

## CAB II EXAMINATION – MARCH 2013

### Accounting Applications and Taxation

#### **General**

This question on consolidation was not a difficult one. The examiner has tested the knowledge of concepts in the process of preparation of consolidated Financial Statements by testing some straight forward adjustments. Lack of understanding of the basic concepts and the attention to detail on presentation were the major reasons why students failed to obtain some of the easy marks.

#### **Understanding the Question**

Fair value (FV) of Non Controlling Interest was given In the question, which was a clear indication to the students that the examiner expected this FV be used in computing goodwill. The value of Goodwill cannot be correctly arrived at without considering the FV of the net assets. This information was directly given in the question. Although almost all the students had attempted part (a) of the question of calculating the goodwill on acquisition, about 50% of students failed to display their understanding of requirement and hence arrived at a incorrect value for Goodwill.

Additional Depreciation on revaluation of machinery of subsidiary, the depreciation charge should be adjusted between parent and NCI . Alternately, adjusted to the post acquisition profit of subsidiary and the adjusted profit be divided between parent and NCI. This adjustment was done correctly by majority.

#### **Quality of the answer**

Since Non Controlling Interest (NCI) has been measured based on FV, goodwill belongs **both to the parent and the minority** and hence impairment also has to be attributed between the two. Most students have not understood this concept and the total value of impairment loss have been debited to Consolidated Retained Earnings account.

Another area where students showed lack of knowledge was the adjustment of Unrealised Profit (URP) on stocks. Majority computed and adjusted the values correctly but some students incorrectly divided this also between the NCI and the Consolidated Retained Earnings account. These students failed to identify where the profit originated. The entries are different depending on whether the parent sold the stocks to subsidiary or whether the subsidiary sold to the parent. Only in the latter scenario, a proportion of unrealized profit should be attributable to the minority. But when the parent had sold the goods, (as tested in this question)the full value of unrealized profit should be in the retained earnings of the parent. Some students did not understand this concept and incorrectly divided the URP also between the parent and subsidiary and lost some easy marks.

Quite a number of candidates did another error. The dividend due to NCI was also taken into NCI account instead of showing under current liability.

A few students have adjusted the debenture interest to Trade and other Payables instead of deducting from Trade and other Receivables. Students should pay attention to eliminating the inter-company transactions from the correct class of asset or liability.

Lack of knowledge on presentation was shown by some students. The following mistakes were observed.

- i) Some students showed the Consolidated Revenue Reserve above the Revaluation Reserve.
- ii) In the presentation of NCI two mistakes were observed. One was that some showed the NCI on the line above the Consolidated Retained earnings. The other was that some candidates showed the NCI as a separate item under Non-current Liability.
- iii) Another area was the use of terminology. Some students still used the term “Minority Interest” instead of NCI.

A few candidates showed total lack of understanding of the consolidation concepts. The share capital of the subsidiary company was added to the parent and shown in the Consolidated Statement of Financial Position.

### **Answer Relevant to the question**

About 50% of the candidates made a common mistake not reading the question properly. The question stated that the goodwill has impaired **to** Rs 1.8million. Many Students interpreted this as impaired **by** Rs 1.8 million. This common error had been done by candidates who attempted in English medium as well as in Sinhala medium.

According to the question, Debenture interest was paid bi- annually. Students calculated the interest for the full year and made the adjustment and lost marks.

### **Planning / Building the answer**

Some students in answer to part (a), (b) and (c), showed the entries in a schedule/ statement form and then again prepared “T” accounts as well which was a duplication of work wasting time unnecessarily.

Some have written journal entries for the adjustments, however have forgotten/ missed to adjust the entry and taken the original value to the Statement of Consolidated Financial Position. However marks were given for the journal entry in these instance and hence candidates did not lose any marks if the entry was correct.

There were a few students who had run short of time due to weakness in overall time planning and computed only few adjustments. The debenture interest and URP had been calculated properly but the double entry was not shown hence did not show their knowledge of the ability to make the adjustment correctly and lost marks.

Some showed the Goods In Transit as a separate line item and the value shown was after adjusting the relevant URP ( i.e. Rs. 260,000, which was Rs. 312,000 –Rs. 52,000). However the URP value of Rs.52,000 again adjusted to the inventory also ( i.e. Rs. 20,000 + Rs. 52,000 =Rs.72,000) duplicating the entry.

## **Question No. 02**

### **Understanding the question**

This question tested the students' ability and understanding in the preparation and presentation of Financial Statements applying relevant standards and guidelines. Lack of understanding shown in following areas.

- Most students did not know how to adjust the abnormal cost of inventory acquisition. Abnormal cost of the stocks purchased (Rs. 35,000) to be removed from cost of sales and to be shown as a separate item of other expenses.
- Students misunderstood the adjustment for Rs. 1.2mn of motor vehicle acquired in 2006 and showed this as a disposal under Statement of Movement of Property, Plant and Equipment. Some had calculated depreciation for this also.
- Some students written off the specific provision balance of trade debt (Rs.30,000) to profit and loss account while others written off the total unrecoverable balances (Rs. 80,000 = Rs. 50,000+ Rs. 30,000) to provision for bad/ doubtful debtors.
- Very few knew how to show the over valuation of opening stock (Rs. 120,000) in the Statement of Changes in Equity. Some had adjusted this to the brought forward retained earnings balance as a working and brought the net figure to the Statement of Changes in Equity.
- Several students did not do the adjustment for the Preference Dividend. Some had mentioned under notes that it is assumed that Preference Dividend was not approved. Students ignored that the Preference Shares were cumulative or did not understand the basic principles.
- The computation of the amortisation of patent rights (Rs.1,500,000) was not attempted. Computation of the taxation to be charged to profit and loss account and the provision for payables i.e. Rs. 2,600,000 + Rs. 150,000 (under provision) + Rs. 40,000 (deferred tax) = Rs. 2,790,000 were incorrectly done. Current liability is Rs. 2,600,000 + Rs. 150,000 – Rs. 2,300,000 = Rs. 450,000. Deferred tax Rs. 40,000 need to be shown as a Non Current Liability.
- No provision was made for dividend on 12% cumulative preference share (Rs.600,000) in spite of the payment of interim ordinary dividends.

### **Subject knowledge of the students**

Very few demonstrated some understanding of classifying items under Other Comprehensive Income. Only less than 5% of candidates showed the impairment adjustment value under the Other Comprehensive Income. Out of those who had attempted, majority indicated Rs. 580,000 as the adjustment. Very few got the ½ mark allocated here.

Technical knowledge is very poor. Some were not familiar to the formats and headings. Knowledge on classification of expenses under correct heading was also poor. However a large number of students was aware of the requirement for presentation of Statutory Financial Statements and build up the answers in compliance with new requirements.

### **Position of the answer**

Classification of Current and Non Current Liabilities had not been understood by most students. Most showed the deferred tax liability under Current Liabilities. The students also did not know that provisions and other liabilities need to be segregated. Most students showed the provision and the deferred tax liability as one cumulative total.

### **Common difficulties faced by students**

- Incorrect value was adjusted to Revaluation Reserve Account (Total Rs.580,000 was adjusted).
- Not showing the Preference Dividend in Statement of Changes in Equity.
- Presentation of impairment adjustment under Movement of Property ,Plant and Equipment.
- Showing the income tax provision and deferred tax separately under current liabilities and non current liabilities respectively in the Statement of Comprehensive Financial Position.

### **Possible areas where majority made mistakes**

- Some adjustments had been made without workings, when the answer is incorrect there was no way to giving pro-rata marks for any correct parts of the adjustment.
- Untidy workings and illegible hand writing.
- Lack of attention to details in writing down correct headings. Some students still use the word Balance Sheet. Some did not write the name of the Company. Some did not indicate the reporting date and lost marks.

### **Question No 03.**

Q.3.i. has tested the ability of student to explain the purpose of preparation of each component in the set of Financial Statements namely Statement of Financial Position, Statement of Comprehensive Income and Statement of Cash Flows and how these statements fulfil the requirements of users of Financial Statements. Very few could present a comprehensive answer including elaborations that are to be included compulsorily in the answer. Most of the students had written irrelevant explanations without understanding the question or/and lack of knowledge about the purpose of preparation of above statements.

Q.3.ii.a,b and c have tested the ability of the students in application of LKAS 18 – Revenue. Only few students could demonstrate their knowledge and present a correct answer. Some had attempted the question without the knowledge of the basic principle applicable in terms of the LKAS – 18 but applying the general knowledge. Those were unable to do produce correct answers.

Approximately 75% of students did not understand this standard correctly. They had identified the full amount Rs. 4.5mn received as revenue instead identifying Rs. 0.25mn as an advance receipt for the next year's revenue.

Part ii. B. Around 50% of candidates had not categorised the total revenue into interest income of Rs. 0.08mn and sales as Rs. 1.2mn.They have recognized the total Rs. 1.28mn as revenue.

Part ii. C. Few have understood the question and formulated the correct answer as explained in LKAS. The students could not understand the point where the risk and reward pass to the customer. Under the FOB terms the seller is responsible up to the goods are loaded on to ship and sale should be recognised at that point.

Q.3.iii. A fair number of students could earn around 75% of the marks allocated for this question. This is an easy question where marks could be obtained with simple calculation but with proper understanding of very important ratios that are regularly calculated.

#### **Question No. 04**

(1)

**(i) What is good in the answers**

(a) Understanding the question

Question No. 04

Almost all the candidates correctly understood the requirement of computing the income tax liability, tax credits and balance tax payable by a government employee who also has income from other sources as well.

Question No. 05

Almost all the candidates correctly understood the requirement of computing the divisible profit, partnership tax and the distribution of divisible profits among the partners.

Question No. 06

Majority of the candidates correctly understood the requirement of computing the nation building tax payable by a supermarket.

(b) Position (quality) of the answer

Question No. 04

Majority of the candidates supported their final answers with notes and calculations. This helped examiners to award allocated marks.

(c) Answer relevant to question nos. 4, 5 & 6

Since a majority of the candidates properly understood the requirements of the question, they provided answers which were relevant to the question.

(d) Subject knowledge of the students

Question No. 04

Quite satisfactory. Majority of the candidates correctly identified statutory/assessable/taxable incomes, exhibited sound knowledge of ascertaining employment income, business income, interest income and property income.

Question No. 05

Quite satisfactory. Majority of candidates displayed excellent knowledge of the principles of taxation of a partnership business computation of divisible profits, distribution of divisible profits among the partners were excellent.

Question No. 06

Quite satisfactory. Majority of the candidates provided correct computation of NBT liability.

(e) Planning (building) the answer

Q. Nos. 4, 5 & 6

Majority of the candidates provided methodically built up answers. They also supported their answers with schedules and notes.

**(ii) What was bad in answers**

(a) Understanding the question

Question No. 04

- i. Some candidates misunderstood the salary increment as a monthly increment from December 2011.
- ii. No. of months prior to increment and after increment was incorrectly understood by many candidates in computing employment income.
- iii. Making assumptions disregarding information given in the question.
- iv. Sale of land- assuming profit motive though there is no such indication in the question.

Question No. 07

Only a very few candidates understand the requirement of the question. Majority of the candidates who attempted did not understand the question. They mentioned the time bar provision applicable for making assessments.

(b) Position (quality) of the answer

Question No. 04

The answers of a few candidates were of poor quality. Not supporting their answers with workings and poor presentation of tax computation are the main reasons for their unsatisfactory performance.

- E.g.
- (i) claiming qualifying payment in respect of interest expense.
  - (ii) deducting tax-free allowance from total statutory income.

- (iii) deducting PAYE, self-assessment payments in arriving at taxable income.

(c) Answer relevant to question

Question No 07

A good number of candidates mentioned the essentials for a valid appeal against an assessment.

(d) Subject knowledge of candidates

Question No. 04

- (i) A good number of candidates are ignorant of the latest amendments to the Inland Revenue Act.
- (ii) Majority of the candidates not aware that W&OP fund contributions and housing loan repayments cannot be claimed as qualifying payments.

Question No. 05

A few candidates did not know that interest paid to partners in their capacity as lenders, yard rent paid to partners in their capacity as landlord are allowable deductions in ascertaining divisible profits of partnership.

Question No. 06

A good number of candidates did not know that only 50% of turnover is liable to Nation Building Tax.

Question No. 07

A vast majority of the candidates are ignorant of Sec.177 (3) of the Inland Revenue Act which gives tax payers who have failed to lodge a valid appeal against an assessment an opportunity to lodge an objection.

**(iii) Planning (building) the answer**

Question No. 04

Not reading the question properly, E.g. (i) Employment income – No. of months prior to increment and after increment was incorrectly identified.

**(2) Common difficulties faced by candidates**

- (i) Illegible handwriting
- (ii) Poor communication skill.

(3) **Possible areas where majority made mistakes**

- (i) Failure to update themselves with the latest amendments to the Inland Revenue Act.
- (ii) Bad handwriting and poor communication skills.
- (iii) Improper reading/understanding of the requirements of the questions.

E.g. Question No. 04

- (a) Disallowing 50% of the repairs in ascertaining the adjusted professional income when the question clearly states that no repairs were done to the pharmacy (rented out)
  - (b) Sale of land – assuming sale as an adventure in the nature of trade (profit motive) though the question does not mention any characteristics of trading.
- (iv) Not paying attention to statements most/facts stated in the question. Most of these are intended to test students' knowledge.
  - (v) Failure to support answers with details of workings. These workings carry substantial marks and examiner cannot award marks in the absence of workings.



**CAB II EXAMINATION – MARCH 2013**

**Audit and Assurance**

**Question No. 01**

This question has been attempted by almost everybody and about 50% of the candidates obtained 50% or more of the allotted 20 marks. This shows that fair and reasonable number of candidates have understood the question.

Some answers to part (a) were exactly as given in the suggested answer which is given in the study text. This shows the quality of the answers have been generally good.

Answers to part (a), (b) and (e) quite relevant most obtained full marks. Subject knowledge on areas tested in the question as good except for part (c) and (f).

Following are some of the common errors observed in the bad answers with regard to understanding the question, quality of answers, knowledge on the subject tested, planning etc.

For part (b) some candidates did not understand the question properly and produced irrelevant answers such as auditor is not responsible for detecting fraud and errors. 100% assurance cannot be given, auditor's duty is to express an opinion on the financial statements etc.

Part (c) Quality of the answers was very poor. Some candidates mentioned reasons for planning the assurance engagement, instead of professional skepticism. While some others described what is professional skepticism in detail probably due to lack of knowledge on the point.

Lack of understanding is always coupled with the lack of knowledge of the areas/topics tested. For example, for factors that determine duties and responsibilities of the auditor, some have stated, audit fee, experience of the auditor, time frame of the audit etc.

This was very noticeable in the case of answers given to part (d) i.e. the nature, rules and procedures applicable for both type of assurance were given which are not required and was a wastage of time. Some often described how they carry out the assurances given with a chart which is a wastage of time.

This exemplify that some candidates have not planned the answer which is vital.

Lack of understanding the question and lack of planning the answer were common difficulties faced by many candidates.

Candidates are expected to study the Auditing Standards applicable now. Most of the answers to the questions found in the Standards, CA Sri Lanka study texts. Any answers given basically based on common sense and general knowledge are not adequate.

### **Question No. 02**

Almost all the candidates have attempted this question. Only about 20% of them earned more than 15 marks out of 25 marks allotted. Almost all of the candidates have properly understood part (c) of the question and part (a) (ii) and (iii) of the question comparatively to a great extent. Quality of the answers was good in that candidates correctly listed the relevant points as asked by the question.

Relevance of the answers to part (a) (ii) (iii) and (e) of the question was extremely good. Also knowledge of the subject matter and its application was comparatively great in the answers to those parts.

Answers to about parts have been appropriately built in point form with minimum explanation.

- Answers for part (a) (i) (d) and (c) of the question were very poor. It was felt that candidates have not properly understood the question.
- Quality of the answers was very poor for those parts in that unnecessary details were written which are not relevant to the question.
- Some answers to part (e) and (d) are totally irrelevant to the question. Part (d) question asks to state 4 audit procedures to evaluate appropriateness of source data but candidates suggested to check, competence and experience of expert, use of another expert, experts knowledge on auditing, re-calculation, enquiring expert's technical knowledge etc.
- Subject knowledge seemed to be poor in part (a) (i) (d) and (e).
- Hardly any candidates could explain how audit committee assists in reducing the expectation gap. Instead, they explained about expectation gap and composition of audit committee and its role in general.
- Some explained the content of the engagement letter, which is repeated for part (a) (ii) as well.

With regard to planning, in most instances some candidates have initiated the answer by repeating the question which is unnecessary and is wastage of time.

Common difficulty observed in respect of parts (a) (i) (iii) (d) (e) was inability to understand the question properly. This may be due to the fact that some candidates have not properly read and comprehend the question. It was noted that some candidates explained theory behind the question rather than focusing the answer to question set, e.g. part (a) (i) and (ii).

Lack of practical experience was apparent from the answers produced by some candidates to part (b).

### **Question No. 03**

The question was aimed at testing some factors affecting the independence of the auditor. Majority of the candidates understood the question properly and gave good answers. About 40% of the candidates have obtained over 6 marks.

However some candidates have misunderstood the question in that they had quoted provisions of the Companies Act for part (a) and (b).

Some candidates correctly identified the threat but could not state the principle affected.

A good number of candidates did not identify the relevant threat such as self review, familiarize and self interest but went on to lengthy discussion covering independence, objectivity and credibility of the audit report.

Part (a) Some candidates though knew the reviewing of his as inappropriate act own work by George the risk arising thereof has been incorrectly identified as self interest threat, while some others identified as a familiarity threat.

Common difficulty faced by a large number of candidates was to connect the facts given in the scenarios to the corresponding section of the Code of Ethics. For example many candidates took the service provider to be an employee in the Pubudu Enterprise.

Following are some of the other common errors noted.

- There is no ethical issue as Mr. John has resigned from the ABC company.
- Some candidates discussed about the safeguards that can be taken which is not required.
- Some simply stated there is a violation of Code of Ethics but could not say, what is it and how it is arisen.

Average candidate who prepared for the examination could obtain full marks without much writing as answers are readily available in the study text.

#### **Question No. 04**

Majority of the candidates have properly understood all three parts of the question. However, the quality of the answers to part (a) and (b) were only satisfactory. Most of them have written correct answers and obtained full marks. For part (c) though understood the question many candidates could not identify internal control weaknesses clearly and have repeated the current situation of the Good Look given in the question.

About 75% of the candidates could not earn more than 7 – 8 marks out of 15 marks.

Following are some of the common errors observed.

- Some knew limitations of internal controls but they were able to mention only 1 or 2 limitations.
- Although the examiner expect answers in point form for part (a) and (b) large number of candidates have explained those points in detail wasting their valuable time.
- For part (c) some candidates focused on the salary related issues and suggested improvements only for that. Other areas such as recruitment of casual staff; non-segregation duties was omitted.
- Even though many candidates displayed their theory knowledge on internal control they could not apply it to the given scenario perhaps due to lack of practical experience.

### **Question No. 05**

Almost all the candidates have attempted this question and around 20% of them have answered reasonably well and obtained over 7 marks out of 15 marks allotted. Their subject knowledge appeared to be satisfactory. They could not score full marks for part (a) & (b) due to not being able to give the required number of points for the answers.

Considerable number of candidates had not understood the questions in part (a) and (b) properly and without thinking deeply have answered blindly. For example for part (a) many candidates discussed about sufficiency and reliability of audit evidence instead of going to deal with factors that affect the auditor's determination about the sufficiency and appropriateness of audit evidence.

Following are some of irrelevant answers noted.

- Evidence is more reliable when it is obtained outside the entity.
- Evidence obtained direct by the auditor is more reliable.
- Documentary evidence is more reliable that oral evidence and photocopies.

Some candidates listed method of obtaining evidence.

Part (b) Only very few candidates have produced correct answers. This question was not properly understood by many. It was apparent that they have not gone through the study text properly.

Some answers were rather general and were based on common sense such as follows:

- Size of the entity.
- Time allocated for the audit.
- Cost factor.
- Resource availability.
- Rules and regulations imposed by the CA Sri Lanka.

This displayed their lack of technical knowledge in this area. Some candidates have written almost same points for both (a) and (b).

Part (c) Many candidates do not seem to be familiar with modification of opinion paragraph. Hardly any candidates obtained more than 4 marks. Although the question requires to give basis of qualifying audit opinion some candidates given simply an opinion paragraph such as except for investment value the financial statements gives a true and fair view.

Part (c) (i) Some candidates when giving the basis of opinion did not mentioned about the inability of obtaining sufficient audit evidence, value of the investment and the reference to note to the financial statement thereby loosing 2 to 3 marks.

Some candidates do not appear to have understood properly part (c) of the question and had produced qualified audit opinion while some others repeated the facts given in the question without having any knowledge on SLAuS 705 – Modifications to the Opinion.

### **Question No. 06**

The question has tested the candidates knowledge on;

- (a) and (b) - Benefits of IT to entity's internal controls and computer processing in general
- (c) Verification of related parties and transactions with them.
- (d) Evaluation of reasonableness of change in useful life of an assets.
- (e) matters to be considered before accepting an audit engagement

Only about 70% of the candidates have attempted this perhaps due to the availability of choice of selection. Performance of those who attempted too was very poor scoring average marks less than 7 marks out of 15 marks, although these topics are dealt with in Study Text. Most of them have written general or common points in the nature of guessing without due regard to the provisions in relevant SLAuS or Study Texts. Thus quality of the answers varied from poor to completely irrelevant.

Some candidates did not appear to have adequately prepared for the type of question and it was found to be difficult for them.

Following are some common mistakes observed in answers.

- Except part (a) some candidates have thoroughly misunderstood the questions in part (b) and (c) and thereby irrelevant answers were produced.
- For part (d) many candidates suggested to engage an expert to valuation of the machinery.
- Very few identified this as a change in accounting estimate.
- Some suggested to check accuracy of depreciation calculation.
- Part (b) some candidates have not understood the question and produced irrelevant points such as input controls, output controls, processing controls etc.

### **Question No. 07**

The question consists of five assorted parts testing the candidates knowledge basically on principles of auditing touching on some SLAuS, namely report on summary financial statements, related parties, audit documentation and SLSRs on Agreed Upon Procedure Engagement. It is straightforward and free of ambiguities and rigidity. However, about 65% of the candidates have opted to leave the question without answering.

Overall percentage of marks obtained for the question was in the region of 5 – 8 marks. About 25% of the candidates who attempted this question have managed to address the answers to the question having understood the question properly. On average the majority of them understood part (b) (c) and (d) of the question. Quality of the answers can somewhat be vouched only with part (b) (c) and (d) of the question. Those were the areas the majority of them have been successful in scoring some marks.

Part (a) of the question was very poorly answered by majority. It is due to the fact that candidates have answered this part with facts that have no bearing on the question at all.

Quality of answers to part (b) and (e) are generally poor because repetition and sub-divisions of salient points into thin line of thinking. For example, nature of engagement is listed under several points, non-audit, non-assurance, not a review etc.

- Matters that should be agreed prior to the engagement were not given due consideration in many instances.
- Some candidates failed to perform well mainly due to lack of knowledge. This is particularly noted in answers from regional centres.

Part (b) - some candidates have given terms of an audit engagement letter in general instead of agreed upon procedure engagement. While some others have written answers such as integrity of the management, whether financial statements are in accordance with LKAS, proficiency of the management which are not at all relevant.

Following irrelevant answers were also noted in some answers.

- Part (a) -
- Whether assumption applied by the company are reasonable.
  - Whether assumptions are consistent with other organisations.
  - Whether assumptions are in line with rules and regulations.

Part (c) some candidates, have mentioned uses of financial statements instead of working papers displaying their lack of knowledge.



**CAB II EXAMINATION – MARCH 2013**

**Fundamentals of Management Accounting and Business Finance – March 2013**

**Question No. 01**

**(1) What was good in answers?**

Understanding the question:

Majority of the candidates had understood the question. The hint given in the question has been understood. The marginal costing/limiting factor/linear programming concepts had been correctly applied where appropriate. Candidates were thus able to determine the optimum product mix taking into consideration the demand and the resource constraints.

Position (quality) of the answer:

Candidates had provided a full answer with proper details and explanations. Necessary workings and graph (for LP) were also submitted making the marking examiners' task easier in awarding the maximum possible marks.

Planning (building) the answer:

Proper building up of the answer taking into consideration the relevant limiting factors, demand constraints and arriving at the optimum product mix.

**What was bad in answers?**

Understanding the question:

The common mistakes were;

- (i) that c/s ratio had not been applied for part a (ii), instead prioritised incorrectly based on contribution per units.
- (ii) LP being used for part (b) although question had stated that LP method need not be used.

Position (quality) of the answer:

Optimum production quantities were not calculated even after prioritisation of the products based on limiting factors. Quality of answer for part (c) poor with many could not draw up the linear programme correctly. Some could not identify the corner points in the graph drawn. Many failed to evaluate the corner points and identify the optimum point.

Answer relevant to the question:

Part (c) Many had calculated profit under each option which is not required. Some had tried to determine the product mix without resorting to limiting factor analysis

instead based their answer on c/s ration or contribution per unit which is irrelevant.

Subject knowledge of the student: Poor in applying LP method to the given problem. Candidates were weak in drawing up relevant object functions constraints is algebraic terms.

Planning (building) the answer: Some were unable to draw the constraints in a graph paper and could not identify the corner points. Part (b) of the question- the answer not planned properly and many wasted valuable time by using the LP method.

(2) **Common difficulties faced by the students**

- (i) Inability to identify the correct limiting factor to a given situation.
- (ii) Failure to raise the demand (max) as a constraint.
- (iii) Inability to set up a linear programme model of a given problem.

(3) **Possible areas where majority made mistakes**

- (i) Work out more examples on limitation factor analysis and linear programming to enable the students to acquire necessary skills.
- (ii) Graphical representation of LP poor due to poor mathematical skills.

**Question No. 02**

(1) **What was good in answers?**

Understanding the question: Fair. Part (c) & (d) – understanding of question good, answer relevant, good subject knowledge and proper planning and building of the answer.

Position (quality) of the answer: Fair.

Planning (building) the answer: Fair.

**What was bad in answers?**

Understanding the question: Part (a) and (b) poor quality answers. Many candidates could not correctly calculate the number of packs produced during the month and therefore could not calculate the relevant variances.

Position (quality) of the answer: Poor.

Answer relevant to the question: Many variances calculated using assumed/incorrect number of packs could be termed as irrelevant. However such candidates were not penalised as they would have already lost marks for their incorrect answers in part (a).

Subject knowledge of the student: Poor. Many using wrong formulae for variances. A significant number of candidates (approximately 10%) had not attempted the question.

Planning (building) the answer: Poor. Could not use the information given in the question to calculate the production of quantities and variances.

(2) **Common difficulties faced by the students**

Calculating the production output adjusting the closing stock movement. Calculating fixed overhead variances. Many had not adjusted the over absorbed amount to the actual cost.

(3) **Possible areas where majority made mistakes**

Standard absorption costing and impact of it in stock valuation and fixed overhead absorption. Identification of favorableness and unfavorableness of variances.

**Question No. 03**

(1) **What was good in answers?**

Understanding the question: Many had satisfactorily answered the parts (a) & (b) (i) & (ii) of the question. Answers were relevant and subject knowledge of the candidates fair.

Position (quality) of the answer: Quality of the answers was fair.

Planning (building) the answer: good

**What was bad in answers?**

Understanding the question: Use of incorrect formulae. Not reading the question properly.

Answer relevant to the question: Irrelevant answers were given to the part (b) (iii). It was apparent that some candidates did not know the difference between FIFO and weighted average cost methods.

Subject knowledge of the student: Some could not apply the stock formulae correctly due to their poor knowledge of inventory management.

Planning (building) the answer: Many had not done the stock level calculations.

(2) **Common difficulties faced by the students**

- (i) Erroneous stock level calculations. Poor knowledge and application of stock formulae.
- (ii) Erroneous calculations of closing stock under weighted average method.

(3) **Possible areas where majority made mistakes**

Knowledge of stock level formulae. Many did not know the difference between various methods of accounting for stock (i.e.) FIFO, LIFO, WAC and physical issue of stock (FIFO).

**Question No. 04**

(1) **What was good in answers?**

Understanding the question: Fair understanding of the question.

Position (quality) of the answer: Fair.

Planning (building) the answer: Average

**What was bad in answers?**

Understanding the question: Poor knowledge on contract costing apparent from the quality of answers and also from the large number of candidates not attempting the question.

Position (quality) of the answer: Extremely poor only a few were able to give complete contract accounts showing the profit & loss accounts.

Answer relevant to the question: Some what.

Subject knowledge of the student: Poor. Attempting to calculate profit and loss without using the percentage completion method. Not knowing that losses need to be immediately written off.

Planning (building) the answer: Poor. Incorrect entries (debit & credit mixed up) Incorrect accounting for material loss etc.

(2) **Common difficulties faced by the students**

Wrong debits & credits, incorrect treatment of material loss.

(3) **Possible areas where majority made mistakes**

- Profit & loss calculations using percentage completion method.
- Depreciation calculations.
- Cost of work certified / not certified.

**Question No. 05**

(1) **What was good in answers?**

Understanding the question: Understanding good.

Position (quality) of the answer: Good.

Planning (building) the answer: Good.

**What was bad in answers?**

Understanding the question: Fair. However, there were few candidates who had misunderstood the question.

Position (quality) of the answer: Average. Common mistake made by candidates were incorrect application of the IRR formula

Answer relevant to the question: Yes for part (a) however, irrelevant answers furnished for parts (b) & (c)

Subject knowledge of the student: Fair.

Planning (building) the answer: Fair. However some candidates had drawn up two separate cash flows – one for current operation and other for new project.

**(2) Common difficulties faced by the students**

- Ignoring the cost savings.
- Inaccurate figures (some in millions whereas others in thousands)
- Inability to explain why NPV is superior to IRR method.

**(3) Possible areas where majority made mistakes**

- Difficulty in identifying relevant costs.
- Poor arithmetical skills (incorrect IRR calculations)

**Question No. 06**

**(1) What was good in answers?**

Understanding the question: Good.

Position (quality) of the answer: Fair

Planning (building) the answer: Fair

**What was bad in answers?**

Understanding the question: Part (b) of the question was not understood properly. Some had not read the question properly. Quarterly figures taken as monthly etc.

Position (quality) of the answer: Fair.

Answer relevant to the question: Yes. However some had given the purchase budget for material Y also which is irrelevant.

Subject knowledge of the student: Fair. However some could not identify the opening stocks for 1<sup>st</sup> quarter.

Planning (building) the answer: Poor. Some had done the calculations based on their own assumptions possibly due to their failure to read the question properly.

(2) **Common difficulties faced by the students**

- Poor planning of the answer.
- Failure to understand the question before answering.

(3) **Possible areas where majority made mistakes**

Using incorrect opening and closing raw material stock value is drawing up the material purchase budget.

**Question No. 07**

(a) Explain 3 basic financial management decisions

**What was good in answers**

Understanding, quality, subject knowledge and relevancy. Though many students have not explained each decision, they had identified 3 basic decisions such as investment, finance, distribution and working capital. Found few high standard answers. Their answers covered following key points;

Investment decision

Return of the project

Analysis of risk factor

Types of the investments

Long term; acquisition, expansion of business and purchase of long term fixed assets

Short term; Invest in security market, working capital investments etc.

Finance decision

Risk factor

Alternative sources of finance available in the market

Cost of finance

Terms and conditions

Distribution

Company's retention policy

Liquidity

Satisfying shareholders

**What was bad in answers?**

Poor subject knowledge;

- Instead of 3 decisions out of above four, some had mentioned handling accounting system in the company, handling cash receipts and payments, Involving purchasing and

production activities. Yes, FM may handle those activities too but they are not the main functions

- Pricing decision, Production decision and sales forecast etc. are also noticed as answer for part a.
- In explaining investment decision many candidates had mentioned ‘investing in share markets such as debentures, shares etc’ as the example. Even though, we cannot say that the answer is wrong, it indicates that they do not have sound knowledge about what investment is?

Poor understanding

Very few students had mentioned goals and objectives instead of decisions. Such as, increase in earnings, maximize value of the company, stability etc.

Irrelevant answers

Few had given pay back, IRR and ARR as three basic decisions. These are investment appraisal methods and not basic decisions a FM is concerned with.

(b)Goal of finance management

**What was good in answers?**

**Understanding, quality, relevancy, subject knowledge and planning**

Found few excellent answers which cover following key points,

**Maximization of share holders wealth** and had further explained how a company can maximize wealth such as giving attention to profitability, cost, risk, developing proper strategies to get the benefit from opportunities emerge in the market

Enhancing value of the company

**What was bad in answers?**

**Poor subject knowledge/understanding**

Many had mentioned **increasing profit** is the goal of finance management. This answer cannot be accepted since an organization can increase profit just by manipulating accounting principles through creative accounting and there you cannot see actual value accumulation and also by accepting high risk and high profit generating projects can report high profit but in long term success of the company is doubtful. Therefore in answering this kind of question student must be careful to **use more appropriate words** and if general words are used, they must **explain further the underlying concepts and ideas**.

Though marks were given for the answer ‘goal is increasing market price’, it is also not a perfect answer as manipulating share market fundamentals (when market is not an efficient market) can report high market price but that is not the goal of finance management and what financial management refers **is real value accumulation** through real profit and increasing market price.

Some had suggested that goal is increasing equity capital and minimizing debt capital. This can be considered as a strategy to mitigate financial risk and it is not a goal.

(c) (i) Cost of equity

**What was good in answers?**

**Understanding, quality, relevancy, subject knowledge and planning**

Many candidates had provided correct answer for the computation part. They had selected the most appropriate formula that is **dividend growth model** to compute equity

cost of capital and the components such as growth factor, year zero dividend and market price from various information given by the examiner.  
Some had correctly assessed why CEO's computation is wrong? Ie ignore market price and growth factor

**What was bad in answers?**

**Poor subject knowledge/understanding**

No evaluation

Many had **omitted evaluation** as a result they lost allocated marks for evaluation part. You are supposed to present in your answer why CEO's computation is wrong? That is he has not considered **growth of the company** in selecting formula.

Those who selected correct formula failed to apply correct variables such as Instead of **current market price he has used issue price** to compute **cost of equity capital**

**Application of formula**

When the question has clearly given that this is **year zero dividends**(‘...year just ended....’) students failed to correctly interpret it and some had done **unnecessary computations to arrive year zero dividend which is incorrect.**

When the questions clearly states that this company is growing at 5%, students had failed to understand that dividend is also growing accordingly and they had inappropriately assumed that this company has no dividend growth.

**Failed to use correct market price;** instead of using current market price; some had used **historical issue price.**

(ii) Cost of debt

**What was good in answers?**

**Understanding, quality, relevancy, subject knowledge and planning**

Many had answered correctly and scored full allocated marks for both computation and evaluation; They had selected **the most appropriate formula** and had mentioned CEO's fault is **omission of tax implication**

**What was bad in answers?**

**Poor subject knowledge/understanding**

Evaluation

Those who had computed correct cost of debt had **not given any explanation** about the shortcomings in CEO's computation that is **omission of tax implication**

Poor application of formula

If you use interest cost to compute effective debt rate; you must **divide tax adjusted (effective) interest** cost by **market value of debt**. Noticed some students who had computed effective interest cost correctly and had not divided it by market value of debt and as a result failed to arrive correct cost of capital

Tax Adjusted Interest Cost / Market Value of Debt

(c) (iii) Debt Equity ratio and weighted average cost of capital

**What was good in answers?**

**Understanding, quality, relevancy, subject knowledge and planning**

**Debt Equity Ratio**

Students had mentioned why CEO's computation was wrong? That is omission of reserve as part of equity (In computing D: E based on Book value) and also not consideration of market value of equity when computing D: E based on market value. Those students had done both explanation and computation and scored full allocated marks

### **WACC**

Good answers covered following points

Selection of correct formula

Appropriately used variables computed at earlier stages such as cost of capitals (Kd, Ke) and debt equity ratio

Evaluation covered why CEO's computation was wrong referring evaluations and computations were made by the student at earlier stages

### **What was bad in answers?**

Poor subject knowledge/understanding

### **Debt Equity Ratio**

Some failed to consider reserve in computing debt equity ratio based on book value and also consider market value of equity when computing debt equity ratio based on market value. In computing based on book value reserve must be added as part of equity since reserve does not represent in issued share value(book value).

Few candidates had added reserve again into market value of equity which is wrong .

### **WACC**

- Many had ignored the evaluation part
- Without giving **facts** they had given their opinion. Eg. 'CEO is wrong'. Therefore they failed to earn allocated marks for evaluation.
- Some students who had given correct computations at earlier stages had not selected them to compute WACC
- Noticed few students had applied debt: equity ratio without converting it into percentage. Therefore, weightage of debt and equity was wrong
- Some students who recognized reserve as part of equity capital had ignored opportunity cost of reserve in computing WACC based on book value. They had mentioned it is included in equity capital. Yes, they are correct if they would use market value of equity for the computation of equity

Poor understanding and irrelevant answer

Instead of evaluating CEO's computation, one had mentioned what debt capital is and how does it is sub divided to instruments such as debenture, preference share etc

### **Common difficulties faced by the student**

No basic sound knowledge regarding concepts tested

No idea how to assess and present facts

Eg. Many do not know how to explain what is wrong and why it is wrong (critically evaluate)

## **CAB II EXAMINATION – MARCH 2013**

### **Information Management**

#### **Question No. 01**

Question is very clear. However some candidates have misunderstood the word 'module' and considered it as "models" in part (a). Some candidates have given System Development Methods and some have given the stages of SDLC. Majority of candidates were able to answer part (b) and (c) correctly. However, candidates should carefully read and understand the question before answer.

#### **Question No. 02**

Majority of candidates answered this question well and scored more than 15 marks. It shows that their knowledge on SCM, CRM and ICM is good. Few candidates were unable to understand the objectives clearly. Majority of the candidates given correct answers for part (c) which is considered much easier.

#### **Question No. 03**

This question is directly from theory part. Majority of the candidates given correct answers. However few candidates given parts of the computer as component of IS which is wrong. Answers for part (b) are good. Some of them did not clearly identify advantages and disadvantages of ERP

#### **Question No. 04**

Most of the candidates understood the question and scored more than 10 marks. But some of candidates misunderstood the part (a) & (c). Some of them wrote "operational differences" as characteristics. Only few of candidates interchange the answers of part (a) with operational differences of data capturing devices and data entering devices. Candidates not properly answered part (c). Understanding the "operational difference" and characteristics of devices is very important to answer the question.

#### **Question No. 05**

Majority of the candidates were unable to answer this question correctly. Their knowledge on "Virtual Memory" is very poor. Most of them have given answers related to RAM and not for "Virtual Memory" in part (a). Functions of memory manager also were not given correctly. Most of them explained about general functions of the system. Part (c) advantages also not given properly. This question may be too technical for candidates. Majority of them has skipped this question.

#### **Question No. 06**

This is very relevant question to the accounting candidates but their performance is very poor. Majority of the candidates have given role of internal audit without concerning IS controls and security implementation. Majority of the candidates given correct answers for part (b) on controls. But few of candidates interchanged the general controls and applications controls.

#### **Question No. 07**

Majority of the candidates answered well and scored more than 10 marks out of 15. Only few of them have interchanged the types of information. They have not properly understood the information requirements for each management level. This is a very easy question from study pack. Candidates have not properly studied the study pack and relevant study materials.



**CAB II EXAMINATION – MARCH 2013**

**Business English II**

- Question No. 01 : Tests knowledge of grammar-verb forms. A suitable passage related to the field of accountancy. Filling in 10 blank spaces with the correct form of the verb given within brackets. Candidates response was poor as their basic knowledge of grammar is weak – scoring not satisfactory.
- Question No. 02 : A guided dialogue. Both formal and non-formal language was accepted. An interesting dialogue and candidates managed to score well as all suitable answers were accepted. The construction of the question form in the simple past tense was not satisfactory.  
E.g: What did you told?  
Did he offered a salary?  
  
Also most were not score of the use of much and more. E.g. How much interviews so far?
- Question No. 03 : A business letter ordering of goods. A very good question and quite appropriate subject matter. Students know the format of writing business letters and managed to score good marks for this question.
- Question No. 04 : Report writing. Very useful for students in the field of accountancy. Most candidates knew the format of writing reports but as usual had copied the given guide lines directly. Some gave their own observations and suggestions. Scoring was satisfactory.
- Question No. 05 : Writing on essay of about 350 words on anyone of the 04 given topics. All topics were equally popular but marks could not be given as expression, organization and proficiency in grammar was poor. Except for one topic (Flexi – time) subject knowledge was high. Most were unable to build up the essay according to the given criteria. It has to be mentioned that most candidates as usual ignored the given word-count and either write very long essays (over 1000 words) or short paragraphs (less than 100). The quality of performance was average.
- Question No. 06 : A & B comprehension and vocabulary test.  
  
The particle was very interesting and quite suited for the standard of this examination.  
  
Most candidates as usual have copied entire paragraphs or given totally irrelevant answers. Comprehensive skill was very poor. As for vocabulary – no one had given the meanings of the two given phrases.

C paragraph writing – A lot of candidates have written lengthy essays instead of a single paragraph.

The overall performance at this examination was not very satisfactory. (about 44% passes).

Revision of past papers, intensive study of simple grammar, going through the study pack are very important.