

(c) Accounting Treatment of By-Product:

Most of the examinees did not attempt this part, while some examinees attempted poorly and defined the method of calculating the joint product cost i.e., market value method, saleable at split off cost method, average unit method, weighted average method but failed to describe the accounting treatment of the cost incurred in process or the net income of by-product.

Question No. 6

Variances:

None of the examinee could attempt this question correctly and completely. Following mistakes were committed:

- Most of the examinees wrongly calculated standard quantity and actual hours while calculating material quantity and labour rate variance.
- Few examinees applied wrong formula for calculating labour efficiency variance while some of them wrote correct formula but put wrong values.
- Some examinees mixed up the formula of fixed overhead expenditure variance to fixed overhead volume variance.
- Many examinees failed to reach correct sales margin variance as they could not find correct standard cost of actual sales and budgeted margin.

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**EXAMINERS' COMMENTS
SPRING (AUGUST) 2014 EXAMINATIONS**

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

Question No. 2

(a) Simple/ Compound Interest:

A sum of Rs.250,000 was invested at a rate of 12% per annum and examinees were required to determine the number of years in which the investment would grow to Rs.400,000, if it was compounded quarterly. Examinees were also asked to find the number of years, if the investment was made at simple interest. The majority attempted this question and their responses were satisfactory. Nevertheless, some examinees did not use correct formulas. For instance, for the first part, where compound interest formula was to be used, they used the formulas of annuity or simple interest. For the second part, where simple interest formula was to be used they wrongly applied the compound interest formula.

(b) Fractions:

In this part, a fraction with a single unknown variable was given. Examinees were supposed to find the value of that variable. It was a simple question and as expected performance by the examinees was satisfactory. Despite of it, some of the examinees were not conversant with how to find least common multiple (LCM) and simplify an equation.

(c) Factorization:

In this part, a quadratic equation was given and examinees first had to find the roots of the equation using the quadratic formula and then factors of the equation. It was a straight-forward and easy question and the examinees substantiated it with their good performance. Nevertheless, there were some examinees who did not read the requirement carefully and tried to solve it with other methods despite of unequivocal instruction to use quadratic formula, which was also provided in the question paper to facilitate them. A few of the examinees who used the desired formula, could not insert correct values of 'a', 'b' and 'c' in the formula.

Question No. 3

(a) Annuity:

A scenario was given, in which a person needed Rs.2 million after 10 years for the marriage of his daughter. He wanted to know the amount of semi-annual deposit, which would grow to the required aggregate at an interest rate of 14% per annum compounded semi-annually. It was also an easy question, which required just insertion of values in the formula given in the question paper. A large number of examinees attempted the question and performed well. However, following shortcomings were observed:

- Examinees used wrong formula i.e., they used compound interest formula $A = P(1 + i)^n$, in place of

$$S_n = \frac{R[(1+i)^n - 1]}{i}.$$

- Some examinees used value of ' i ' = 14% instead of 7%. Similarly, number of periods (n) was taken as 10 instead of 20.
- The amount of interest earned during 10 years was also to be determined by the examinees. It could be achieved by taking the product of the amount of semi-annual deposit (Rs.48,780) and the number of periods (20) and then subtracting the resultant figure from Rs. 2 million. A few of the examinees erroneously subtracted only Rs.48,780 from Rs.2 million.

(b) Derivative:

Examinees were required to find the derivative of a given function, which required the knowledge of quotient rule of differentiation i.e., $f'(x) = \frac{vu' - uv'}{v^2}$. A large number of examinees attempted this question successfully. Even then there were some examinees who could not take advantage of an easy and mark-gaining question. Following common mistakes were seen in the scripts of the examinees:

- Some examinees applied the formula of 'product rule' in place of that of 'quotient rule'.
- Few of the examinees who identified the required formula, could not write it correctly. They wrongly wrote it

$$\text{as } f'(x) = \frac{vu' + uv'}{v^2} \text{ or } f'(x) = \frac{uv' - vu'}{v^2}.$$

- In the final answer, denominator could be given as $(x^2 + 1)^2$ but examinees needlessly tried to expand it.

(c) Maxima/ Minima:

Examinees were provided with the total revenue function of a product in terms of price 'p' of that product. The examinees had to determine (i) the price at which the total revenue would be maximized and (ii) the amount of total maximum revenue at this price level. Given the fact that such questions have been a regular part of this (Business Mathematics & Statistical Inference) question paper in the past, examinees were expected to gain maximum marks. Although the performance was satisfactory, examinees left a lot to be desired. They committed following errors:

- Most of the examinees succeeded in finding the correct price of the product by means of determining the first derivative of the given function and equating it to zero, but many of them did not find the second derivative and mention the condition necessary for maximum total revenue i.e., $f''(p) < 0$.
- Some examinees were not aware of the basic rules of differentiation e.g., if $f(x) = x^n$, then $f'(x) = nx^{n-1}$ and derivative of constant is zero.

Question No. 4

(a) Frequency Distribution:

From the given data of 39 students, examinees were asked to set up frequency distribution using 8 equal intervals and starting with the first interval as '0.0 – 0.5'. A large number of examinees attempted this part and average performance by the examinees was observed. Some examinees just wrote the frequencies against each interval without showing 'tallies' against different intervals. Some of them even setup a column for cumulative frequencies to waste their precious time.

(b) Test of Hypothesis:

In this part of the question, a cigarettes manufacturer's claim that average nicotine content of cigarettes does not exceed 3.5 milligrams at 0.01 level of significance was to be tested. A random sample of 8 cigarettes showed an average content of 4.2 milligram with standard deviation of 1.4 milligram. Despite the fact that such questions have been asked in the past as well, examinees performed poorly, some of the common mistakes committed by them are mentioned in the following paragraphs:

- Since value of 'n' (i.e., 8) was less than 30, examinees were supposed to apply 't' test, but some of them used 'z' test instead.
- Some examinees who correctly identified 't' test, could not recognise that it was a one-tail test. They treated it as two-tail test and setup null hypothesis as $H_1: \mu \neq 3.5$ instead of $H_1: \mu > 3.5$.
- Some examinees, while referring to 't' table, did not first compute degree of freedom as 'n – 1' (i.e., 8 – 1 = 7). Hence value of 't' was not obtained correctly from the 't' table.

(c) Arithmetic Mean:

From a given frequency distribution table, arithmetic mean was to be calculated by the examinees. It was easiest part of the question paper and it was substantiated by good performances of the examinees. Nevertheless, a few examinees committed mistakes in calculation.

Question No. 5

(a) Determination of Missing Values:

In this part, three of five observations were given. In addition, mean and variance of 5 observations were also given. On the basis of this data, two missing values were to be computed. This question required thorough understanding of the topics of measures of central tendency and dispersion. Examinees needed to apply the knowledge of the above-mentioned topics in the given situation. However, examinees did not show the possession of the desired knowledge and ability to perform as per expectations. Most of the examinees knew the formulas of mean and variance but lacked the ability to use these formulas under the given situation.

(b) Determination of Trend Line:

Examinees were given the production data of a sugar factory from 2007 to 2013. Examinees were required to find the trend line and estimate the production for the year 2014. The majority tried to solve this question but their responses were disappointing. They lacked the understanding of dependant and independent variables. Some examinees, instead of finding the trend line, used other methods like simple average, moving average and graphical methods against the requirement of the question.

Question No. 6

(a) Probability Laws:

This question tested the knowledge of the examinees regarding 'not mutually exclusive events' law of probability. The majority had no concept and knowledge of the law to determine the required probability i.e., $P(A \cup B) = P(A) + P(B) - P(A \cap B)$. They were also ignorant of the rule: If probability of occurrence of an event 'A' is $P(A)$, then the probability that it will not occur is $P(A') = 1 - P(A)$. Examinees should have the knowledge of the above two rules to solve this question. Hardly any of the examinees was equipped with the desired knowledge.

(b) Marshall Edgeworth's Index Number:

Prices and quantities of three commodities were given for the years 2010 and 2014. Aforesaid index number was to be found out by the examinees using 2010 as base year. It was a simple question and examinees just required the familiarity with the relevant formula and the ability to insert the values in it correctly. Following shortcomings were noted in the scripts:

- Examinees were not conversant with the formula of the Marshall Edgeworth's Index Number. Some of them used the formulas of Fisher, Laspeyres and Paasche Index Numbers.
- Some examinees tried to expand the formula before inserting values therein. But they were found to be

ignorant of the basic rules to expand a formula. Few of them expanded $\frac{\sum P_n(Q_0 + Q_n)}{\sum P_0(Q_0 + Q_n)} \times 100$ as

$$\left(\frac{\sum P_n Q_0 + \sum P_n Q_n}{\sum P_0 Q_0 + \sum P_0 Q_n} \right) \times 100 . \text{ It could be opened as } \frac{\sum (P_n Q_0 + P_n Q_n)}{\sum (P_0 Q_0 + P_0 Q_n)} \times 100 .$$

(c) Spearman's Rank Correlation Coefficient:

Six students were marked by two examinees independently in the subject of mathematics. Examinees were required to find out whether any correlation existed between marks awarded by the two markers using Spearman's Rank Correlation Coefficient. It was straight-forward question just requiring knowledge of the formula and calculation skills. The performance of the examinees was not upto the mark. They committed following mistakes:

- They confused Spearman's Rank Correlation Coefficient with the Pearson Product Moment Correlation Coefficient and consequently ended up giving wrong answers.
- Surprisingly some of them even used methods of 'linear regression' and 'least squares'.

- A few of the examinees who were conversant with the required formula i.e., $r = 1 - \frac{6(\sum d^2)}{n(n^2 - 1)}$, could not insert

correct values in it. For instance, 'd' represented the difference between the ranks given by the markers to a student. Examinees erroneously treated it the difference between the marks awarded by the two markers. Hence they produced incorrect values of the rank correlation coefficient.

**EXAMINERS' COMMENTS
SPRING (AUGUST) 2014 EXAMINATIONS**

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

Question No. 2

(a) Legal Sources of Law:

Majority of examinees attempted this part of question and correct answers were produced. However, following errors were noticed:

- Some of the examinees explained material sources and formal sources instead of legal sources.
- Few examinees specified the types of legal contract/ agreement.

(b) Types of Criminal Court:

This part was well attempted by the examinees. However, following common mistakes were found:

- Examinees mentioned that 'Supreme Court' is also a criminal court.
- Some examinees listed down first, second and third class Magistrate court into three different types instead of one type.
- Some examinees mentioned all types of courts in Pakistan, instead of listing only criminal courts.

Question No. 3

(a) (i) Agreements Against Public Policy:

Good performance of the majority of the examinees was noted in this part. Most of the examinees mentioned the correct list of agreements against public policy while few of them mentioned irrelevant types of agreements.

(ii) Gratuitous Bailment/ Non-Gratuitous Bailment:

Many examinees were not able to define gratuitous and non-gratuitous bailment properly. Following shortcomings were observed:

- Majority of the examinees did not mention the concept of "Consideration" in defining gratuitous and non-gratuitous bailment.
- Some of the examinees quoted the term 'economic' and 'non-economic transaction'.
- Some examinees defined illegal contracts.

(b) (i) Fraudulent Misrepresentation not Discovered:

Most of the examinees attempted this part and secured good marks. Majority of the examinees mentioned that 'B' can claim damages or full amount instead of answering "yes 'B' can avoid or rescind the contract being a party defrauded or affected by the breach of contract". Overall average performance was observed.

(ii) Fraudulent Misrepresentation can be Discovered:

Very few examinees attempted this part well while majority answered wrongly by explaining that it is a fraud or the contract made is voidable at the option of 'B' and 'B' can claim damages.

(c) Material/ Non-Material Alteration of an Instrument:

Majority of the examinees could not mention all three types of material alteration of an instrument. They could not provide answer according to the basic definitions as per the Negotiable Instrument Act, 1881. Following weaknesses were also noted:

- Some examinees quoted different examples to explain changes in dates, amount and signature in a cheque for material alterations.
- Most of the examinees could not provide the answer in specific manner and provided general examples to explain.
- Most of the examinees provided examples like types of crossing, endorsing and corrections in cheques.

Question No. 4

(a) (i) Warranty of Quiet Possession:

Majority of the examinees mentioned that Rehan can claim damages, but the basic reason “defective title” was not mentioned by any of them. Following other shortcomings are as follows:

- Examinees produced irrelevant answers that Mr. Rehan should tell the whole story to the police and should request for lodging an FIR to arrest Mr. Akber and also give him punishment.
- Examinees also wrote that Mr. Rehan should not return the car to real owner or seller.
- Most of the examinees wrote partial answer by mentioning that Mr. Rehan can claim car price but ignored the point about the claim of damages born by Mr. Rehan due to incurring the additional cost during the period of possession of the car. Some of them wrote the answer vice versa.

(ii) Exceptions to the Doctrine of ‘Caveat Emptor’:

Almost all the examinees attempted this part of question and answered correctly about three to four exceptions of doctrine of ‘Caveat Emptor’ out of five exceptions.

(b) (i) No Implied Authority:

Majority of the examinees correctly answered all seven matters of ‘no implied authority’. However, few examinees wrongly mentioned the duties of partners.

(ii) Wrongful Act of Partners:

Overall performance of the examinees was good in this part. Some of the examinees failed to answer under the Partnership Act, 1932. They were of the view that the director(s) do(es) wrongful act(s), is(are) personally liable and punishable under the law of client’s damages. While the firm will be liable to the same extent as the partners.

Question No. 5

(a) Weekly Holidays:

Majority of the examinees were not well prepared to answer this part of the question. Following deficiencies were observed:

- Examinees wrote that workers cannot be called for duty on Sunday or on consecutively three Sundays without stating exceptions.
- Double pay as compared to normal pay, to be paid to workers in case they are called on Sunday(s).
- Special conveyance or special allowance should be provided to workers.
- Many examinees wrote that ladies and children are not allowed to work on Sunday(s).

(b) (i) Time Limit to Deposit the Amount of Compensation:

Most of the examinees attempted this part of the question but very few of them answered properly. Instead of 10 days, examinees quoted wrong period of time like 20 days, 30 days and three months, which showed their lack of knowledge and study.

(ii) Authorised Officer may refer Cases for Payment to Commissioner of Workman Compensation:

Almost all examinees attempted this part but could not mention the relevant authority who may refer the case for payment of compensation to commissioner. Many examinees quoted wrong authority i.e., collective bargaining agent (CBA), manager, employer, police officer or labour officer etc.

(iii) Fixation of Abstract of the Act or Rules at the Entrance of the Premises:

Very poor performance observed in this part of question. Majority of examinees attempted this part but they failed to understand ‘what does fixation of abstract of rules means’. Many examinees misquoted it as rules/ procedures for entrance of workers in a factory while some of them mentioned that the workmen should wear ‘uniform’ before entering the premises.

(c) (i) Probationer:

Most of the examinees correctly attempted this part providing correct definition of the term “probationer” under the Industrial and Commercial Employment (Standing Orders) Ordinance, 1968. However, some of the examinees mistakenly quoted the period of “six months” and “nine months” and “twelve months etc., instead of three months.

Temporary Workman:

It was a very simple question and almost all examinees gave proper definition of the term “temporary workman” under the Industrial and Commercial Employment (Standing Orders) Ordinance, 1968. However, examinees again failed to mention the correct period of “not exceeding nine months” but stated the period as they desired.

(ii) Rules for Entitlement of the Share of Survivor’s Pension to the Minor Children:

Most of the examinees attempted this part but few of them mentioned properly that both male and female children of the deceased insured person, under the age of eighteen and unmarried daughter would be entitled to receive the pension amount equally. Other shortcomings noticed are as follows:

- Some examinees were totally failed to understand the question and answered incorrectly that deceased wife shall receive the pension.
- Many examinees included minor brother, sister and other relatives of the pensioner.

Question No. 6

(a) Assurance Engagement:

Examinees performed worst in this part and could not provide the elements of ‘assurance engagement’. Few examinees even irrelevantly explained various types of agreements in the answer.

(b) (i) Threats related to Contingent Fees:

Most of them were failed to understand what does mean the term “contingent fee” and relevant threats in this context. Majority of examinees wrongly explained Integrity, confidentiality, professional competence, objectivity and professional behaviour which are general fundamental principles which a professional accountant must follow in all professional and business relationships.

(ii) Safeguards related to Contingent Fees:

Examinees were asked to enumerate the types of safeguards or measures to be taken to eliminate or to minimize the threats related to contingent fee. Most of the examinees attempted this part of question but majority could not provide correct answers. Some of them provided irrelevant answers like self interest threats, self review threats, familiarity threats, and intimidation threats which are common threats for compliance with the fundamental principles by professional accountants in business or practice.

(c) (i) Close Family:

Many examinees committed silly mistake mentioning that business partners, employees, wife of an auditor engaged in a client business or auditor himself engaged in two clients doing same business are called closed family.

(ii) Immediate Family:

Many examinees mixed up the immediate family with closed family. Some examinees quoted other irrelevant answers like blood relationship, cousins and other relatives etc. while few examinees wrongly included parents and relatives in the immediate family.

**EXAMINERS' COMMENTS
SPRING (AUGUST) 2014 EXAMINATIONS**

**FINANCIAL ACCOUNTING
Semester-3**

Question No. 2

Financial Statements:

Examinees were required to prepare statements of **(a)** Profit or Loss **(b)** Changes in Equity and **(c)** Financial Position. The majority attempted this question, however, performance remained below average. Following mistakes were found during marking of scripts:

- A number of examinees did not calculate 'revenue' correctly since they ignored adjustment regarding advance amount (Rs.20 million) received from a customer, which was to be deducted from the revenue given in the trial balance.
- Due to above error, examinees failed to compute correct amount of directors' bonus, which was 2% of revenue. It also resulted in wrong calculation of administrative expenses, which included amount of directors' bonus.
- Gain on revaluation of fixed assets was shown in the statement of profit or loss instead of including the same in the 'other comprehensive income'. Some of them ignored it altogether.
- Majority of the candidates could not calculate the correct amount of deferred tax liability, Rs.6.195 million ($17.700 \times 35\%$) to be shown in the statement of financial position. Instead, some examinees wrongly mentioned the deferred tax liability balance of June 30, 2012, which was given in the trial balance. Some of them even treated the entire temporary difference amount as deferred tax liability.
- Some of the examinees could not classify 'advance from customer' correctly and mentioned the same under 'current assets' instead of 'current liabilities'.

Question No. 3

Statement of Cash Flows:

Examinees were required to prepare 'Statement of Cash Flows' including reconciliation of 'cash and cash equivalent', using 'indirect method' as per the requirements of IAS-7. Following general mistakes were noted:

Cash Flows from Operating Activities

- A number of examinees could not correctly calculate change in the working capital of 'advances, deposits and prepayments'. They just considered the difference of closing and opening balances of the above-mentioned account and treated it as cash outflow. However, before doing so they should have first deducted amount of accrued interest income (Rs.33,000) from the closing balance, which was included in the 'advances, deposits and repayments'.
- Interest income for five months, Rs.33,000 ($1,000,000 \times 8\% \times 5/12$) was not calculated correctly. Instead, some candidates calculated the amount for the whole year i.e., Rs.80,000 ($1,000,000 \times 8\%$).
- Some candidates did not classify the amount of provision for legal claim (Rs.250,000) correctly. They mentioned the same under 'cash flows from financing activities' instead of 'cash flows from operating activities'.

Cash Flows from Investing Activities

- A large number of candidates were unable to arrive at correct amount of cash outflow for purchase of 'property, plant and equipment (PPE)' mainly due to either wrong or no adjustments for the disposal and revaluation of assets.
- Most of the examinees did not mention the correct amount of cash inflow from disposal of PPE (Rs.250,000). Instead, they mentioned the book value (Rs.200,000) as cash inflow. The gain from disposal (Rs.50,000) should have been added to the book value to arrive at the correct amount of cash inflow.
- A good number of candidates did not show the correct amount of cash outflow for purchase of software

(Rs.1,000,000). Instead, some examinees either wrongly mentioned the amortization amount (Rs.200,000) or the amortized amount (Rs.800,000) as cash outflow.

- Majority of the examinees did not mention the cash outflow relating to the increase in long-term loans and advances (Rs.500,000) correctly. Some even did not mention the same at all and some did mention but wrongly classified it under 'cash flows from financing activities' instead of 'cash flows from investing activities'.

Cash Flows from Financing Activities

- Only some students could calculate the correct amount of cash inflow in respect of issuance of rights shares and premium thereon. A few candidates did not mention the same at all treating it as a non-cash item.

Question No. 4

(a) (i) Enhancing Qualitative Characteristics:

This question was attempted by majority of the candidates but a few examinees could understand the requirement of the question and hence answer correctly. Some candidate resorted to elaborate qualitative characteristics 'relevance' and 'faithful representation' against the requirement of the question.

(ii) Elements of Financial Statements:

This part of the question required the candidates to define the criteria for recognition of elements of financial statements. The question was attempted by majority of the examinees. A good number of examinees answered correctly. However, some candidates listed down the elements of financial statements against the requirement of the question.

(b) Criteria for Recognition of Intangible Assets under IAS-38:

Examinees' performance in this part of the question was satisfactory. However, some of them resorted to giving irrelevant answers like definition of intangible assets etc.

(c) Finance Lease:

In this part of the question, the candidates were asked to prepare extracts of Statement of Profit or Loss and Statement of Financial Position for the years ended June 30, 2009 to 2013. It was noted that the candidates were lacking the knowledge of IAS-17 – Leases; thus their overall performance was not satisfactory. Following common mistakes were observed:

- Many examinees could not determine the lease liability at the commencement of the finance lease. They ignored to deduct the initial deposit of Rs.500,000 from the cost of the asset (Rs.30 million). Consequently, all the calculations for five years were not correct.
- Some of the candidates who calculated the liability against leased asset for each year correctly, were unable to bifurcate the same between long-term liability and current liability.

Question No. 5

(a) Non-Current Assets Schedule:

This part of the question required examinees to prepare Non-Current Assets Schedule as per the disclosure requirements of IAS-16. This question was attempted by majority of the candidates but except a few, no one was able to prepare the schedule as per the disclosure requirements of the IAS-16, mainly due to lack of knowledge of the relevant IAS/ topic. Following common mistakes were noted while marking the scripts:

- Some candidates did not use the reducing balance method for charging the depreciation, which was clearly stated in the question.
- A good number of candidates could not calculate correct depreciation for the years ended June 30, 2012 and 2013, for 'furniture and fixture' and 'plant and machinery', mainly because they did not account for disposal of assets correctly and did not use correct depreciation method.
- Depreciation rate and method were not mentioned by most of the examinees, which were to be disclosed.
- Many candidates ignored the instruction that as per company policy no depreciation shall be charged in the year of disposal whereas full-year depreciation shall be charged in the year of purchase.

(b) Taxation:

In this part of the question, the examinees were required to calculate **(i)** current tax liability **(ii)** deferred tax asset/ liability and **(iii)** deferred tax expense/ income. A good number of examinees attempted this question but a few candidates were able to answer the question correctly mainly because of their weak grip over the relevant topic/ IAS. Following common mistakes were observed in the scripts:

- Majority of the candidates did not have clear concept of 'disallowed expenses' hence they did not add back the same to the taxable income. Consequently they could not calculate the correct current tax liability at close of each year.
- A good number of examinees calculated the 'tax bases' and the 'taxable temporary differences' correctly for three (3) years but seemed to have no clear concept of deferred tax expense and income hence ended up with wrong answers.

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**EXAMINERS' COMMENTS
SPRING (AUGUST) 2014 EXAMINATIONS**

**ENTERPRISE MANAGEMENT
Semester-3**

General Comments:

Generally the overall performance of the examinees was below average while the questions asked were of average difficulty level and expected to be answered correctly. The explanations given by examinees lacked the understanding required of the subject. Examinees often were not clear about the requirement of the questions asked. Even though the language proficiency of most examinees was quite good but it seems they were not prepared for the examination.

Question No. 2

(a) Techniques to deal with conflicting interest of stakeholders:

The answers were irrelevant and very disappointing. The answers of most of the students were not specific. They mentioned that to resolve conflict, stakeholders should discuss the matter, try to reach a good solution etc. Moreover, if a need arises even help can be taken by arbitrator. The specific answer should have included first the definitions of ASSERTIVENESS and COOPERATIVENESS. Based on these terms five modes for resolving conflict were supposed to be explained. When explaining the modes of dealing conflict some examinees discussed destructive and constructive strategies instead. Some explained win – win and win – lose strategies.

(b) Stages of group development:

It was noted that that a good number of students had an idea about team development. They were able to mention and explain group development as identified by Tuckman. They explained the stages well i.e., forming, storming, norming, and performing. However, it was observed that many students missed to write about dorming and mourning/ adjourning as these were also added by Tuckman and Jensen. Some students mentioned the answer in different ways. They mentioned that the team members should have knowledge and education and must cooperate for working together diligently to meet the challenges and targets instead of discussing the stages of group development as identified by Tuckman.

Question No. 3

(a) Five concepts of formulating marketing strategies:

In this question examinees were asked to explain the five marketing management concepts in terms of product and customer. A vast majority of examinees wrote about the basic concepts of marketing such as segmentation, target market and positioning, BCG matrix, product/ market expansion grid, customer satisfaction and customer value instead of stating production concept, product concept, selling concept, marketing concept and societal marketing concept. This question remained unanswered or partially answered by majority of the examinees.

(b) Key drivers for corporate social responsibilities (CSR) in developing countries:

It is the world of competition and the success depends on having clear idea and detail about CSR. In this question the examinees were asked to discuss the influences for adopting corporate social responsibility drivers i.e., politics, socio – economic priorities, governance gaps and market excess in the developing countries. Majority of the examinees were unable to identify these elements, instead they answered discussing the issues such as pollution, industrial waste, ozone layer depletion and green house gases. Some cited examples of philanthropic activities such as beautification of the city, providing funds for charitable causes and flood relief.

Question No. 4

(a) Three traditional core functions of operations function:

The question consisted of two parts. First to discuss three traditional 'core functions' considered as operations function in operation management of an organization and secondly to discuss and comment on five parts of an organization as suggested by Henry Mintzberg. Most of the students explained the first part correctly covering points like operations, marketing and sales and product and service development. However, it is important to point out that performance of the students in second part of the question was hopeless. Very few students were able to draw the diagram and explained the points suitably explaining the points like operating core, middle line, strategic apex, technostructure and support staff as suggested by Henry Mintzberg. Many students answered second part by mentioning irrelevant headings and classification of service factor which were not asked.

(b) Major factors of a customer expectations:

This question consisted of two parts. First to list the major factors that shape customer expectations and second to discuss the various ways in which service quality factor may be classified. Most of the students explained the first part correctly covering points like price, marketing, word of mouth, prior experience, customer mood/attitude and alternatives related to customer expectations. Their answers were found up to the mark. It was surprising that many students missed the second part of the question which required to mention various ways in which service quality factors are classified. They should have mentioned and comment on the points like hygiene factors, enhancing factors, critical factors and neutral factors.

Question No. 5

(a) Societal forces that affect factors in micro environment:

In this question the examinees were asked to determine the macro environment factors which include demographic environment, economic environment, technological environment, political and social environment and cultural environment, and show how these affect an organization's marketing plan. The question was generally well understood and mostly correct answers were given to a large extent, however, examinees had difficulties to explain how each of these elements contribute in the marketing plan. Some examinees also included ecological environment, natural environment and legal environment. Few examinees unnecessarily gave components of the marketing plan.

(b) Classification of managers and management functions:

The question was simple and consists of two parts. First to classify managers in traditionally structured organizations and second, to discuss certain functions performed by managers efficiently and effectively to coordinate the work of others. In this question a good number of students were able to answer the second part of question. They mentioned and explained planning, organizing, leading and controlling effectively. They had a clear idea of these functions. However, it was strange to note that most of the students missed the first part of question. They wrote nothing about classification of managers in traditionally structured organizations. It was very simple question and they should have covered and explained first line managers, middle line managers and top managers.

Question No. 6

(a) Maslow's hierarchy of needs and associated problems:

This question again consists of two parts. First to develop the levelled diagram of motivating power of needs explained by Abraham Maslow and second, the problems associated to the model. In this question many students were able to answer the first part of question. They drew the diagram of motivating power of needs explained by Abraham Maslow and explained adequately. They were able to answer this part of question successfully. However, it was discouraging to note that most of the students were unable to answer the second

part of question i.e., where the problems related to the theory was sought. Examinees were unable to give reasonable answers. Hardly any answer was correct on this account.

(b) Four management styles:

A good number of students tried to answer the question and explained various classifications of leadership styles. They mentioned the characteristics of tells, sells, consults and joins successfully. However, few students covered the strengths and weaknesses of different management styles. They should know that this is one of the important topic which requires thorough studies. Some students mentioned different headings covering management styles and tried to answer the question. The students must know that the question requires different management styles as identified by Tannenbaum and Schmidt and must be specific and to the point about answering the question.

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EXAMINERS' COMMENTS
SPRING (AUGUST) 2014 EXAMINATIONS
INFORMATION SYSTEMS AND I.T. AUDIT
Semester-3

General Comments:

The overall performance of the examinees in this question paper remained very poor. It seemed that majority of examinees were not properly prepared and could not even understand what was asked in the question. The quality of answers was very poor in most of the scripts. Instead of giving specific and relevant answers, they wrote some irrelevant details.

Question No. 2

(a) Benefits of implementing enterprise resource planning (ERP) system in an organization:

In first section, students were asked to describe enterprise resource planning (ERP) implementation phases while in other section, the students were required to bullet down benefits of successfully implemented ERP software. Majority of the examinees discussed irrelevant details about enterprise resource planning (ERP) implementation phases. Many examinees focused on system development life cycle (SDLC) phases rather than specific about ERP implementation phases. While defining benefits of ERP system, students superficial knowledge was observed in most of the answer scripts like provide integrated solution for business reliable, efficient, economical etc., rather than focused on key/ prominent features which distinguish it with other types of information systems. Due to simplicity of the question, candidates were expected to add high score in their total marks. However, a small number of candidates were successful to include reasonable score in their total line particularly in first section. While a number of candidates did not concentrate on the theme of question that required elaboration of ERP implementation phases such as:

- Detailed discussion phase
- Design and customization phase
- Implementation phase and
- Production phase

(b) Different classes of operating system:

In this part, examinees were asked to elaborate different classes of operating system. This was one of the easiest question but majority of the students had ignored to explain effectively and precisely different classes of operating system. Mostly examinees had discussed about different types of text based and Graphic User Interface (GUI) operating system and their features like DOS, Windows, Linux etc., which was not required. Answer scripts revealed that students did not carefully read the question and remained unable to grasp the details which was required in this part.

Question No. 3

(a) Eight techniques used in decision making in decision support system:

Decision Support System (DSS) is an interactive information system that helps to make decisions in semi structured and unstructured situations. It is required to enlist and explain eight important techniques used in decision making in DSS. Progress of entire group remained unsatisfactory in this part of question paper. Mostly examinees have no idea about different techniques used in DSS. Many examinees discussed importance of DSS in Information system which was not asked. As far as the given scenario is concerned, the decision support techniques that were required to list down in response of this question should be:

- Simulation
- Optimization

- OLAP and Data mining
- Expert System
- Neural networks
- Fuzzy Logic
- Case-based reasoning
- Intelligent agent

Above techniques have specific terminologies and definitions. The main purpose of asking these definitions is to evaluate student's knowledge level, usage of terminology in their professional lives and defining above points in technical language. Despite lengthy answers, most of the students came-up with incorrect responses. The students mainly focused in defining decision support system, its characteristics, costs etc that ended the answer lengthy and irrelevant.

(b) Role and job description of database administrator, project manager and application developer:

In this question examinees were required to discuss job role and responsibilities of database administrator (DBA), project manager and application developer to effectively implement and manage MIS system in organization. Majority of examinees knew about working of above mentioned positions. They knew the requirement of each post in organization but did not focus on job descriptions and their responsibilities against each position. Majority of examinees considered DBA as network/ system administrator. Also role of application developer was not precisely defined by many examinees. Mostly examinees discussed general working of these posts rather than specific job responsibilities with respect to MIS.

Question No. 4

(a) Six requirements of LAN and Network Operating review:

In the given scenario a bank has engaged an I.T auditor to perform LAN and network operating review. Proper environment and physical controls can ensure equipment reliability and reduce risk in case of any disaster or possible threat of down time. In this question it was required to highlight minimum six requirements related to organization LAN and network operating review. Progress of examinees remained poor in this part. Mostly examinees did not grasp the core of the question and wrote irrelevant details and failed to concentrate on environmental, physical and logical controls. Many examinees discussed about functions of router, firewall, DMZ and other network devices rather than focusing on requirement of the question. However, none of the candidates defined the controls in logical groups like:

- Environment and physical controls
- Fire and smoke
- Climate
- Water
- Electricity
- Logical Controls

(b) Three principal ways to secure wireless networks:

Due to revolution in wireless network, wireless security is now integral part of network security. It is required to discuss three principal ways to secure wireless networks. Progress of entire group remained below average in this part. In spite of exponential growth in Wimax, wi-fi, blue tooth and other wireless technologies, its vulnerabilities still can be great threat towards organizations network security. Mostly examinees explained password protection in wireless security. However, other important security measures like encryption, VPN, MAC address checking were ignored in many answer scripts. Many examinees discussed the role of firewall in wireless security.

Question No. 5

(a) Six payment methods used in e-commerce business:

This was one of the easiest part of the question paper and majority of examinees had explained well the need of merchant account in e-commerce. However, while explaining different types of payment system, mostly examinees considered/ focused on debit, credit, ATM card and other payment instruments as ecommerce payment system, however, it is required to include different payment systems like E-cash, cyber cash, digicash & E-check in this part which showed students shallow knowledge about E-commerce payment system.

(b) Advantages/ effects of implementing procedures and SOPs while adopting any change management procedure:

It is required to explain advantages/ effects of implementing procedures and SOPs while adopting any change management procedure either deployed in changing hardware, upgrading OS, data migration and configuring various network devices. If standard SOPs/ procedures/ MOPs properly followed in any change management process, it will ensure reliability and avoid any cause of possible downtime which may cause any tangible or intangible loss to the organization. The overall performance was not satisfactory in this part of the question.

Question No. 6

(a) Five phases of continuity plan testing:

A very small majority of examinees had explained this part correctly. A large number of examinees attempted the question with very vague definitions without showing clear understanding of it. Majority of the examinees answers revolved around business continuity planning (BCP) and disaster recovery planning (DRP), rather than elaborating different tasks to be accomplished by continuity plan testing. Very few examinees explained well the different test phases to perform full testing. Most of the candidates narrated entire procedure of disaster recovery i.e. hot and cold sites, recovery time, backup procedure, role and responsibilities of assigned team members, availability of key responsible persons etc. Deviation of candidates from actual response made the answer lengthy and irrelevant.

(b) Advantages and disadvantages of waterfall model, spiral model and prototyping model:

The question was very easy and majority attempted it correctly. Mostly examinees knew about different software methodologies used by software developers. While comparing features of each models, students' answers lacked technical concept, however, superficial knowledge observed in most answer scripts. While comparing prototyping model, most examinees have no concept of working of this model. Most examinees just wrote overview and presumptions about the prototyping model.

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**EXAMINERS' COMMENTS
SPRING (AUGUST) 2014 EXAMINATIONS**

**MANAGEMENT ACCOUNTING
Semester-4**

Question No. 2

(a) Variable and Fixed Electricity Rate:

Almost all the examinees attempted this part but the overall performance was not upto the mark. However, following mistakes were identified which showed lack of understanding of the topic and basic arithmetic:

- Some examinees took direct labour as a function of electricity cost instead of electricity cost as a function of direct labour.
- Few examinees treated negative differences from mean as positive which resulted in wrong calculations.
- Square of negative figures taken as negative instead of positive.
- Most of the examinees took products of negative and positive figures as positive instead of negative.

(b) Flexible Budget:

The major error was observed in this part that examinees changed the value of fixed costs in proportion to capacity level. A few of the examinees also made errors in calculating the variable costs at different capacity levels which required a simple calculation of finding the 100% cost and then determining the costs at the given levels.

Question No. 3

(a) Advantages of Benchmarking:

The concept of benchmarking was not clear and hence most of the examinees failed to mention the advantages and committed following mistakes:

- Some examinees misunderstood and listed the advantages of standards/ budgets.
- Most of the examinees elaborated uses of standards/ budgets.

(b) Variances:

Almost all the examinees attempted this part but could not perform well. It was observed that the examinees did not study the topic and faced difficulty in attempting this question. Since the examinees did not know the formulas correctly they were unable to determine the missing figures and committed following mistakes:

- Majority of the examinees used normal capacity hours instead of actual hours for calculation of variable overhead spending variance (difference with actual variable overhead).
- Some examinees added adverse variable overhead efficiency variance instead of subtracting from actual variable overhead while calculating actual hours at standard rate.
- Many examinees calculated budgeted fixed overhead by adding adverse fixed overhead budgeted variance instead of subtracting the same from actual fixed overhead.
- Most of the examinees calculated budgeted fixed overhead rate by dividing budgeted fixed overhead with actual hours instead of normal capacity.

Question No. 4

(a) Similarities between NPV and IRR:

Examinees were required to state the similarities between NPV and IRR but they tried to differentiate between them. Some examinees also stated formulas which was not required in the question.

(b) Net Present Value of Project:

It was observed that the examinees did not have thorough knowledge of the topic and hence were unable to attempt this question. Following shortcomings were noticed:

- Many examinees charged the cost of machinery to each year instead of Year-0.
- Most of the examinees prepared income statement which was not required.
- Many examinees charged the cost of machinery to each year instead of Year-0.
- Cash-flows for Year-5 was not shown by most of the examinees.
- Some of the examinees considered depreciation as cash-flow.
- Outflow for labour is considered as constant at 10,000 units level for all four years.

Question No. 5

(a) Limiting Factor Analysis:

Examinees attempted the first part of calculations with ease but faced difficulty in understanding the other requirements where profitability was to be evaluated when sales value or production capacity were limiting factors. Moreover, following common mistakes were identified:

- Majority of the examinees calculated throughput instead of contribution margin.
- Few examinees divided labour cost by rates and then divided by kilograms of material used to arrive at hours required per unit whereas per unit data was already given.
- Some of the examinees failed to calculate contribution margin ratio for ranking of products for sales amount constraint.
- Most of the examinees failed to calculate contribution per hour to rank the products for capacity constraint.

(b) Throughput Accounting/ Bottleneck:

Majority of the examinees attempted this part but could not perform well. Following shortcomings were observed:

- Many examinees calculated either sales revenue or material cost only and failed to deduct conversion cost or deducted total conversion cost (of all products) from each product while calculating profit per day.
- Few examinees failed to calculate time required for production of all three products or failed to calculate efficiency.
- Some of the examinees tried to define through-put accounting and conventional cost accounting instead of differentiating them.

Question No. 6

(a) Services provided by Factoring Organisations:

Most of the examinees attempted this part but could not describe the specific services provided by factoring organisations.

(b) Annual Factoring Cost:

Very few of the examinees were able to attempt this question mainly as they were unable to calculate the value of interest correctly. Other mistakes committed by the examinees are stated below:

- Majority of the examinees worked out monthly cost instead of annual cost required in question.
- Most of the examinees calculated interest cost on 100% sales value instead of 70% would be advanced by factoring organization.
- Few examinees calculated interest cost for one complete year instead of 40 days period allowed to customers.
- Some of the examinees did not consider internal cost saved by the company.

(c) Annual Cost of Offering Cash Discount:

Most of the examinees did not know the formula and hence could not calculate the correct percentage and committed following mistakes:

- Few examinees failed to calculate credit involved.
- Some of the examinees calculated percentage on the basis of wrong formula.

**EXAMINERS' COMMENTS
SPRING (AUGUST) 2014 EXAMINATIONS**

**BUSINESS TAXATION
Semester-4**

Question No. 2

(a) Public Company:

Some of the examinees gave incorrect definition i.e., company registered under the Companies' Ordinance, 1984 is a public company. Some examinees defined public company as a company whose 50% shares are purchased by the general public etc.

(b) (i) Non-Resident's Income from Foreign Source and Pakistan Source:

Most of the examinees did not read the question carefully and misinterpreted the answer, question was related to inclusion of foreign income in the *total income* or not and secondly, which of the income is taxable i.e., *Pakistan Source Income* or *Foreign Source Income*. Surprisingly, few examinees stated that Pakistan source of income is exempt but foreign source of income is taxable.

(ii) Types of Pakistan Source Income which are Taxable:

Almost all the examinees attempted this part of question but did not answer well. Very few of them mentioned correct answer i.e., *received or deemed to be received, accrue or deemed to be accrue or arise in Pakistan*. Majority of them incorrectly enumerated different heads of income like salary, dividend, property income, income from shares and any income from services.

(iii) Income Tax Regime:

Most of the examinees attempted this part of question correctly quoting *Final Tax Regime (FTR)*. However, some of the examinees were confused about the correct tax regime and they mentioned *Separate Block of Income, Provisional Tax Regime* and *National Tax Regime* reflecting lack of knowledge of the subject.

(iv) Date of Submission for Statement in Lieu of Return:

Examinees were required to mention the date for submission of the statement in lieu of tax return. Almost all the examinees attempted this part of question and majority of them correctly quoted the date of submission. However, few examinees have shown their lack of knowledge by mentioning other irrelevant dates.

(c) Serving the Notice to a Resident Individual/ AOPs:

Examinees did not read carefully this part of the question and following mistakes were committed by examinees:

- (i)** Majority of the examinees wrote definition and purpose of resident individual and AOPs instead of mentioning the procedure of serving the notice.
- (ii)** Most of the examinees incompletely answered two methods of serving the notice i.e., *in person* and *by registered post* but there were very few who mentioned the manner of *serving of the summons under the Code of Civil Procedure, 1908*.

Question No. 3

(a) Types of Tax Credit u/s 61, 62, 63 and 64:

Proper definition was not provided by examinees and they wrote very general answers. Following shortcomings were observed in this part:

- Majority of the examinees quoted formula for calculation of tax credit which was not required.
- Few examinees partially answered this part by mentioning that tax credits are allowed only when donation is given to approved institutions.

(b) (i) Tax Credit:

Examinees were required to quote tax credit formula. Most of the examinees attempted at an average as they could not state the formula properly. Moreover, examinees answered the question in the following manner:

- Some of the examinees quoted formula only as $(A/B) \times C$ but did not define variables i.e., A, B and C.
- Few examinees miss-quoted the formula like $(B/C) \times A$.
- Many examinees did not compute tax credit but only provided Tax Assessed/ Taxable Income \times Investment.
- Few examinees mentioned only investment in shares and did not elaborate three options of (C) in formula i.e., whichever is lesser among options.

(ii) Tax Credit against Shares Investment:

Most of the examinees attempted this part and committed following mistakes:

- Majority of the examinees calculated the amount by multiplying with actual cost of the investment.
- Few examinees instead of calculating the amount, explained the benefits of tax credit.
- Few of them used the wrong figure of investment Rs.600,000 instead of correct figure of investment Rs.500,000, which would come out after considering 'C' of the formula and its selection criteria requirements.

(iii) Tax Liability increased by Tax Credit on Disposal of Investment within 24 Months:

Almost all the examinees attempted this part and secured good marks. However, few of the examinees quoted *12 months* and some quoted *within the tax year*.

(c) Payment to Non-Resident:

Most of the examinees attempted this part but having wrong understanding about the exemption available in section 153(3) to the non-resident. Very few of the examinees quoted that the nature of payment is a commission and taxable u/s 233. Moreover, following shortcomings were noticed:

- Some examinees stated that tax will not be deducted, if it is as per agreement. None of the examinee could define basic requirement applicable for remittance without tax deduction.
- Few examinees answered that tax will not be deducted because of tax treaty between the two countries.
- Most of the examinees wrote that bank should pay the tax and should be penalized in this matter which shows lack of knowledge in respect of Section 152 of the Income Tax Ordinance, 2001.

Question No. 4

Calculation of Taxable Income and Tax Liability of a Private Limited Company:

Most of the examinees attempted this part but very few of them calculated correct amount of taxable income and tax liability. However, examinees committed following mistakes:

- Majority of the examinees failed to calculate correct net taxable profit because of *wrong determination of admissible and non-admissible expenses and treatment of separate block of income*.
- Very few examinees adjusted correct amount by correct *appropriation of profit of FTR* from the taxable income, but majority failed to show the *correct working*.
- Majority of the examinees calculated tax liability at *35% instead of 34%*.
- Most of the examinees failed to add back *final tax and tax on dividend* already deducted, for the calculation of total tax liability of the company.

Question No. 5

(a) (i) Sales Tax on Free Samples:

Examinees were required to mention whether sales tax is imposable or not on free of cost sample packs provided to the customers during the normal course of business. Majority of the examinees attempted this part and obtained good marks while few of them replied incorrectly that these samples are *exempt for imposing sales tax*.

(ii) Sales Tax on Package Deal:

Examinees were asked to discuss how sales tax is imposed on a package deal of a mix of three products, if these products are sold at discounted price. Majority of them attempted this part well. However, some of them did not correctly answer and presumed that *sales tax is charged on full price* instead of discounted price.

(iii) Sales Tax under Hire Purchase Agreement:

Majority of the examinees attempted this part of question but very few of them replied correctly. Some common errors committed by examinees are as follows:

- Majority quoted sales tax valuation basis as *fair market value* instead of *open market price* and considered both as same.
- Very few of them quoted that *there will be no impact of tax liability if the tax rate is changed later on*. Others answered incorrectly that the *tax shall be charged according to the available/ changed rates*.
- In this part majority of the examinees could not understand that sales tax has been imposed one time at the time of hire purchase agreement and then just collection of instalments is continued.

(b) Computation of Sales Tax Liability:

An average performance was observed in this part of the question. Following shortcomings were noted:

- Most of the examinees added purchases made from unregistered person resultantly *input tax allowed* was not worked out correctly.
- Few examinees did not charge 1% further tax from unregistered customers.
- Many examinees ignored apportionment of taxable and exempt supplies (for claiming input tax).
- Some of the examinees did not consider sales tax on sales to non-registered person ultimately could not correctly calculate *total output tax* figure.

Question No. 6

(a) (i) Retailer's Turnover Limit for Registration under Sales Tax:

Almost all the examinees attempted this part while some of the examinees quoted wrong limit for registration under the Sales Tax Act, 1990.

(ii) Zero Rated and Exempted Supplies:

Most of the examinees replied correctly while some of them wrote that only zero rated supplies are part of value of supplies.

(iii) Retailer's Right of Input Sales Tax and Refund Claim:

Examinees were asked whether a retailer, if he is not registered, can claim input sales tax and claim refund of input tax or not, most of the examinees replied incorrectly because they ignored the status of the trader, who is not registered under the Sales Tax Act, 1990.

(iv) Retailer's Quarterly Return:

Examinees were required to mention the dates of filing quarterly statements/ returns by a retailer if he is registered, as required under the Sales Tax Rules, 2006. Most of the examinees attempted this part of question but very few were aware of the correct dates of filing quarterly statement.

(v) Issuance of Invoices by Retailer:

Some examinees wrote that it is not mandatory to issue invoice. However, they did not write about fiscal electronic cash register. Majority of the examinees answered this part correctly.

(b) (i) Definition of Franchise:

Majority of the examinees attempted this part of question but could not explain the exact meaning in the light of the Federal Excise Act, 2005. Some examinees wrote that franchise is a place where people buy products or a shop which is opened with the permission of a company.

(ii) Property Developers or Promoters:

Most of the examinees were unable to properly define this part and wrongly treated the agents of constructors or builders instead treating the developers and promoters as constructors or builders of houses/ bridges.

(c) (i) Temporary Export and Re-import of Plant and Machinery:

Most of the examinees explained the answer in their own way and did not mention the required conditions of duty free re-import, which reflected lack of preparation by examinees in respect of the Customs Act, 1969.

(ii) Valuation of Damaged Goods:

Majority of the examinees mentioned formula for calculating value of damaged goods and did not elaborate that the value may be appraised by the Assistant Collector Customs or may be sold by public auction or tendering.

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**EXAMINERS' COMMENTS
SPRING (AUGUST) 2014 EXAMINATIONS**

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

Question No. 2

(a) (i) Prospectus:

Most of the examinees described 'prospectus' in its proper context. However, following shortcomings were observed:

- Many examinees differentiated between prospectus and statement In lieu of prospectus.
- Few examinees described the 'prospectus' as a book of rules and regulations and a combination of Memorandum of Association and Articles of Association.
- Some examinees discussed 'prospectus' as a company's marketing brochure.

(ii) Untrue Statement included in Prospectus:

This part was attempted by almost all of the examinees. However, majority did not understand the question and committed following mistakes:

- Majority of the examinees discussed the provisions regarding consent of expert.
- Many examinees did not understand the nature of 'untrue statement' in the given context and discussed irrelevant matters e.g., repercussions of untrue statement, imposition of penalties and fines for giving untrue statement etc.
- Many examinees mentioned the 'inclusion of misleading information' but were not aware of 'omission of information calculated to mislead'.
- Some examinees misconstrued that any information is untrue if not approved by certain level of management.

(iii) Availability of Prospectus at Certain Places:

This question was well attempted by majority of examinees. Besides good performance, many of them provided unnecessary details which are as follows:

- Most of the examinees mentioned 1 or 2 place(s) out of the 3 places prescribed in the law i.e., registered office, stock exchange and banks.
- Some of them mentioned irrelevant places.
- Many examinees described the authorities or institutions to whom prospectus is submitted rather than 'where it is placed'.

(b) Commencement of Business by Public Company:

Majority of examinees could not understand the specific requirement of the question and following common misconceptions were observed:

- Majority of the examinees discussed the steps taken by the promoters for incorporation of the company till obtaining the certificate of commencement of business.
- Most of the examinees failed to specify the complete requirements which should be fulfilled by a public company to commence its business.
- Few examinees described the process for conducting lawful business activities.
- Many examinees provided unnecessary and irrelevant details regarding Memorandum of Association and Articles of Association.

(c) (i) Registration of Mortgage/ Charge:

It was simple question which was well attempted by all of the examinees. However, following are the shortcomings:

- Examinees discussed 'by whom' the charge is filed instead of 'to whom'.
- Mortgage or charge is required to be filed within 21 days of its creation but most of the examinees mentioned different time periods.

(ii) Documents Required for Registration of Mortgage/ Charge:

It was a simple question but very few examinees listed down all the documents required to be filed for registration of mortgage or charge. Rest of the examinees committed following errors:

- Majority of examinees omitted various documents necessary to be submitted to registrar.
- Many examinees discussed the 'instrument creating the charge' in details with repetition.
- Some items were easy to guess like prescribed form (Form 10) and bank challan but number of examinees did not mention it.

Question No. 3

(a) (i) Beneficial Ownership:

This question was well attempted by almost every examinee. However, following mistakes were observed:

- Examinees were not aware about the nature of beneficial ownership and mixed up the concept with buyback of shares.
- Some examinees wrote that Chief Executive Officer (CEO) cannot be beneficial owner unless holds more than 10% shares.

(ii) Persons Required to Comply with Provisions of Beneficial Ownership:

Most of the examinees were not clear and listed down every member and officer of a company as a beneficial owner.

(iii) Shares Transactions:

This question was poorly attempted by the examinees. Majority of the examinees answered the question with reference to the given scenario but without mentioning the underlying provisions of law.

- Almost every examinee failed to mention the filing of return to the Commission (SECP) and registrar.
- Many of the examinees discussed benefits of trading in shares in terms of market price of shares.
- Some examinees had the misconception that purchase before becoming CEO is not relevant for the purpose and some of them believed that it is prohibited for CEO to trade in company shares.
- Some examinees discussed conflict of interest and supposed that the disclosure of deals in the Board meeting would be enough.

(b) Issuance of Bonus Shares:

Majority of the examinees answered the question generally rather than discussing the underlying provisions of law. Common shortcomings are as follows:

- Few examinees described the provisions related to right issue of shares.
- Most of the examinees discussed the benefits of issuing bonus shares.
- Some of the examinees had misconception that buying of other companies' shares are termed as 'bonus shares'.
- Many examinees discussed irrelevant issues e.g., management considerations for issue of bonus shares, the process for issue of bonus shares etc.
- Some examinees mentioned retention of free reserves without its percentage, omitted auditor's certificate or ignored the factor of contingent liability in the calculation of free reserves particularly those created subsequent to the audited accounts.

Question No. 4

(a) (i) Casual Vacancy of Director:

Only some examinees were able to describe that casual vacancy is filled by directors. It was also observed that majority of the examinees did not have knowledge about the requirement of Code of Corporate Governance as to representation of minority shareholders in Board of Directors.

Generally following mistakes have been observed:

- Majority of examinees unnecessarily provided voting procedures.

- Many had misconception that casual vacancy is filled in annual general meeting (AGM).
- Many of the examinees discussed eligibility criteria for selection of directors.
- Most of the examinees did not mention that the casual vacancy is filled for the remaining term of the deceased director.

(ii) Facilities provided by the Listed Company to Minority Shareholders for Proxy Solicitation:

None of the examinees was able to discuss the underlying provisions of the Code of Corporate Governance, 2012. They answered in irrelevant manner as:

- Many examinees discussed the general provisions of proxy and its requirements instead of discussing facilities provided by the company to minority shareholders for proxy solicitation.
- Some of them had misconception that facilities given by company includes; car, medical allowance, travel allowance and foreign trip etc.
- Most of the examinees described rights of directors such as attending meetings and taking decisions.

(b) (i) Buy Back of Own Shares:

Many examinees stated that private companies, unlisted companies, companies limited by guarantee, Modaraba companies etc., can buy back their own shares instead of listed companies. Some of them were of the view that all the companies who issue preference shares can buy back their own shares.

(ii) Disclosure of Material Facts:

Few examinees were able to list down all material facts to be disclosed giving the explanatory statement in the notice. Majority of the examinees discussed irrelevant points like: liquidity ratios, benefits of buying back of shares, writing notices for annual general meeting (AGM) and factors to buying back decision rather than the material facts required to be disclosed with the notice.

(iii) Particulars of Buying Back in the Register of Shares:

Overall good performance was noted, however, few examinees were able to list down complete particulars that need to be recorded in register of shares in reference to buying back of shares. Some examinees provided irrelevant and unnecessary particulars e.g., reference numbers of the shares.

Question No. 5

(a) Declaration of Directors at the Expiry of the Period Fixed for Modaraba:

Majority of the examinees did not attempt the question and those who attempted were not able to mention the contents of declaration.

- Majority of the examinees discussed the procedure of formation of modaraba, nature of modaraba business, types of modaraba, faithful/ lawful functioning of directors during operation and matters prior to the stage of declaration etc.
- Similarly, they replied that directors declare their interest and accept that they are personally liable for every debt.
- Various examinees ignored the points about solvency, which is necessary to discharge liabilities of modaraba.

(b) Documents to be Filed with Directors' Declaration at the Expiry of the Period Fixed for Modaraba:

While attempting this part , following mistakes were committed by majority of the examinees:

- The examinees mentioned many documents instead of auditor's report as requisite document e.g., Memorandum of Association, Articles of Association etc.
- Many of the examinees mentioned 30 days instead of 90 days for submission of auditor's report to the registrar.

Question No. 6

(a) (i) Ways of Transmission of Quarterly Accounts:

- Many examinees mentioned wrong alternative ways of transmission of accounts such as, fax and email instead of leading newspaper or website.
- Examinees also restricted themselves to the reply of 'Yes' or 'No' only.
- Some examinees misunderstood the words 'post' and confined it as to 'post office' only and treated the 'quarterly accounts' as half-yearly and annual accounts as well.

(ii) Condition of Transmitting Quarterly Accounts other than through Post:

This question was badly attempted by the examinees. Most of the examinees repeated the answer which they had given in part (i) above. Other shortcomings were as follows:

- Many examinees discussed the arrangements involved in physical dispatch of accounts in the normal course of business instead of discussing the conditions required to comply with for placing quarterly accounts on website.

(b) Resolution to Change the Name of Company:

This question was attempted by almost every examinee but majority of the examinees were not able to draft the proper resolution for changing the name of the company. Following shortcomings and irrelevant answers were noted:

- Majority of the examinees drafted notices for calling annual general meeting (AGM).
- Most of the examinees discussed the procedure for changing the name of the company.
- Some of the examinees drafted minutes of meetings and application to SECP for changing the name of the company.
- Examinees were unaware of the proper format of resolution and wrongly used the form of letter or outside reporting of an event. The whole matter given in the question was also not covered in their answers.
- Many examinees were not aware that change of name also requires amendment in Memorandum and Articles of Association.

(c) Notice for Appointment and Removal of Auditors under Section 253:

This question was misunderstood by majority of the examinees and instead of discussing provisions related to the notice for appointment and removal of auditors they discussed procedures for appointment and removal of auditors.

- Many examinees mentioned that the notice (sent by shareholder) should be rejected but mentioned incorrect basis for the same.
- Some examinees discussed properly the rejection on the basis of delay in serving the notice but omitted the time permissible for the purpose or mentioned it wrongly.
- Examinees also discussed unnecessary details e.g., appointments and removals in the normal course beyond the given context, auditor's rights in case of removal.

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**EXAMINERS' COMMENTS
SPRING (AUGUST) 2014 EXAMINATIONS**

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

Question No. 1

(a) Consolidated Statement of Profit or Loss and Other Comprehensive Income:

Majority of the examinees attempted this question but overall performance was not satisfactory as the examinees lacked the required knowledge of the relevant topics. Following were some common mistakes committed by the examinees:

- Non-controlling interest (NCI) in the after tax profit of Silver Ltd., should have been calculated for six (6) months, but examinees wrongly considered the same for whole year. Similarly, NCI in the after tax profit of Copper Ltd., should have been taken for nine (9) months instead of whole year's after tax profit.
- For the last three (3) months of the year, Copper Ltd., became 'Associate' of Gold Limited Gold Ltd., had 30% share-holding in Copper Ltd., for this period. Examinees included 100% after tax profit of Associate in the consolidated statement of profit or loss instead of taking 30% after tax profit.
- Revenue from Silver Ltd., was wrongly taken for whole year instead of half year.
- Similarly, all revenue from Copper Ltd., was taken instead of taking their share for nine (9) months. Some of the examinees took three (3) months' revenue.
- The same treatment as mentioned in two preceding paragraphs was done with respect to cost of sales, general and administrative expenses, marketing expenses, financial costs and income tax expenses of the Silver Ltd., and Copper Ltd.
- Additional depreciation on re-valued assets of Silver Ltd., was incorrectly charged to administrative expenses for whole year instead of half year.

(b) Environmental Reporting:

In this part, examinees were required to **(i)** define environmental reporting, **(ii)** describe the media through which it is presented, **(iii)** state whether it is mandatory or not for companies to issue environmental reporting and **(iv)** list down contents of environmental reporting. Majority of the examinees attempted this question but overall performance of the examinees was below standard. Following shortcomings were noticed:

- Some examinees reported that environmental reporting was mandatory while in fact it was not mandatory.
- Power of expression in English was below standard.

Question No. 2

Consolidated Statement of Cash Flows:

Above-mentioned statement was to be prepared by examinees using 'indirect method' as per the requirement of IAS-7. Examinees were given consolidated statement of profit or loss and consolidated statement of financial position. In addition, data relating to a subsidiary was also given, which was acquired at the beginning of the year. The majority of the examinees attempted this question and performed satisfactorily. Nevertheless, following lapses by the examinees need to be taken care of:

Cash Flows from Operating Activities

- Some examinees prepared tax payable and deferred tax accounts separately to calculate tax payment. They should have prepared a combined account instead.
- Profit after tax was taken instead of profit before tax for generating cash from operation.
- Few examinees added the amounts of 'gain' on sale of plant and 'share of profit from associate' instead of subtracting these amounts.
- In 'working capital changes', data of Millat Packaging Limited, the subsidiary acquired at the beginning of the year, was not considered, which resulted in wrong values of cash inflows/ outflows relating to current assets/ liabilities.

- 'Interest paid' was not correctly calculated mainly due to not taking into account the finance charges for the period.
- Amount for 'tax paid' was not properly calculated because of the fact that either 'tax expense' for the period or 'tax payable' of the subsidiary acquired at the beginning was overlooked. Some examinees ignored both the adjustments.

Cash Flows from Investing Activities

- Examinees did not correctly calculate net cash inflow from acquisition of subsidiary. It could be computed as follows:

Cash received from subsidiary	254
Cash paid to acquire subsidiary	<u>(59)</u>
Net cash inflow	<u>195</u>

- Amount of 'gain' on sale of plant was taken into account as cash inflow in place of sale proceed of the plant.
- Amount paid for purchase of 'property, plant and equipment' was wrongly calculated mainly due to ignoring the relevant data of the subsidiary that was acquired at the start of the year.
- Dividends from 'investment' and associate company were either not taken or shown as cash outflows instead of treating them as cash inflows.

Cash Flows from Financing Activities

- Cash proceed of shares issued was not correctly computed. Some examinees tried to find it by taking the difference of opening and closing balances of the share capital and share premium accounts. They did not consider the fact that there were also non-cash issue of shares in relation to acquisition of subsidiary.

Question No. 3

(a) Disclosures under IFRS-8 Operating Segments:

Examinees were asked to mention the amounts required to be disclosed under IFRS-8, if such amounts were specifically included in the segment 'profit or loss'. Examinees' performance remained unsatisfactory in this part. This question exposed the poor knowledge of the examinees in respect of IAS/ IFRS as well as their lack of English expression. Some examinees wrongly described the 'quantitative thresholds' against the requirement of the question.

(b) Basic and Diluted Earnings per Share:

It was an easy question. Similar questions have been asked in the past as well. As expected, performance by the examinees was satisfactory with the exception of the following shortcomings:

- While calculating the 'diluted earnings per share (DEPS)', examinees were required to bifurcate shares under option (1.5 million shares) into shares issued at market value and shares issued free of cost. Shares issued at market value could be calculated as:

$$\text{No. of shares under option} \times \frac{\text{Exercise price of shares under option}}{\text{Average market price for the year}}$$

Since examinees did not correctly computed the number of shares issued at market price, they could not compute the number of shares issued free of cost as well, which was the difference between the former and the number of shares under option.

- In the calculation of basic earnings per share (BEPS), earnings was divided by the amount of outstanding shares instead of number of outstanding shares.
- Examinees added total number of shares under option (1.5 million shares) to the outstanding shares (7.5 million shares) and used the resultant value in the denominator of the formula of DEPS to determine the diluted earnings per share. However, they should have added shares issued free of cost (375,000 shares) to the outstanding number of shares to correctly compute the value of denominator.

Question No. 4

(a) Employee Benefits (IAS-19):

In this part of the question, specific data relating to a defined benefit plan was given and examinees were required to (i) calculate the gain or loss on re-measurement of plan assets and liabilities and (ii) prepare extracts of the statement of financial position and the statement of profit or loss and other comprehensive income. Majority of the examinees attempted this question and answered satisfactorily. In spite of that following shortcomings were observed in the answers:

- Some candidates included the re-measurement gain/ loss on the plan obligation and assets in the statement of profit or loss instead of showing them in the other comprehensive income, which showed that candidates did not have clear concept of treatment for gain/ losses on plan assets and obligation.
- Extract of statement of financial position was shown as:

Present value of plan liability	Rs. 2,060,000
Fair value of plan assets	Rs. 1,970,000

But examinees did not show net liability of Rs.90,000 (2,060,000 - 1,970,000).

- Statement of other comprehensive income was shown as:

Re-measurement of gain on plan liabilities	Rs. 151,000
Re-measurement of gain on plan assets	Rs. <u>(17,000)</u>
Total comprehensive income	Rs. <u>134,000</u>

Actually, re-measurement gain on plan asset amounting to Rs.17,000 was to be added to gain on re-measurement of liabilities.

(b) Substance Over Form:

In this part of the question, a practical scenario was given. An automobile dealer received a consignment of automobiles from the manufacturer under specific conditions. For instance, the dealer had no 'right of return' and would have to purchase the automobiles, if they remained unsold for six (6) months. The dealer was also responsible for insurance and maintenance of the automobiles. Examinees were asked to describe with reasons whether the automobiles would be recognised by the dealer in its financial statement or not using the principle of 'substance over form' at the time of receipt of consignment. The majority attempted this question and answered quite well. They correctly mentioned the points (e.g. no right of return, responsibility for insurance and maintenance etc) due to which the assets should be recognised by the dealer in its books. Surprisingly, some examinees treated the transaction as finance lease transaction.

(c) Shares Transactions:

In respect of purchases and sales of shares, examinees were required to prepare extracts of statement of 'profit or loss' and 'other comprehensive income' as well as 'statement of financial position'. Examinees' performance was below average. They committed following mistakes:

- While computing the 'gain' on investment for the year ended June 30, 2013, they found the fair value of the shares at June 30, 2013 correctly as Rs.570,000 (15,000 x 38). But while calculating initial amount of the investment on July 1, 2012, they did not add 1% transaction cost, Rs.5,250 to the cost of investment, Rs.525,000 (15,000 x 35). Hence, they could not compute the gain on investment correctly as Rs.39,750 (570,000 – 525,000 – 5,250).
- At the time of sale of shares, they wrongly added 1% transaction cost to the sales proceeds instead of subtracting it from the sales proceeds.

**EXAMINERS' COMMENTS
SPRING (AUGUST) 2014 EXAMINATIONS**

**RISK MANAGEMENT AND AUDIT
Semester-5**

Question No. 1

(a) Change of Credit Policy and Possible Impact:

Majority of the examinees attempted this part of question but only few examinees were able to answer as per the requirements given in the case study. Following shortcomings were observed.

- Examinees discussed many points in general way to explain credit policy adopted by the company, for example, finance cost increased due to bank overdraft and number of payable days increased etc., but did not discuss significant impact of these charges on the financial results i.e., delays in the recovery from trade receivables, financial loss in case of default by dealers, bonus may cause to book fictitious sales by sales force etc.
- Most examinees repeated whole credit policy given in the case study.
- Many examinees mentioned unnecessary and irrelevant details.

(b) Key Audit Risks:

Examinees committed following mistakes in stating the key audit risks:

- A significant number of examinees discussed key audit risks as inherent risk, control risk and detection risk, in general, instead of explaining the specific risks associated with the changes made to credit policy or measures adopted by the company.
- Some examinees wrongly discussed the environment risk and other market risks etc., instead of identification of key audit risks faced by the company in the given situation.

(c) Key Response to Overcome each of the Audit Risks:

- Most of the examinees covered some points in a general way. No one could describe key response of 'enhanced cut off testing'.
- Many examinees could not relate the responses to overcome key risks resulted due to change in credit policy.
- Some examinees repeated the points of audit risks or key responses.

(d) Going Concern Assumption:

This part of the question was correctly attempted by majority of the examinees. However, following weaknesses were observed:

- Few examinees defined the 'going concern assumption' in general way instead of defining it according to relevant ISA/ IFRS.
- Few examinees unnecessarily described the indicators causing doubt on the ability to continue as going concern.

(e) Ability to Continue as Going Concern:

This question was attempted by majority of examinees in improper manner. Very few examinees were able to specify the conditions that affect the entity's ability to continue as a going concern. Following shortcomings were observed:

- Mostly examinees discussed the conditions without categorizing them into three broad areas i.e., financial, operating and others.
- Some examinees stated different modes of dissolution or winding up of the company.
- Some of them were confused and wrote unnecessary points such as bankruptcy, loss of reputation and goodwill, liquidation etc.

(f) Material Uncertainty to Continue as Going Concern:

This question was attempted by majority of examinees in improper manner. However, following common mistakes were observed:

- Mostly examinees elaborated how to overcome audit risks of going concern and wrongly repeated the risks which were already discussed in the earlier requirements.
- Significant number of examinees wrote only suggestions for the management in general and did not describe action to be taken by auditors.
- Several examinees could not describe properly the Auditor's role in case of existence of material uncertainty and its disclosure, explanation given or not given by the management in the financial statements. Consequently, most of the examinees failed to discuss auditor's opinion to express emphasis of modified or qualified para in the auditor's report.

(g) Audit Procedure to Verify Dismissal Claims:

Majority of the examinees attempted this part of the question satisfactorily. However, errors found are as follows:

- Few examinees wrongly mentioned that re-appointment of dismissed employees in order to regain goodwill/ reputation of the company otherwise it would suffer heavy penalty along with payment of amount of claim.
- Majority of examinees wrote partial answer by discussing two or three points i.e., review of service contracts, review correspondence with company legal advisor and did not discuss review the proceedings of the disciplinary hearings and obtain direct confirmation from the company lawyer.

Question No. 2

(a) Interest Rate Swap and its Arrangement:

Apart from good performance, examinees committed following mistakes:

- Some examinees defined the term 'interest rate swap' as arrangement to get finance from the bank at interest rate which may be reviewed after a definite period of time as per agreed terms instead of defining it properly.
- Many examinees mixed up 'interest rate swap' with KIBOR and currency exchange rate.
- Some examinees referred the term as 'derivatives and hedging' etc.

(b) Effect of Interest Rate Swap on Borrowings:

Most of the examinees mentioned wrongly that 'there is not a major effect of interest rate swap on borrowing'. However, few of them were able to describe that both parties stimulate the others' borrowings and can make swap that end up the debt of fixed rate paying at variable interest rate or vice versa.

(c) Advantages of Interest Rate Swap:

Mostly examinees answered to this part in a general way. Majority of examinees only described flexibility and cost saving as advantages but did not discuss other advantages which are risk management tool, possibility of borrowing with any credit ratings etc.

(d) Challenges with Interest Rate Swap:

Majority of examinees did not attempt it but those who attempted wrote only one problem i.e., vulnerability to adverse movements in interest rates and did not describe other problems like lack of liquidity and additional risk.

Question No. 3

(a) (i) Completing the Audit Files:

Majority of the examinees attempted this part of the question satisfactorily. Many examinees stated one to six months as completion period of audit files instead of sixty days and one to ten years as their retention period instead of five years from the date of audit report.

(ii) Working Paper Files:

Overall performance of examinees was good but some of them wrote contents of audit working paper files. Other deficiencies noticed are as follows:

- Few examinees confused and mentioned other types of files relating to fixed assets, inventory physical checking, accounts payable, accounts receivable etc.
- Some examinees were unable to differentiate permanent and temporary audit working file and its contents.
- Many examinees listed down contents of audit report and audit procedure or general contents of working file.

(b) (i) Test of Control & (ii) Substantive Procedures:

Most of the examinees described properly both the terms. However, following deficiencies were noticed:

- Many examinees defined test of control well but failed to express substantive procedures as an audit procedure designed to detect material misstatements at the assertion level which comprises on tests of details and analytical procedures.
- It is also noted that some examinees mixed up the term test of control with test of detail and vice versa.
- Most of the examinees provided generic examples instead of specific examples related to test of control or substantive procedures.

Question No. 4

(a) Main Features of Group Audit:

Only few examinees listed down the feature of Group Audit appropriately while majority of the examinees answered in a very general way. Following weaknesses were noticed:

- Examinees wrongly defined the procedure of execution of the individual or group audit.
- The majority of the examinees wrote only one or two relevant points and did not discuss the points related to the 'specific accounting standards IFRS-3, IFRS-10, IAS-28 etc., dealing with consolidated financial statement and risk assessment which are different in group audit'.
- Many examinees considered wrongly that group audit is an audit assignment conducted by various audit groups and then tried to explain the benefits of the same.

(b) Procedures to Express Opinion on Consolidated Financial Statements of the Group:

This part of the question was attempted by majority of the examinees in improper way. Moreover, many of examinees wrote general procedures and different audit techniques i.e., physical examination, confirmation, recalculation, analytical procedures and inquiries instead of specifying the procedures to express the opinion on the consolidated financial statements of the group.

Question No. 5

(a) (i) Particulars of Wages & Salaries in Cost Audit Report:

Well attempted part by majority of the examinees. Some shortcomings of the examinees are mentioned as under:

- Some examinees wrote all types of head of costs such as material, labour and overheads.
- Some examinees explained cost audit report and its contents.
- Some examinees elaborated items giving unnecessary details along with repetition of some points.

(ii) Difference between Cost Audit and Financial Audit:

Almost all examinees attempted this part of the question and overall performance was good.

(b) Industries Required to Maintain Cost Audit Record:

This part of the question was attempted by most of the examinees satisfactorily. Since, six types of industries, fertilizer, thermal energy, oil refining, natural gas, synthetic and rayon, polyester fiber, were required to be mentioned in the answer, but considerable number of the examinees wrote agriculture, beverages, food, cotton, flour, textile, cement, sugar, automobile and other manufacturing industries etc.

**EXAMINERS' COMMENTS
SPRING (AUGUST) 2014 EXAMINATIONS**

**STRATEGIC FINANCIAL MANAGEMENT
Semester-5**

Question No.1

(a) Expected number of passengers:

All the examinees attempted this part of the question and performed well.

(b) Choice between in-house provision or contracting out catering services:

The examinees did not perform well in this part of the question, although, almost all the examinees attempted it. A few mistakes committed by the examinees while calculating the sales revenue are as under:

- They did not take into the account that only 50% of the passengers used catering service.
- A large number of examinees did not multiply the sales revenue per trip with 360 days in a year.
- Many examinees incorrectly considered that train would complete two trips in a day instead of one.
- A few examinees calculated the annual sales revenue by incorrectly taking the 600 passengers per trip instead of expected 570 passengers per trip.
- A substantial number of examinees did not multiply the number of trips in a year with Rs. 450, though they did multiply the number of trips in a year with 50% passengers.
- Depreciation, being a non-cash flow item was irrelevant cost but many examinees did not ignore depreciation while calculating the net cash flow. Resultantly, they did not show Rs. 1 million as cash outflow at the end of year 2 for replacing the catering equipment and Rs. 560,000 as cash inflow at the end of year 5 on account of terminated value of catering equipment.
- In case of outsource catering services, there was hardly any examinee who calculated the correct figure of net present value (NPV) due to incorrectly taking depreciation as cash outflow and not computing the correct figure of savings in purchases and insurance.

(c) Three non-financial factors to be considered before contracting out catering services:

The overall performance of the examinees remained just an average in this part of the question. Most of the examinees stated irrelevant non-financial factors.

(d) & (e) Financially viable projects and undertaking the projects with total NPV:

Almost all the examinees attempted these parts of the question and secured good marks. A few mistakes committed by the examinees are as under:

- A large number of examinees could not correctly find the correct figure of net present value (NPV) of each project due to incorrectly showing development cost already incurred, depreciation and allocated general administration cost as cash outflows. Although, development cost was sunk cost, depreciation was non-cash item and it was clearly stated in the question that there was no impact on administration cost with the introduction of these projects.
- Many examinees also incorrectly calculated the working capital of each project. Consequently, they were not able to compute the correct figure of net present value (NPV) and profitability index (PI) of each project.
- A substantial number of examinees could not correctly calculate the PI due to using net present value (NPV) as numerator instead of present value (PV).

(f) Bank financing requirement to eliminate the past due accounts payable:

Candidates were required to calculate the bank financing for the elimination of past due accounts payable. Although, the term of loan was clearly mentioned in the question but majority of the candidates failed to calculate the size of bank loan.

(g) Ratio Analysis:

The requirement was to justify the decision of bank loan based on ratio analysis. Current and acid test ratios were correctly calculated but some irrelevant ratios were also taken into account, which were not the requirement of the question. Further, in calculating the debt ratio, the candidates excluded the long-term liabilities, therefore, could not compute the correct debt ratio. Moreover, calculation showed without any comments on the results.

Question No.2

The examinees performed poorly in this question. There was hardly any examinee who secured good marks, although, almost all the examinees attempted this question. Most of the examinees were not able to know how to proceed with the question, which shows lack of in-depth knowledge and preparation on part of examinees. A few mistakes committed by the examinees are mentioned under each part of the question:

(a) Market price per ordinary share, ex-dividend, if the project is financed by rights issue, or a reduction in the current dividend:

Most of the examinees correctly calculated number of shares i.e., 25,000 to be issued under the option of rights issue increasing the total shares to 125,000. However, they did not follow the proper method that had to be followed. Major mistakes witnessed are as under:

- Candidates were required to calculate the required rate of return. Majority of the examinees did not calculate the rate and few of them calculated it by dividing the dividend which is Rs. 90,000 with the market value of shares i.e., Rs. 4,650,000 cum-dividend instead after deducting the amount of dividend from the market value. Resultantly, wrong rate of return was calculated.
- Examinees failed to incorporate the amount of net annual receipts from the project i.e., Rs. 132,000. Therefore, they could not calculate the ex-dividend value of the company and ex-dividend price per share, which was the major requirement of the question.
- Candidates were unable to calculate the amount of retained earnings, which is why they could not reach to the ex-dividend price per share using retained earnings.

(b) Price for new public issue of shares, so that total benefit from the project goes to existing shareholders:

The examinees could not find the correct number of shares to be issued for providing the total benefit from the project to the existing shareholders due to incorrect calculation of value of original shares of Rs. 3,800,000 {Rs. 4,300,000 – Rs. 500,000 (value of new shares issued)} after accepting the project.

(c) Total gain made by present shareholders under each of the three finance options:

Most of the examinees could not find the correct figure of gains made by present shareholders under each option due to incorrect computations in part (a) and (b) of the question.

(d) Appraisal of views expressed by managing director:

There was hardly any examinee who expressed that the price of the rights issue was irrelevant, provided that, all the cash asked for by the company was received. The existing shareholders were contributing cash in the proportions in which they had held shares at the moment and would continue to hold the same proportion of the company if they took up the offer.

Question No. 3

(a) Implied required rate of equity return of Alpha Limited and Beta Limited in an MM world with no taxes and reasons of being different rate of return of both companies:

Almost all the examinees attempted this part of the question and secured good marks. A few mistakes committed by the examinees are as under:

- A few examinees could not correctly calculate the total value of the firm dividing the net operating income of Rs. 720,000 by capitalization rate of 0.18 in case of Alpha Limited. Resultantly, they could not find the market value of debt and ordinary shares, earnings to common shareholders and implied return on equity.
- In case of Beta Limited a few examinees did not correctly calculate the interest on debt of Rs. 800,000 @ 8%, which caused incorrect calculation of implied required equity rate.

(b) Value of company using three alternatives in an MM world:

Almost all the examinees attempted this part of the question and overall performance of examinees remained above average. Most of the examinees were able to find the correct figure of value of ABC Limited with no leverage and with Rs. 8 million and Rs. 14 million debt in the world of MM without personal taxes. However, they could not find the value of the company with various debt options in the MM world with personal taxes on common stock and debt income due to non-preparation of the topic and incorrect calculation of the value of levered firm amounting to Rs. 20 million (Profit after taxes Rs. 3,600,000 ÷ 0.18, required equity return).

Question No. 4

(a) Market value of each component of capital structure:

The overall performance of the examinees was poor in this part of the question. A few mistakes committed by the examinees are as under:

- A few examinees tried to calculate the market value of short-term debt. Although, short-term debt was required to be disregarded because the firm does not use these as a source of permanent financing.
- Most of the examinees could not correctly calculate the market value of preference stock. Although, it was stated in the question that the company paid a quarterly dividend of Rs. 2 per share on preference stock. Therefore, in order to find the value of preference stock, the examinees were either required to multiply Rs. 2 by 4 quarterly payments or divide the 11% yields to investors by 4 times.
- Almost, all the examinees could not find the correct figure of market value of term finance certificates (TFCs). Although, they could easily find it by using the short-cut method of calculating the value of long-term debt. Most of the examinees incorrectly tried to find the cost of debt by applying the internal rate of return formula.

(b) Cost of each component of capital structure using capital asset pricing model (CAPM), discounted cash flow (DCF) and bond-yield risk premium for cost of equity:

The examinees also performed poorly in this part of the question. A few mistakes committed by the examinees are as under:

- Most of the examinees could not correctly compute the cost of long-term debt by using the simple formula i.e., $K_d(1 - t)$. The examinees were also not conversant with the calculation of cost of preference shares.
- A large number of examinees could not find the cost of equity using the Gordon Model mainly due to not finding the correct growth rate of 12% $\{b(r) = 0.50 \text{ retention ratio} \times 24\% \text{ required rate of return}\}$. Examinees also remained unsuccessful to find the cost of equity using the bond-yield risk premium approach. Here, instead of adding the risk premium of 5%, the examinees added 10% risk free rate to 12% cost of TFCs.

(c) Company's weighted average cost of capital (WACC):

The examinees could not correctly find the company's weighted average cost of capital due to incorrect calculation of market value and cost of each component of capital structure in part **(a)** and **(b)** of the question.

Question No. 5

(a) Total value of the proposed offer to Icon Limited:

Most of the examinees performed extremely well in this part of the question. However, a few examinees could not find the market share price of Unique Limited to be offered to Icon Limited. Resultantly, they could not correctly find the value offered to shareholders of Icon Limited.

(b) Earnings per share (EPS) of Unique Limited following the successful acquisition of Icon Limited and share price of Unique Limited following the acquisition:

The overall performance of the examinees was also exceptionally good in this part of the question. However, some examinees could not correctly find the earnings per share of Unique Limited after acquiring the Icon Limited due to not incorporating the after tax benefits of Rs. 4.8 million.

(c) Effect of the proposed takeover on the wealth of the shareholders of each company:

Most of the examinees correctly calculated the effect of proposed takeover on the wealth of the shareholders of each company. However, due to mistakes committed in part **(a)** and part **(b)** of the question, some of the examinees were not able to correctly compute the loss and gain to the shareholders of Unique Limited and Icon Limited.

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EXAMINERS' COMMENTS
SPRING (AUGUST) 2014 EXAMINATIONS
STRATEGIC MANAGEMENT ACCOUNTING
Semester-6

Question No.1

(a) Financial outcomes, if competitors increase their prices for the next period and the firm also raises its price by same rate:

The overall performance of the examinees was extremely poor in this part of the question. The examinees could not ascertain how to proceed with the question. Major mistakes were identified as under:

- The examinees totally ignored the effect of maintaining the price at current level.
- They completely ignored the fact that an estimated price reduction of 6% and price elasticity of demand of 1.5 is expected to increase demand by 9%.
- Many of the examinees had used sales revenue of Rs. 2,756,000 as given in the question paper for current period and total cost of Rs. 2,284,088, while calculating budgeted profit, if selling price is kept at Rs. 26 per unit.
- Few of the examinees were able to correctly calculate the sales revenue of Rs. 2,921,360, but couldn't arrive at correct cost figures and profit for the second assumption i.e., if price is increased by 6%.

(b) Short report to the board, recommending to maintain the price of Rs. 26 or to raise it by 6%:

Since the examinees could not correctly calculate the budgeted profit under both the assumptions, therefore, they recommended the action to the Board of Directors on the basis of their own incorrect calculations. Use of poor English expressions and presentation was witnessed in this part.

(c) Assumptions in fixing the selling price for the next period:

The overall performance in this part of the question was just an average. Most of the examinees did not mention the appropriate assumptions for fixing the selling price for the next period.

(d) Net contribution margin for each of three alternatives:

The overall performance in this part of the question was just an average. It was clearly asked in the question to determine the net contribution for each of the three alternatives of piece of special machinery. However, a large number of examinees did not use the incremental approach and incorrectly took into account allocated fixed manufacturing, fixed selling and administrative factory overhead. Many examinees also did not correctly calculate the cash discount in case of "converted to standard model" option and sales commission under all the three options.

(e) The lowest price Excellent Engineering Limited for reworked machinery:

Most of the examinees could not find the correct lowest price to be accepted by the Excellent Engg. Limited due to mistakes committed in the part 1 (d) of the question.

(f) Impact of fixed manufacturing overhead cost on the sales price quoted by Excellent Engineering Limited for special orders:

The overall performance of the examinees remained good in this part of the question. However, there were only few examinees who mentioned that management should accept special orders whenever the company is operating substantially below the capacity and the breakeven point, and the marginal revenue from the order exceeds the marginal cost and the order should be accepted, as long as, the sales price of the order exceeded the variable production costs.

(g) Decision tree to ascertain the viability of launching the new product Liphon:

The performance of the examinees was found to be very poor. Major mistake was applying the incorrect probability rate against possible outcomes or profit.

Question No. 2

(a) (i) Activity based management and non-value added activity:

Most of the examinees were not able to explain the non-value added activity. They just expressed the irrelevant and out of context arguments.

(ii) The non-value added activities cost to Syed Limited:

Most of the examinees performed well in this part of the question. They were able to find the correct cost of non-value added activities.

(iii) & (iv) Elimination of non-value added activities to achieve target cost of 13% and additional cost cutting required to achieve the target percentage:

The performance of most of the examinees remained below average in this part of the question. The examinees could not correctly calculate the inventory handling cost as a percentage of sales of books and software due to not deducting the 550 moves out of 7,200 moves of warehousing (80% of total warehousing moves related to books) and deducting 250 shipments from 11,250 outgoing shipments (75% of total 15,000 outgoing shipments related to software). Resultantly, most of the examinees could also not find the correct figure of cost cutting of Rs. 50,500 for books to achieve 13% target of inventory cost. The examinees were also not able to ascertain that inventory handling cost of software was 12.18% (less than 13%), therefore, cost cutting of books only was required.

(b) Ranking the customers using customer profitability analysis:

Most of the examinees performed exceptionally well in this part of the question and they secured good marks. However, a few examinees incorrectly deducted the general administration cost from gross margin. As a result, they could not find correct figure of profit of each customer. A few examinees, for example, in case of customer 'X', did not multiply 150 orders with cost of Rs. 380 per order placed, rather they divided the per order placed cost of Rs. 380 by total 550 orders of all three customers (150 + 160 + 240).

Question No. 3

(a) Annual financial impact of adopting just in time inventory system:

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

- Many examinees incorrectly showed Rs. 200,000 extra burden to the company due to expensive raw materials and saving of Rs. 50,000 in warranty and repair cost making net burden or saving of Rs. 150,000. Although, the examinees were supposed to take net savings of Rs. 50,000 as stated in the question.
- Many examinees did not consider the salaries saving of Rs. 60,000 due to termination of a store man by adopting the JIT system.
- A few examinees also did not correctly calculate lease revenues and annual depreciation on remodelled facilities (Rs. 1,200,000 ÷ 10 years).

(b) & (c) Likelihood of excessive raw material stock outs and incoming inspection:

The overall performance remained below average in this part of the question. A large number of examinees could not mention, "The suppliers under JIT system are highly reliable and deliver quality goods on time. Thus, the likelihood of excessive stock outs is fairly low. Besides, long-term contracts are set with the supplier with respect to the quality of materials purchased which reduces the need for incoming inspections".

Question No. 4

(a) Present approach to budgeting and involving consultants in the preparation of future budgets:

Most of the examinees performed poorly in this part of the question. The examinees could not grasp the requirement of the question and instead of mentioning the advantages and disadvantages of seeking advice from the middle management in preparation of budget, they incorrectly mentioned the merits and demerits of hiring the consultancy firms for preparation of the budget.

(b) Alternative statement for the profit centre providing a realistic measure of the variances:

The overall performance was quite well in this part of the question and examinees secured good marks accordingly. However, a few examinees were having no fair idea how to prepare the flexible budget. Besides, there was hardly any examinee who mentioned the controllable profit, attributable profit and division's net profit.

Question No. 5

(a) (i) Current ROI of the Alpha Division and ROI after the acquisition of Ehsan Limited:

The examinees performed exceptionally well in this part of the question and they secured good marks. However, a few examinees did not correctly calculate the Alpha Limited's ROI after acquiring the Ehsan Limited. Accordingly, they could not correctly comment the likely reaction of Alpha Division's management towards the acquisition.

(ii) Likely reaction of Spices Food Ltd.'s management toward the acquisition:

The examinees performed quite well in this part of the question. However, many examinees did not calculate 24% ROI of Ehsan Limited and mixed it with ROI of 18.25%, calculated in the earlier part of the question. Resultantly, they could not mention that company management would probably favour the acquisition. Because, Spices Food Limited had been earning 13% return, and the Ehsan Ltd.'s, ROI of 24% will help the organization as a whole. Besides, there were very less number of examinees who were able to mention that even after up-gradation of Ehsan Limited, the overall ROI would be 15% $\{300,000 \div (1,250,000 + 750,000)\}$.

(iii) Financial impact on Alpha Division, if it does not upgrade the Ehsan Limited:

Most of the examinees also performed well in this part of the question. However, there were just a few examinees, who could mention that the absence of the up-gradation would lead to create confusion among customers and it may also decrease the market share due to two different retail environments.

(iv) Current residual income of the Alpha Division and its residual income after acquisition of Ehsan Limited:

The examinees also performed quite well in this part of the question. However, a few examinees did not correctly calculate the imputed interest charges of Rs. 444,000 (investment of Rs. 3,700,000 x 0.12%) under the residual income approach in case of Alpha Division and imputed interest charges of Rs. 684,000 $\{3,700,000 + (1,250,000 + 750,000) \times 0.12\}$ after acquiring the Ehsan Limited by Alpha Division.

(b) Economic value added (EVA):

The overall performance remained good in this part of the question. However, many examinees did not deduct the economic depreciation of Rs. 24,600 and amortization of advertising cost of Rs. 6,000 (Rs. 12,000 ÷ 2) from the operating income while calculating the net operating profit after tax. Resultantly, they could not find the correct figure of EVA. Moreover, a few examinees were also not able to find the correct figure of economic value of net assets.

**EXAMINERS' COMMENTS
SPRING (AUGUST) 2014 EXAMINATIONS**

**STRATEGIC MANAGEMENT
Semester-6**

Question No. 1

(a) SWOT analysis:

This was a straight-forward question based on a very significant concept of strategic management i.e., analysis of an organization's strengths and weaknesses. Majority of the students correctly explained the SWOT analysis.

(b) Vision and mission statement:

In this question, students were asked to explain the difference between 'Vision' and 'Mission'. Once again, a simple question to assess the students' ability to differentiate between the organizational vision and mission and its application in a particular scenario. Majority of the students were able to differentiate between mission and vision and they correctly comment on the achievement of vision of Dr. Ahmed.

(c) Growth strategy:

In this question students were asked to explain the growth strategy that has been adopted by Dr. Ahmed for BDL. This was a question that sought to examine the students understanding of various organizational growth theories. A good number of students presented correct analysis. However, few students totally misunderstood the question and described what the organization is rather how the organization grow.

(d) Marketing strategy:

This question required students to carefully evaluate various marketing strategies and suggest an appropriate strategy that they think was applicable in the situation given in the case study. A good number of students presented correct analysis.

(e) Pitfall in strategic planning:

In this question students were asked to comment on what they thought was the biggest pitfall in BDL's strategic planning. Examiner sought to examine the student understanding of correct analysis of organization's strategic planning weaknesses. A good number of students were able to answer this question correctly.

Question No. 2

(a) Levels of strategy:

This question required to comment on whether few persons from top management should be responsible for strategic planning at the various levels. This question aimed to examine the students' ability to critically evaluate various options for strategic planning. A large majority of students answered correctly and they obtained good marks.

(b) Competitors analysis:

This question required to explain possible methods that a strategist could suggest to encounter threats of new competitors entering into the market and to analyze how an organization responds to the competition it faces. A large majority of students answered correctly.

Question No. 3

(a) Business strategy:

In this question students had to explain how a strategist would deal with the financing decision. This question tested the ability of student to critically evaluate various options available to the organization for financing its capital needs. Majority of students explained general ideas rather than explaining the mechanics of dealing with the financing decision. Very few students provided the critical analysis of the financing decision as required by the question.

(b) Evaluation of organization performance:

This question required students to explain the common problems associated with the use of quantitative measures used to evaluate organizational performance. Very few students were able to offer the appropriate analysis of the weaknesses of the quantitative measures of performance. Many students explained what the quantitative measures are rather than what the problems that associated with their uses.

Question No. 4

(a) Restructuring and reengineering:

In this question students were asked to discuss some of the scenarios in which restructuring and reengineering could be used. This question was related to the fundamental choices of organizational restructuring. Although some students explained the concept in detail but many failed to answer correctly. They opted to describe the organization and its various departments rather than describing the applications of restructuring and reengineering.

(b) Resistance to change:

In this question students were asked to explain three commonly used approaches to deal with resistance and to implement change. It was noted that there was a general lack of understanding of concept. This was a straight-forward question that examined students understanding of the various change management strategies. A large number of students relied on irrelevant discussion in answering this question. Very few examinees answered this question correctly.

Question No. 5

(a) Value chain:

In this question students had to explain why the detailed understanding of value chain was crucial for strategic management. It was noted that there was a general lack of understanding of concept. Majority of the examinees correctly described the value chain activities but they could not explain its importance for strategic management.

(b) Strategy evaluation:

This question required students to explain the characteristics of an effective system of strategy evaluation. It was observed through answer scripts that majority of the examinees could not understand what examiner asked and they wrote vague statements.

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