



Examiners' Comments

Business Level Examination – June 2015

Business Financial Reporting (KB1)

Ques. No.	Performance of the candidate	Suggestions to Improve
01	<p>(a) Poor performance. Candidates did not have clear understanding of important concepts that are recognized in order to increase the qualitative aspects of financial statements.</p> <p>(b) Easy question but poorly answered. The answer could have been copied down from the Code of Best Practice on Corporate Governance.</p>	<ul style="list-style-type: none"> • Familiarize with LKASs and SLFRSs. • Ability to apply LKASs and SLFRs is essential • Areas covered by the syllabus and the level of knowledge expected must be clearly understood by candidates and lecturers who prepare candidates for the examinations. • Students must read the study pack and do the examples given in the study pack in order to bring up the level of knowledge and skills to that expected at this level. • Doing past papers is a must. This helps candidates to familiarize themselves with examination questions and time management. Self-answering of past papers within the allocated time will help candidates very much to perform well in their examinations. • Group discussions and group work will help students to share knowledge and evaluate themselves against their friends. Brainstorming will synergise the knowledge. • Reasonable time should be allocated for studies and preparation work for the examination. Studies must be done in advance keeping final days for revision.

02	<p>(a) Poor performance. Checked the knowledge of the candidate on LKAS 17 and the ability to apply the standard in a practical situation. Attempted by almost all but unable to obtain reasonable marks.</p> <p>(b) Performances are not satisfactory. Checked the knowledge and application of SLAS 18. A fair number of candidates have scored more than 50% of the allocated marks (5 marks). Though Revenue Recognition is an essential area widely applied in preparation of Financial Statements, the knowledge of candidates was not satisfactory as Business level candidates.</p>	-do-
03	<p>The knowledge and application of LKAS 18 is a very common area in preparation of Financial Statements and it was checked by this question.</p> <p>Therefore, as the area of this question is checked regularly by paper setters, the performance of candidates could have been at a very high level. But only a few candidates could obtain more than 07 marks. This is a question where the candidates could have scored well and secured the pass mark.</p> <p>Disposal profit and the net book value of building under the finance lease had been correctly recognized by a fair number of candidates.</p>	-do-
04	<p>Knowledge and application of SLFRS 2 has been checked. Part (a) required ascertaining whether a rights issue to employees is a share based payment. Almost all the candidates have attempted this part but the marks obtained were not satisfactory. However part (b) of the question has been done satisfactorily.</p> <p>Most of the candidates have calculated the expense to be charged to income statement correctly and earned the full marks in part (c)</p>	-do-

05	<p>Very easy question on ratio analysis, and a regularly checked area. Candidates could have earned good marks from this question but almost all the candidates had failed to get the maximum benefit. Only a few could obtain more than 05 marks.</p>	-do-
06	<p>Easy question on consolidation accounts. Ten adjustments. Commonly and regularly checked area and very familiar topic to candidates.</p> <p>Fair number of candidates had gathered reasonable marks for this question. Fair number of candidates could earn more than 50% of the allocated marks.</p> <p>It seemed that candidates have spent more time on this question without considering the allocated marks.</p>	-do-
07	<p>This question checked the ability of the candidate to understand a practical scenario by analyzing the situation with a view to advise the management about the going concern of the entity, evaluate the management's view on devaluation of a fixed asset and recommend accounting treatments for scaling down of a production line and a court case filed against the Company. Part (a), (b) and (c) covered the above aspects and part (d) required candidates to write journal entries. Part (e) was on applying the knowledge of candidates in valuing assets and their accounting implications.</p> <p>Very poor performance. Very low marks. However a very good question which has examined the knowledge and the application of that knowledge in different practical situations. This is the type of question that should be included in Business Level examination papers.</p>	-do-

Business Management Accounting – (KB2)

General comments about candidates' handwriting

There were number of instances where the marking examiners found it extremely difficult to read the candidates' handwriting. If the examiner is unable to read what has been written, then no marks can be awarded to the illegible section.

General comment about submission of workings

There were number of instances where the marking examiners could not award marks due to the failure of the candidates to submit workings. When a candidate has made a mistake and the particular working is not shown, it may not be possible for the examiner to award marks for the correct steps in the particular working and possibly also subsequent steps which would have otherwise earned marks.

Question 01

General comments

This question had the highest average marks on the paper.

This is a question with two parts that tested the candidates' understanding of activity based costing and customer profitability analysis using information generated from ABC.

Part (a) requires candidates to prepare a customer profitability analysis (CPA) of two customers from the information given.

Part (b) requires candidates to demonstrate how the company could use CPA to increase its profits.

Specific comments

Majority of the candidates did well in part (a), however, many did poorly in part (b). Some had unnecessarily given a lengthy analysis after preparing the CPA, which is not required for part (a).

Part (b) was poorly understood by some candidates who had submitted irrelevant answers, such as;

- performing a ratio analysis of CPA/giving advantages of CPA.
- comparison of the two customers and selecting the better customer. Answers based on increasing profitability from the two customers rather than the company as a whole.
- giving general comments like increasing sales without making use of the information obtained from CPA.

Question 02

General comments

Candidates' performance ranges from poor to satisfactory. It was a question with three parts that tested the knowledge of;

- Part (a) Difference between costs involved in achieving specified quality and those that arise due to failure in quality; stage at which these costs arise and their inverse relationship with regard to quality.
- Part (b) Impact of quality conformance costs on consumer considerations (i.e. selling price and quality of products) in SHL, where both factors are important in this scenario.
- Part (c) Application of Kaizen principles on the stated situation to extend comparatively short life- cycle of household products and appreciation of continuous gradual approach which could be adopted without any disruption to production process.

Specific comments

- Part (a) About 30-40% of the candidates appreciated the differences between quality conformance costs vs quality non-conformance costs, and at what stages these cost elements arise. Candidates often confused the achieving of required quality standards with improvements of quality. Subtle difference between costs of achieving quality and failure to achieve quality was not appreciated.
- Part (b) Impact of quality conformance costs on selling price and quality of products were viewed by candidates from different perspectives and advanced rational arguments to support their case from different schools of thought as discussed in the study text. A large number of candidates assumed that higher quality conformance costs will drive the selling price upwards and a trade-off is more appropriate. While other candidates firmly believed that market leadership of SHL is sufficient to confirm its premium quality and therefore increase in quality conformance costs will offer a better product at a higher selling price commensurate with extra quality.
- Part (c) More than 50% of candidates appreciated Kaizen as gradual continuous improvements in the process resulting in cost savings. Application of Kaizen principles in order to extend life-cycle of products was satisfactory to a lesser extent. Many candidates discussed the reduction of cost only, while few stressed the importance of improvement of quality coupled with reduction in cost to satisfy consumer considerations would eventually produce a more desirable result.

Question 03

The candidates' performance was very variable, with 30% obtaining below 4 marks and 25% obtaining over 8 marks. Part (a) requires candidates to prepare a profit table showing the outcomes of all options available. Part (b) requires advice on the decision to be taken based on;

- Expected value criterion.
- Maximax criterion.
- Maximin criterion.

Specific comments

Some candidates could not identify the 4 options by recognising the limitation of demand and volume constraints correctly and had made mistakes in identifying the quantities relevant to each type of truck and the corresponding demand. Some had calculated the unit cost of transporting and had thereby erroneously calculated the profit for each of the 4 options.

Many had calculated expected values of each of the 4 options in determining the option to be selected under maximax and maximin decision criterion.

Question 04

General comments

Candidates' performance not up to standard with the majority of the candidates scoring less than 5 marks. This is a question with three parts testing mainly transfer pricing concepts. Part (a) requires a calculation of transfer price based on profit mark-up on full cost. Part (b) requires calculation of transfer prices acceptance to each of the divisions and discussion of the appropriateness of present and proposed transfer prices. Part (c) requires a discussion on use of dual transfer pricing in overcoming transfer pricing issues.

Specific comments

Some candidates could not calculate correctly the proposed transfer price, due to erroneous calculations of full cost. Maximum and minimum transfer prices were correctly calculated by many, however there were some candidates who had given the answer for maximum as minimum and vice versa. Many could not give a satisfactory answer for part (b) (iii) which requires determining whether the present and proposed transfer prices lie within the acceptable range of prices determined in parts (b) (i) and (b) (ii). Majority of the candidates had failed to give a satisfactory answer to part (c) of the question. It is apparent many are unaware of what dual rate transfer pricing is.

Question 05

General comments

This question had the lowest average marks on the paper and, in general, this was done very badly. This is a two part question that tested the candidates' understanding of the inventory management.

Part (a) requires the candidates to calculate the cost of holding inventory. Part (b) requires the evaluation of the proposal to change from the present system to a JIT system.

Specific comments

A fair number of candidates had failed to attempt the question. In answering part (a) of the question, many had incorrectly calculated the average stock. Some had failed to identify the opening and closing balances of the stock. Some had applied the EOQ formulae in calculating the cost of holding.

Many had not read and properly understood the question. Candidates had answered part (b) without understanding what is really required from them. Many had given advantages/disadvantages in a JIT system without trying to evaluate the given scenario. Many of those who worked out part (b) failed to recognise the limitation of capacity in quarter 3 (189,000) and also that the cost increase is applicable only to overtime working.

Question 06

General comments

The answers to this question varied. Although there were scripts that had provided good and above average answers, more than half of the candidates failed to score 50% of the marks allocated to the question.

The question consisted of four parts and tested the candidates' knowledge of variances and reconciliation of budgeted profit with actual profit utilizing the variances, under standard marginal costing approach and standard absorption costing approach.

Part (a) required the candidates to reconcile the budgeted profit with the actual profit showing the variances in detail under the standard marginal costing approach. Part (b) requires the candidates to explain why the variances used to reconcile the profit in a standard marginal costing system differs from those used in a standard absorption costing system. Calculation of variances that would be different and any additional variances required, had the reconciliation statement been prepared under the standard absorption costing system, was required in part (c). Part (d) requires the candidates to discuss arguments in favour of using traditional absorption costing over marginal costing for profit reporting and inventory valuation.

Part (a) of the question was the best answered. However, there were a number of candidates who included the fixed overhead volume variance in the reconciliation statement, whereas some others omitted the fixed overhead expenditure variances from the reconciliation. Many candidates had calculated the sales volume contribution variance incorrectly, using the standard profit per unit as the standard selling price per unit, instead of standard contribution per unit.

Majority of the candidates had answered part (b) poorly. Many candidates failed to mention that the sales volume contribution variance which is calculated using the standard contribution per unit in a marginal costing variance statement is replaced by the sales volume profit variance which is calculated using the standard profit per unit in an absorption costing variance statement. Many candidates were of the view that fixed overhead expenditure variance was used only in the absorption costing variance statement.

Part (c) too was poorly answered. Majority of the candidates hadn't calculated the sales volume profit variance as an answer to part (c). Many candidates had calculated both the fixed overhead expenditure variance and fixed overhead volume variance, although FOH expenditure variance was not relevant. In calculating fixed overhead volume variance, some candidates had used the standard FOH absorption rate per hour instead of standard FOH absorption rate per unit.

In part (d), many candidates failed to mention that absorption costing follows the matching concept. Although, many candidates recognized that inclusion of fixed costs is required to identify the correct cost of a unit and for correct inventory valuation, many of the candidates failed to mention that the recovery of fixed costs is important to make a profit. Some candidates were of the erroneous view that using marginal costing was more appropriate for profit reporting and inventory valuation.

Question 07

General comments

This is a four part question of investment appraisal with inflation and taxation. Part (a) requires the drawing up of the cash flow and calculation of NPV.

Part (b) tests the candidates' knowledge of payback period.

Part (c) requires the calculation of IRR, and part (d) requires the evaluation of effect on NPV of postponing the project by one year.

Specific comments

Many had erred in inflation adjustments. Some had applied a flat rate of 5% increase from years 1 to 5 without realising 5% increase is applicable only for year 1 and a further 5% increase on year 1 increased figure is required and so on. Many of those who attempted to calculate the real rate could not calculate it correctly due to incorrect application of the formulae. Few had taken the sunk cost of Rs. 1 million into the cash flow. Many had brought the capital allowance of Rs. 4mn (instead of tax adjustment 1.120mn) into the cash flow.

Many had incorrectly calculated IRR due to incorrect application of formulae. Answer to part (d) very poor with majority not attempting the part. A few who had attempted part (d) (ii) had failed to approach the problem logically.

Business Taxation and Law – KB3

LAW PART

Question 01

Part (a) of the question is based on veil of incorporation and candidates are expected to discuss the possibility of the courts lifting the veil of incorporation of Charity (Pvt.) Ltd. Under the given scenario of Mr. Ratne making a petition to the court candidates are asked to support their answers giving reference to some relevant decided court cases. A fair percentage of candidates had understood the question and answered correctly referring to some relevant cases like Salmon vs Salmon, Littlewoods Mail Order Stores Ltd. vs Inland Revenue Commissioner, HNB vs Jayawardhana etc. In their answers they had correctly identified that generally in Law it is considered that a company is a separated legal personality different from owners- shareholders. Also some of them were quite capable to realise that sometimes the court will go beyond this ruling and lift the veil of incorporation i.e. go inside of the company and determine the real persons who control the company. In other words the court can disregard the separate legal personality of an incorporated limited liability company and see who is acting behind the separate legal personality since there can be instances where there are some persons who engage in various unknown activities under the cover of separate legal personality.

Candidates who were capable of understanding the aforesaid position had correctly applied the incident given in the scenario of the question and expressed the view that under the circumstances courts will lift the veil of incorporation and see as to what are the real plans of Mr. Crooks by trying to use the company (CPL) as the distributing agent and may issue an order restraining Mr. Crooks from using CPL as his distributing agent with the purpose of preventing the act of Mr. Crook in distributing drugs in Sri Lanka using the name of CPL. Those candidates have earned reasonable marks.

However, a similar number of candidates though they were capable of understanding the question in its real sense they are not sufficiently competent to focus their answers in applying the said procedure to meet the requirements of the question. They had discussed the separate legal personality, lifting of veil of incorporation of a company but were not competent to explain for what purpose the court will lift the veil of incorporation and how it could be applied under the given scenario.

Others who haven't understood the question correctly had written something that they feel to be the answer. In their answers they had dealt in certain areas in general which are not connected to the question and had explained some areas like;

- (i) Separate legal personality is a paramount principle in commercial law, based on which the characteristics of veil of incorporation theory was established.
- (ii) The theory of veil of incorporation has been laid down in the Companies Act and it separately identifies the company from its shareholders and they are not liable for the debts and obligations of the company.
- (iii) When shareholders are trying to get the cover of separate legal personality for certain activities courts go behind the veil of incorporation and find out as to who are responsible for those activities. It is called 'lifting or piercing through the veil". Courts use this method under the circumstances such as;
 - (a) When the company does wrong things deliberately.
 - (b) When the no. of members (shareholders) falls below statutory minimum.
 - (c) To prevent a fraud.

- (d) To promote interest of national security and so on.
- (iv) Courts will follow the veil of incorporation under 2 methods i.e.
 - (a) Under statutory provisions and;
 - (b) Under case law principle.
- (v) The veil of incorporation means the company is separate from its owners -shareholders.
- (vi) Mr. Crook was a drugs trafficker in recent past and has even served prison sentence, therefore he is already disqualified to act as a director of this company under the provisions laid down in section 213. In terms of section 213, a person who has been convicted of any offence involving a dishonest or fraudulent act which is punishable by way of imprisonment cannot hold the post of director of a company for 5 years after the conviction.
- (vii) When it comes to the petition made by Ratna, court can succeed under section 214 because Mr. Crook is prohibited from being a director of the company and he cannot be appointed as a director for a period of 10 years if the petition is successful.
- (viii) Mr. Ratna should have at least 2% of voting rights of the company otherwise he cannot effect derivative actions. If he holds 5% voting rights as a minority shareholder he can petition to courts against Mr. Crook and court may lift the veil of incorporation.

It is very clear that they have wasted their time as they have not understood the question or are not competent to understand it.

Part (b) Another easy question in dispute resolution by appointing an arbitrator. It is very clear that when there is an arbitration clause in a contract first they have to go for arbitration for resolution of any dispute between the parties before initiating of any legal action as the parties have already agreed to do so. Even an average accountancy student will know this position that if there is such a clause in a contract since the very purpose of inclusion of such a clause is to first go for a sole arbitrator when there is a clause of that nature in a contract the court will not be prepared to discard the alternative procedure already agreed by the parties. Good no. of candidates have understood this position and focused their answers in that direction which deserved reasonable marks.

Some other answers given were not the expected answers for the question. In these answers various unwarranted factors or details had been discussed or explained, since they were incapable of understanding it in the real sense. Accordingly the answers furnished by them are not relevant to the question and a few examples could be quoted as follows:

- (i) Explaining alternative dispute resolution (ADR) methods.
- (ii) High court shall notify to the parties a date to file the award and give judgment accordingly.
- (iii) There were many others who had repeated the question in different forms.

Question 02

A popular question on pre-incorporation contract which appears in the Law papers very often with an addition of some restrictions added to object clause. Candidates are expected to be very familiar with types of pre-incorporation contracts.

Generally candidates know that promoters of a company can enter into contracts on behalf of the company under incorporation called pre-incorporation contracts. Also it is a known fact that a pre-incorporation contract entered into by promoters on behalf of the company could be ratified by the company after incorporation. The Companies Act, has dealt with some implied conditions and warranties on those contracts indicating that any contract entered into by promoters on behalf of the company could be ratified by the company after incorporation. This procedure as laid down in Companies Act is known to a fair percentage of candidates and majority of them are familiar with the

relevant provisions included in the Companies Act. Accordingly the candidates who were conversant with the said provisions had furnished satisfactory answers earning reasonable marks.

The question here is the pre-incorporation contract is to buy a rubber factory belonging to Mr. Cyril while object clause permits the company only to engage in the industry and candidates are expected to discuss whether the company can ratify the contract ignoring the limitations included in its object clause. In this subject area too a fair percentage of candidates are familiar with provisions of the old Companies Act No. 17 of 1982 and provisions in the new Companies Act No. 07 of 2007 in this regard. Therefore they had correctly discussed that whilst section 13 of the new Companies Act i.e. 07 of 2007 grants companies the freedom to engage in business activities without being restricted to their object clause and section 17 of the Act provides further relocation and states that even if the companies engage in activities outside the scope of their object clause such activities shall not be affected by the restrictions imposed by the object clause. In other words these candidates are well conversant with the changes introduced in the new Companies Act i.e. the doctrine of Ultra Vires on any activity conducted by a company outside the scope of the object clause is no more valid and therefore deemed to be void in Law as the new Companies Act dispenses with the ultra vires rule. Also it is a fact that those points would be well known to the candidates provided they have gained some general knowledge with their day to day practical experiences. Only some candidates had correctly discussed the above position and had come to the correct conclusion that the pre-incorporation contract entered into on behalf of LPL shall not be treated as invalid by reason of such contract having been entered into in contravention of the restrictions in the object clause.

Some others have given numerous answers with no sense by including the following.

- (i) There are implied warranties in pre-incorporation contracts and section 24 (i) of the Companies Act states that notwithstanding anything to the contrary object clause of a company is valid, therefore the contract entered into purchase the rubber factory cannot be ratified.
- (ii) If something is stated in the object clause the directors of the company are bound to do only business activities stated under object clause. Therefore finally it could be stated that the contract entered into with Cyril to purchase the rubber factory cannot be ratified since under the object clause of LPL, it can only engage in businesses relating to the industry.

Question 03

- (a) Out of the two parts part (a) can even be answered by any average accountancy student with his/her general knowledge since the subject area tested by it is widely covered under financial accountancy. Therefore answers furnished by majority of the candidates are completely or partly relevant to the question whilst many had furnished fully correct answers a similar number had furnished partly correct answers i.e. they had furnished 2, 3 or 4 correct differences between the two areas including the following.
 - (i) Shareholders provide equity capital whilst debenture holders provide debt/loan capital.
 - (ii) Shareholders are joint owners of the company but debenture holders are only the creditors.
 - (iii) Shareholders are invited for meetings of the company like AGM but debenture holders are not unless there is a special need to do so and shareholders have the voting right while debenture holders do not have voting right.
However it could be observed that a lesser percentage of candidates were not competent to furnish some satisfactory answers even for this simple question and as

a result they had furnished irrelevant/incorrect answers just wasting their time. In their answers they had dealt with some areas including the following.

- i. Shareholders have controlling power over the management of the company, but debenture holders have no such power.
- ii. Shareholders can be appointed as directors of the company but debenture holders cannot be appointed as directors.

What could be presumed is that these candidates have furnished their own assumed answers since they are not very familiar with the differences between the two.

- (b) A handful of candidates had furnished satisfactory answers to this simple question on oppression of minority shareholders by the majority in terms of section 224 of the Companies Act. The special point which could be noted is that these had correctly quoted the contents of section 224 & 226 of the Act. i.e. in their answers they had correctly stated that under section 226 (3) joint shareholders are treated and counted as one, whilst under section 226 (1) a shareholder should hold at least 5% of the voting rights or at least account for 5% of the shareholders (shareholding qualification) for at least 6 months prior to making the application against oppression and so on. What could be gathered on the basis of those answers is that these had given this type of standard answers, since they were allowed to use the Companies Act for reference at the examination hall under the open book examination. Further they had recognized that shareholding of 6% of the voting rights or 6% of total shareholding along with her husband, she will be successful in her application for oppression under section 224.

There were others who had not gone through the Companies Act properly, i.e. had not referred to said relevant sections of the Act while answering the question but had written some relevant answers such as a shareholder who holds a minimum of 5% of the total shareholdings or constitutes a minimum of 5% of the total shareholders is eligible to make an application under section 226 against oppression without connecting it to the scenario earning some reasonable marks.

There were many others who had failed to understand this simple question on oppression and had focused their answers in various other directions.

Question 04

- (a) Another very simple question which can be answered with the general knowledge of an average accountancy student or even any other average person who has some dealings with the activities of a company. Further anyone who has dealings with the shares of a company would gather this type of knowledge since he/she gets notices for annual general meetings of the companies almost each year. Further it is not a complicated notice but a simple notice containing the heading, purpose of sending the notice, place and time at which the AGM will be held and the agenda of the meeting and signature of the secretary by order of the Board of Directors of the company. Therefore, it is very clear that preparing a notice with the above details to call for an AGM of a company is a simple task and normally candidates in their final level are supposed to know as to how it should be prepared following an appropriate format.

Since this is a very simple question performance of the question is better than any other question. Also the details that should be included in the notice have been provided in the question and the candidates only have to include them in the notice in an orderly and acceptable manner to suit a notice summoning an AGM of a company. Therefore, the answers

produced by the candidates are acceptable though some had not followed an appropriate format. Different candidates had adopted different types of formats in furnishing the required particulars.

Although not in correct order they deserve high percentage of marks. Only a few candidates had included in their answers a statement to inform the shareholders that proxy form is attached to the notice for the purpose of appointing a proxy in the event the shareholder is unable to attend the meeting personally and the duly perfected and signed proxy form should reach to the office on or before 7 May 2015. Handful of others had stated that the duly perfected and signed proxy form should reach the registered office 45 hours before the AGM i.e. it should reach the registered office on 7th May 2015 since the AGM was to be held on 09.05.2015 which too can be treated as a correct answer.

Some had furnished certain answers with no sense as far as a notice is concerned for summoning an AGM. It may be mainly due to their inability to understand the question correctly or they may have not seen a notice prepared for an AGM.

- (b) Answers to part (b) of the question are extremely poor and very high percentage of candidates had not attempted part (b). What is clear is that they are not quite familiar with section (3) of the Companies Act although a few had quoted the section in answering part (a) of the question. This is a very unsatisfactory situation since they had the opportunity to refer the Companies Act while answering the question under open book examination. It means they have failed to refer the section (33) of the Act while answering the question. This may be due to not being familiar with the relevant section in advance.

Question 05

- (a) This part is based on liquidation of a company due to its inability to settle the debts. These areas are directly covered in the Companies Act and candidates are expected to furnish perfect answers as has been laid down in the Act since the candidates are allowed to refer to the Act while answering the question.

Since the Companies Act has directly explained the procedures that should be followed in petitioning the courts by a creditor when the company is unable to pay its debts which exceeds Rs. 50,000 including the issuing a notice for the purpose. With these background a fair percentage of candidates had correctly explained the procedure as laid down under section 270 & 271. Accordingly they had stated that a creditor can file a petition in courts to wind up the company if it can be established that the company is unable to pay its debts. Under section 271 it has been explained that a creditor has to establish that the company is unable to pay its debts in the following manner.

- i. The debt due should exceed Rs. 50,000 and
- ii. Three (3) weeks should have passed from the date of the receipt of the letter of demand.

With this back ground under the given scenario majority had realized that the Cars-4-All PLC has confirmed in writing it owes Rs. 4,000,000 to its creditor Ruthless and at the moment it is unable to pay it but only 2 weeks have passed since the letter of demand was sent by creditor. Candidates had explained that the first criteria i.e. the debt due is more than Rs. 50,000, (the amount due s Rs. 4,000,000) has been met but he has not yet met the second one

since only 2 weeks have passed from date of sending the letter of demand and he has to wait for another week to satisfy the second criterion to file the petition in courts. A few candidates have given the correct answers.

However there were a good number of candidates who have failed to understand this straightforward question correctly and had focused their answers on various irrelevant or incorrect directions such as;

- i. Section 27 of the Companies Act has dealt with requirements or procedure for liquidation/winding up of a company and those 3 types of winding up are namely;
 - i. Voluntarily winding up
 - ii. Winding up by courts
 - iii. Winding up under supervision of courts and;under voluntarily winding up a creditor can make a request to wind up a company.
- ii Creditors' voluntarily winding up should be agreed at a meeting of creditors with the company and the company should appoint a liquidator for winding up and so on.

They have furnished those completely irrelevant answers since they are not competent at all to understand the question.

- (b) Subject area tested under (b) part of the question is also well known to accountancy students since this area is covered under auditing and insider trading/insider dealing is a common topic among them. Also when they go through the business section in daily newspapers there are enough news items on insider trading very often in news media. Further since the candidates are allowed to take the Companies Act with them to the examination hall for reference purpose they had the opportunity to give necessary reference to the Act and present their answers. With all those facilities and background a fair percentage of candidates had furnished some satisfactory answers to the question. In their answers they had discussed relevant areas like "what is insider trading" and why it is treated as unethical or why it is an item offence and so on. Also they are conversant with sections like 32 or 34 of Securities and Exchange Commission Act. Further they had correctly identified that since the auditor of the company falls within the category of a person connected and considered as an insider in terms of section 34 of Securities and Exchange Commission Act and when Quicky receives the inside confidential information from his brother, Sneaky the auditor, Quicky too falls into the category of an insider and they had discussed that under the circumstances, Sneaky the auditor of the company has violated section 32 of SEC Act by passing some confidential information of the company to his brother to enable him to make considerable profit on share dealing while the same information was not available to the rest of the shareholders for their benefit. Therefore it is very clear that the party who used the confidential information to earn profit is definitely at an advantage whilst others who did not have it are definitely at a disadvantage; that is why it is treated as an offence under SEC Act for which they have earned good marks.

There were many others who had failed or were not competent to understand the question correctly and had focused their answers in numerous irrelevant/incorrect directions such as;

- i. Insider trading means take unfair trade securities to which insider has no-public information, which provide an unfair advantage. On the other hand insider trading means getting unfair profit by using non-public information.

- ii. Sections 32 & 33 of SEC Act set out the regulations that are enforced against persons to avoid insider trading, and so on and wasted their valuable time.

General: Difficulty in understanding and expressing views clearly in English language is a common problem faced by majority of the candidates.

Further the poor habit of not reading the question carefully before starting to answer also a common fault.

TAX PART

Question No. 06

Overall performance in the question was quite satisfactory. Most of the candidates made a good attempt at the question. There were some excellent answers and majority of the candidates scored over 50% of the allocated marks while a few candidates scored 24 marks of the allocated 25 marks. Standard of the question can be considered as reasonable at the business level being not too difficult nor too easy. The question had a good coverage of commonly applied sections of the Inland Revenue Act as well as some sections which are not so commonly applied. These sections are adequately covered in the handbook published by CA Sri Lanka.

The model answer has been well planned and structured and can be considered as a reliable guide to marking examiners. The value of the model answer would have been enhanced had it included reference to relevant sections of the Inland Revenue Act.

Majority of the candidates demonstrated sound subject knowledge in the application of tax law in relation to undermentioned areas:

- Sections 25 and 26 of the Inland Revenue Act – allowable and disallowable items.
- Computing the statutory income from different sources of income.
- Section 34 deductions – qualifying payment.

Most of the candidates demonstrated sound knowledge of the contents and structure of a distributable profits computation.

Where mistakes were made, these generally related to :-

Improper reading of the question

- E.g. (i) The question states [note (viii)] that Rs. 500,000 was paid as dividend tax. Few candidates erroneously treated as gross dividend paid and calculated dividend tax thereon.
- (ii) The question states [note (ix)] that Rs. 5,800,000 was paid as quarterly income tax self-assessment payments. A few candidates multiplied this payment by 4.

Lack of subject knowledge

- E.g. (i) No clear understanding of the law, e.g.;
- disallowing the interest paid in full.
 - claiming the interest paid under s.32.

- using incorrect figures in the computations like 3 times the share capital, 4 times (share capital + reserves) etc.
- (ii) Management fee:- A good number of candidates are ignorant of the restrictions for deductibility, e.g, a good number of candidates simply mentioned 40% of fee is disallowable since the CGIR has allowed 60% deductions.
 - (iii) Housing benefit to managing director. Only a very few candidates answered correctly.
 - (iv) Interest on fixed deposit: A few candidates mentioned that this income is not liable to tax as WHT has been paid.
 - (v) Rent income: A few candidates treated this as a separate source of income and computed the net rent.
 - (vi) Ground rent: A good number of candidates are not aware that this expense is deductible under section 25 with effect from Y/A 2014/15.
 - (vii) Contributions to approved provident fund and gratuity fund: only a very few candidates knew the limit for deduction.
 - (viii) Computation of distributable profit. The undermentioned errors are noteworthy-
 - taking taxable income instead of accounting profit.
 - taking depreciation allowance instead of book depreciation.
 - taking gross tax payable instead of tax on taxable income.
 - (ix) Tax on taxable income. A few candidates applied rates of tax based on turnover and profits ignoring the fact that the company is a subsidiary of another company.
 - (x) Tax credits: A good number of candidates failed to claim credit for dividend tax paid on dividend declared by the company.

Question No. 07

Overall performance in the question was unsatisfactory. Majority of the candidates scored less than 50% of the total allocated marks. Majority of the candidates scored more than 50% of the marks allocated to part (a) and part (c) of the question. Performance in part (b) and part (d) was extremely poor which in turn affected the overall performance.

Standard of the question can be considered as reasonable at the business level. The question had a good coverage of the adjustments that are peculiar to computation of partnership tax. These adjustments are adequately covered in the hand book published by the CA Sri Lanka.

The question was within the syllabus and there were no ambiguity either in the wording or in the facts given in the question.

A good majority of the candidates demonstrated sound knowledge in the applications of Tax Law in relation to undermentioned areas:

- Computation of divisible profits.
- Adjustments that are peculiar to taxation of partnerships e.g. salary paid to a partner, etc.

Where mistakes were made, these generally related to:-

Improper reading of the question

E.g. Part (c) the question requires to compute the VAT liability for the quarter ended 31 March, 2015. A few candidates applied VAT rate of 12% and mentioned in a note that the rate of tax applicable was 11% with effect from 01.01.2015.

- Part (a) Some candidates attempted to compute the tax liability of the individual partners. This was not required in the question. This is clearly a waste of valuable exam time earning no extra marks.
- Part (d) The question required the criterion the partnership should fulfill in order to register as a registered identified purchaser (RIP) under the SVAT. However, majority of the candidates mentioned the list of all categories eligible for registration.

Lack of subject knowledge

Not updating with recent amendments to tax law.

- E.g. A good number of candidates applied,
- (i) 10% as partnership tax rate instead of 8%.
 - (ii) 12% VAT standard rate for Y/E 31.03.2015 instead of 11%

Disallowing royalty paid in computing the adjusted trade profit of the partnership.

- Part (b) only a very few candidates mentioned the criterion for mandatory submission of audited statements of accounts along with the partnership income tax return.

Business Value Creation – KB5

Question 01

General comments

Overall performance of the candidates was satisfactory.

- Part (a) – Requires to explain two primary activities and two supporting activities of the value chain with reference to the scenario of a bank given in the question.
- Part (b) – Requires to discuss how the bank i.e. Comnet could use the value chain model to enhance business performance.

Specific comments

- Part (a) – Some came out with so called inbound logistics like receiving applications for loans, receiving cash & cheque deposits etc. in relation to Comnet bank. Nevertheless inbound and outbound logistics are not important primary activities in relation to a bank. Some have not given examples for banking activities and non-banking activities under “operations”.
- Part (b) – Most of the students have not stated that value chain model can be used to identify the non value adding activities that can be eliminated or done more cheaply. Instead they mentioned that by using internet banking Comnet’s performance can be enhanced.

Question 02

General comments

Overall performance of the candidates was satisfactory.

- Part (a) – Requires to outline the main functionalities of a Warehouse Management System in creating value for TSPL i.e. in the given scenario.
- Part (b) – Requires to analyze how a Warehouse Management System would enable TSPL to improve their operation.

Specific comments

- Part (a) – Some have correctly mentioned, functions of Warehouse Management System (WMS) as handling goods received from suppliers, handling, recording & storing finished goods, protection of items during the time they are held in stores etc. Nevertheless, some stated that maintaining of stock levels, calculating of EOQ etc. are the functions which earned only a few marks. Some stated that WMS should be cost effective which earned no marks.
- Part (b) – Minimizing cost, reducing service time, maximizing usage of time are some of the ways in which a WMS would improve the operation of Tradestar. As per some students WMS will help improve HR system and lead to better techniques without elaboration.

Question 03

General comments

Overall performance of the candidates was satisfactory.

Part (a) Requires to explain two principles of lean manufacturing.

Part (b) Requires to demonstrate how lean manufacturing would enable businesses to address each of the goals given in the question.

Specific comments

Part (a) Specific value from customers' perspectives, Producing only what is valued (pulled) by the customer, Striving for perfection (zero defects) etc. are some principles of lean manufacturing which were explained correctly by a few students. Some just named the principle but had not explained.

Part (b) – Some have just mentioned goals of a business as Minimizing cost, Improving liquidity and Reducing cycle time without relating them to lean management.

Question 04

General comments

Overall performance of the candidates was above average. The question carries 10 marks.

Part (a) Requires to differentiate B2B and B2C E-commerce.

Part (b) Requires to analyze how the internet has changed the B2C business operations in a radical way in relation to Savari.lk i.e. in the given scenario.

Specific comments

Part (a) B2B involves companies doing business with each other. Eg. Manufacturers sell to distributors, wholesalers to retailers. B2C involves companies directly dealing with customers. Eg: Buying and selling online and online marketing. Most of the students correctly defined the two concepts but failed to provide examples.

Part (b) Ability of the small companies to succeed, Convenience for the consumer, Direct contact with the customer, Speed of transactions are some of the advantages derived from the B2C business operation. But most of the students have not related the advantage to Savari.lk

Question 05

General comments

Overall performance of the candidates was satisfactory.

Part (a) Requires to demonstrate 3 critical success factors that would be important to MobCom (given scenario) when developing the plan for the first five years of operation.

Part (b) Requires to outline one KPI for each of the CSFs which would be applicable to MobCom.

Specific comments

- Part (a) Only a few stated Critical Success Factors (CSF) like brand awareness and preference, perceived service quality, area coverage, cost of service etc. Some stated that increasing market share is a CSF but they failed to demonstrate as to how it is achieved.
- Part (b) Increasing brand awareness by 90% and brand preference by 20% during first 05 years is an example of a KPI. Nevertheless some stated increasing the market volume, increasing the number of customers without being specific, time bound etc.

Question 06

General comments

Overall performance of the candidates was not satisfactory.

- Part (a) Requires to analyze the competitiveness of the fairness cream industry using the Porter's Five Forces model, with the purpose of developing strategies for "Soft Petal" fairness cream (given scenario)
- Part (b) Requires to analyze the possible market segments under the appropriate segmentation variables for selecting target market for "Soft Petal" fairness cream.
- Part (c) Requires to recommend an appropriate target market to match the proposed profile of the ideal target customers for the new product.
- Part (d) Requires to discuss how to design the marketing mix for Soft Petal in developing the marketing strategy for the selected target market.

Specific comments

- Part (a) Most of the students did not make conclusions over the Porter's Five Forces Model in relation to Soft Petal fairness cream.
Eg: 1. Rivalry among existing competitors is high.
2. Threats of new entrants is high.
Some were not sure of the conclusion Eg: Bargaining power of suppliers **may be low** etc.
- Part (b) Market segment variables under broad categories of segmentations are expected to be mentioned Eg: under geographical segmentation, rural areas and urban areas, under demographic segmentation, age, gender income to be mentioned. Some identified segment variables like "working hours", "married women", "school girls" without broader market segmentations being identified.
- Part (c) Recommended target market is "Young middle income female customers who are located in rural areas and expecting fairness and beauty from the cosmetic products". Some did not identify young females as target market whereas others were unable to state that focus should be on rural areas.
- Part (d) Product to meet different needs of the consumers. Price needs to be affordable to its customers. Company to provide distribution channel so that customers could buy the product. Company to communicate its marketing proposition to its potential customers. Nevertheless some students mentioned that price should be high having forgot the target market of low income customers.

Question 07

General comments

Overall performance of the candidates was satisfactory.

Part (a) – Requires to analyze the prevailing HR issues of JHH (given scenario).

Part (b) – Requires to recommend possible actions and solutions to overcome the issues.

Part (c) – Requires to discuss the steps to be followed by the new HR Manager to hire a new Chartered Accountant for the Company.

Specific comments

Part (a) – Lack of job design, no job description and specification, inefficient recruitment and selection process, no proper performance appraisal method are some of the issues of JH Holding. Most of the students did not arrange the issues in a logical manner and they ended up with repetition of what is given in the question as answers. i.e. issues.

Part (b) – Establishment of a separate HR department with a HR Manager, analysis of current positions and re-designing the jobs, preparing proper job descriptions and specifications, establishment of formal recruitment and selection process are some of the solutions. But some students stated that there is a need for change in culture without elaborating as to how it should be done.

Part (c) – Deciding job requirements for an accountant, determining tasks, duties and responsibilities, deciding recruitment method, collecting applications, short-listing, selected suitable candidates are the steps expected by the Examiner. Nevertheless most of the students did not write the answers in a logical manner. Most of the student forgot to mention the need of an appointment letter being issued and the job contract being signed.