

KE1 – Financial Accounting & Reporting Fundamentals

September 2019

Examiner's Comments

Question 1

10 questions from different areas of the syllabus MCQ – Compulsory – 20 Marks

Most of the candidates marked incorrect answers for 1.4, 1.5 and 1.10.

Lack of clear knowledge on conceptual framework was observed.

Question 2

10 sub-questions from different areas of the syllabus – Compulsory – 30 Marks

This section contained 10 sub-questions on different topics where certain questions required calculations and others required short or explanatory answers.

Part 2.1

Expectation of the question was to test the governance structure of the company elaborating responsibilities of the director. Instead of directors' responsibility most of the candidates stated the duties of directors along with responsibilities. It appeared that the candidates didn't have a clear understanding of duties & responsibilities.

Part 2.2

Differentiation between financial accounting and management accounting was tested and the performance was at an acceptable level.

Part 2.3

Differentiation between accrual based accounting and cash based accounting was tested and the performance of candidates was at an acceptable level. A few candidates didn't clearly mention the accounting period concept in the answers.

Part 2.4

This question tested the purpose of control accounts.

Most candidates explained the type of errors but didn't state the relationship between the sub ledger and the control account.

Part 2.5

Tested the purpose of source documents used in accounting. Though the source documents were mentioned the purpose was not clearly explained by most of the candidates.

Part 2.6

Examiner expected to test the objective of using primary books in accounting. Most of the candidates have provided satisfactory answers.

Part 2.7

Disadvantages of computerized accounting packages were tested in this question. Some of candidates tried to explain the disadvantages of a general computerized environment not specifically mentioning the accounting package.

Part 2.8

Knowledge on financial statement analysis was tested in this question. Though there were several areas available for comparison, most of the candidates explained only the difference in accounting policies.

Part 2.9

The question tested knowledge on the initial and subsequent measurement of PPE under accounting standard LKAS 16 property plant & equipment.

A few observations on the answers are

- not properly identifying the cost of machinery and the carrying value of the machinery at the year end.
- not properly identifying the period of depreciation.

Part 2.10

Identifying the need to adopt SLFRS for SME's was tested here.

Most of the candidates failed to answer this question due to not having a basic understanding of the requirements of SLFRS /LKAS and SLFRS for SMEs.

Question 3

Optional - 10 marks

- (a) Tested knowledge on Bank reconciliations and related adjustments required to the cash book.

Most of the candidates computed the correct adjusted balance of the cash book but when preparing the bank reconciliation; some of the candidates erroneously adjusted unrealized cheques and un-presented cheques in the bank reconciliation without considering the overdraft situation. A few candidates ignored or erroneously adjusted the cancelled cheque (Rs. 900) and credited cheque (Rs.1000).

- (b) Corrections of errors arising from incorrect accounting or otherwise.

Most of the candidates were able to reconcile the suspense account however in a few instances entries were posted to the suspense account related to vehicle disposal. On adjusting the profit, the adjustment related to inventory (Rs. 2,400) was deducted instead of adding it in a few instances. Rent expenses (Rs. 20,000) which should have been subtracted from the draft profit was ignored or erroneously taken as Rs. 80,000 (Rent expense + Prepaid rent).

Some of the candidates had not shown the workings for the calculation of profit on disposal of motor vehicle, therefore the examiner could not assign any marks for individual entries.

Question 04

Optional - 10 marks

- (a) Tested knowledge of the accounting equation.
- Poor knowledge in the double entry accounting concept was observed
 - Failed to differentiate current and non-current assets: Example Computer purchase.
- (b) Tested the "Direct Method" in cash flow preparation.
- Most of the candidates tried to prepare cash flow using the "indirect method" or a mix of both direct and indirect methods. A few candidates had taken irrelevant figures.
 - The opening and closing credit/debit balances shown in the "T" accounts were incorrect and candidates had failed to identify the cash inflow and outflow correctly.

A few candidates had not provided workings therefore the examiner could not allocate marks relevant to a few computations.

Question 05

Optional - 10 marks

Candidates were required to prepare the Income and expenditure account and the Statement of Financial Position of the sports club.

Most of the candidates failed to recognize the requirement of having to maintain a special fund account.

Some of the candidates had not prepared a subscription account or workings therefore the examiners could not award marks allocated to this section.

Question 06

Optional -10 marks

This question tested the knowledge on dissolution of partnership.

Most of the candidates had not selected this question to answer as an optional question.

Some of the candidates have considered the realization of assets and liabilities (acquisitions and settlements) as current account entries instead of capital account entries. The profit/loss on dissolution was recorded in the current accounts instead of capital accounts.

A considerable number of candidates either ignored the payable amount of Rs. 45,900 or charged it to the realization account as a loss instead of a payment in the cash book.

Question 07

Preparation of Financial Statements– Compulsory – 20 marks

This question was mainly framed to test basic knowledge on preparation of financial statements of a Limited Liability Company and the accounting for deferred taxation.

Many candidates failed to adjust the revaluation of buildings correctly and had also not taken it to other comprehensive income. The probable reasons would have been;

- computing the current year's depreciation based on the revalued amount.
- disregarding the current year's depreciation on building
- not adjusting for a previously recognized part of the revaluation of building (Revaluation Reserve)
- failing to transfer the deficit on revaluation (revaluation loss) to the income statement.

Although the inventory should be valued at the lower of cost or net realizable value, some of the candidates had not understood this concept.

Most of the candidates had not attempted the deferred tax computation part of the question and the calculation was incorrectly based for one year although the question clearly states that the said machinery was acquired on 1 April 2017. Some of the candidates had not properly indicated in the answer whether the deferred tax was an asset or liability.

Investment held for sale – The requirement of the question was to show the fair value in the statement of financial position and a few candidates valued it at “cost of acquisition” disregarding its impairment and the acquisition expenses were not charged to the income statement.

In the comprehensive income statement some of the candidates did not show it in other comprehensive income or failed to show the reversal in the building reserve in addition to the surplus on land revaluation. A few candidates incorrectly stated the impairment surplus on investments in the other comprehensive income.

The “over provision” in income tax for the previous year, was not correctly adjusted in the current year’s provision.

Depreciation on motor vehicles – This was not computed correctly due to not considering the correct period and disregarding the residual value.

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KE2 – Management Accounting Information

September 2019

Examiner's Comments

General comments about submission of workings

There were a number of instances where 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 workings is not shown, it may not be possible for the examiner to award marks for the correct steps in the particular workings and possibly also other subsequent steps which would have otherwise earned marks.

General comment about candidates' handwriting

There were a 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.

Question 1

Percentage Selection by Candidates Question No.	Correct	Incorrect
1.1	74	26
1.2	21	79
1.3	72	28
1.4	75	25
1.5	20	80
1.6	66	34
1.7	75	25
1.8	52	48
1.9	66	34
1.10	62	38

Only 21% students selected the correct answer for question 1.2, it shows that many students do not have sufficient knowledge on identification of direct and indirect cost with related to the business activity.

Poorest performance shows in question no 1.5 and only 20% students have selected the correct answer.

Students performance on the questions 1.6, 1.8, 1.9 and 1.10 are average level and more than 70% students have provided correct answers for questions 1.1, 1.3, 1.4 and 1.7.

Question 2

Q. 2.3, 2.4 and 2.5 - Satisfactorily answered by majority of the candidates.

Q. 2.2, 2.7, 2.8, 2.9 and 2.10 performance is average level.

Q. 2.2 Performance is very poor and 64% of students scored no marks. It shows many students do not have clear idea how to recognize/compute the direct and indirect overtime cost applying correct principles.

Q. 2.6 Performance on this question is also poor. 36% of students had scored zero marks and the average marks scored was only 0.5 marks. It shows that students do not have sufficient knowledge on computing mean and standard deviation.

Question 03

Optional 10 marks

Question has been designed to test the Intended Learning Outcomes (ILO) of Chapter 6 "Job, Batch, Contract and Service Costing" of ICASL Study Guide.

Many students attempted this question and scored on average 4 to 6 marks.

Part (a)

It is observed that many students have made the following common mistakes

- a. Cost of Licensing and insurance is considered as one lorry and they have multiplied by 10 but it is not the case, figure Rs. 240,000 is for all 10 lorries.
- b. Not identified fuel consumption difference on empty lorry and laden lorry.
- c. Effective distance has not been correctly computed.

Part (b)

Some students had not understood the requirement of the question and they have provided many irrelevant answers.

Question 4

Optional 10 marks

Question has been designed to test the Intended Learning Outcomes (ILO) of Chapter 08 “Probability” and Chapter 9 “Normal Distribution and Sampling Distribution” of ICASL Study Guide.

Only around 3% of students have attempted this question and most of the attempted students also had not scored marks.

It seems students were not comfortable to answer the questions from this area of the syllabus or students had not understood the question and they failed to build up a proper answer.

Question 5

Optional 10 marks

Question has been designed to test the Intended Learning Outcomes (ILO) of Chapter 13 “Project Appraisal Fundamentals” of ICASL Study Guide.

Most of the students attempted this sum and reasonable marks have been gained, average marks would be around 6.

Part (a)

Most of the candidates fairly answered but some candidates made common mistakes such as

- a. With the information provided in the first paragraph, the student should take a decision whether to construct a new building or use the existing space which is already rented out, but many students had not taken this decision and incorporated both cash flows, Rs. 4.6 million as out flow and Rs. 100,000 as inflow mistakenly.
- b. IRR formula has not been correctly applied.
- c. Figures have not been substituted correctly on the formula.

Part (b)

In this part some candidates have applied an incorrect formula, and some applied the correct formula, but they have also failed to solve the formula and get the correct answer.

Part (c)

Many students have scored these two marks, but some students have provided irrelevant answers.

Question 6

Optional 10 marks

Question had been designed to test the Intended Learning Outcomes (ILO) of Chapter 16 “Mathematics for Business Function” of ICASL Study Guide. Average marks scored for this question would be around 5.

Part (a)

1. Many students had performed part (a) and scored full marks, but some students had made mistakes in applying the 1st derivative of Demand and Variable cost function.
2. Some students had made mistakes in formulating the Demand and Variable Cost function. It shows that those students do not have sufficient mathematical knowledge in this area.
3. Some students failed to apply correctly the profit maximizing number of students to demand function to compute the profit maximizing price.

Part (b)

1. Many students had computed the total maximum profit correctly and scored full marks, but some students had made mistakes in computing the total cost and ended up with an incorrect total maximum profit.

Part (c)

1. Students had not performed well in this part of the question and they have not correctly understood the question and failed to compute the current profit with current number of students.
2. Some students had computed the current profit correctly and they have made a mistake in computing the change of profitability. Since the current profit is a minus figure (loss), they have just taken the difference between the absolute numbers and showed the profit change as Rs. 100,000 (150,000 – 50,000) but it should be $150,000 - (-50,000) = 150,000 + 50,000 = \text{Rs. } 200,000$.

Part (d)

Many students had failed to score marks on this section of the question. It shows that students do not have sufficient theoretical knowledge on the subject matter tested.

Question 7

Compulsory Question 20 marks

Question has been designed to test the Intended Learning Outcomes (ILO) of Chapter 17 “Budgetary Control and Budgetary Systems”

Many students have performed on this question and scored an average of 9-10 marks out of 20 marks.

Part (a)

Most of the students have scored full marks for this part of the question but some students have computed and presented the production budget in rupee terms, but the question is clearly asked in number of pairs.

Some students had not computed the opening stock for the month of August.

Some students have tried to present the answer for all three months as one period and they have failed to gain the marks.

Part (b)

Performance of this part of the question was poor and it indicates students do not have adequate knowledge on formulating a function using linear regression analysis.

Part (c)

Many students have scored the marks for this section applying the answers they have arrived in part (c).

Part (d)

Most of the students had successfully performed on part (d) based on the answers that they have computed for above parts.

Many students have failed to apply the 5% bad debt provision.

Part (e)

Many students have not computed the flexible budget correctly.

KE3(A) – Fundamentals of Taxation

September 2019

Examiner's Comments

Question 01

- (a) This is a five parts multiple question choice requiring the candidates to choose the most appropriate answer out of the four given options.

The question tested students knowledge in the following areas of taxation:

- 1.1. Interest taxes
- 1.2. Section 69 – resident status in Sri Lanka.
- 1.3. Section 90 – payment of income tax by self-assessment and section 84 (1) (a) (ii)
- 1.4. Section 53 (9) – withholding tax in respect of each partners share of partnership income.
- 1.5. Nation Building Tax expected articles and services.

General comments

Overall performance in this question was quite unsatisfactory. 50% or more of the candidates scored 40% or less of the total marks allocated to the question.

Specific comments

- 1.1. A major distinction between direct taxes and indirect taxes is that in the case of indirect taxes the tax burden can be shifted to the final tax payer and that such taxes are collected by a person other than the person on whom the tax is levied. A good number of candidates did not know this fact.
- 1.2. Mr. Thilak was physically present in Sri Lanka for a period of less than one hundred and eighty three (183) days in Sri Lanka during the year of assessment 2018/19. A good number of candidates failed to notice this fact.
- 1.3. A good number of candidates choose option C and lost marks.
- 1.4. A good number of candidates didn't know not that as per section 85 service fee paid by a business to another business is not liable to withholding tax irrespective of amount of the payment.
- 1.5. A good number of candidates did not know that cement block transport income is not liable to Nation Building Tax (NBT).

(b) General comment

Overall performance in this part of the question was quite unsatisfactory. 50% or more of the candidates scored 35% or less of the total marks allocated to the question.

Specific comments

- 1.6. A good number of candidates did not know that –
- (i) Research expense relating to improve employee satisfaction is a disallowable expense section 11 (i) and that such expense is not covered by the special deduction section 15.
 - (ii) Majority of the candidates did not know the provision of the sixth schedule (temporary provisions) para 8 – Research and Development in times of which a person is entitled to an additional deduction equal to 100% of the total amount of research and development expense deducted under section 15.
- 1.7. Most candidates failed to calculate how they arrived at the liable part of the interim dividend before computing the withholding tax to be deducted.
- 1.8. A good number of candidates ignored the definition of the action verb ‘explain’ when answering this question.
Most candidates mentioned that table 7 should be applied or that such employees be penalised without ‘explaining’ how to deduct PAYE from employees who failed to furnish primary employment declaration.
- 1.9. Most candidates appeared to be confused as to whether Elsewhere Ltd is required to pay Nation Building Tax (NBT) for the quarter ended 31 December 2018.
- E.g. 01 Some candidates stated that the company is not required to pay the NBT since the turnover does not exceed turnover threshold for the quarter is less than Rs. 3 million without considering the overall turnover.
- E.g.02 Some candidates stated that the company is liable to pay NBT since the liable turnover exceeds turn over threshold.
- 1.10. Overall performance in this part of the question was quite satisfactory.

Question 02

The question required candidates to compute the income tax liability and balance tax payable by a resident company engaged in business process outsourcing (BPO) and providing information technology services through internet to foreign clients.

The question included:

- (a) Calculation of total assessable from the following sources:
 - (i) Business – this included on adjustment to profits.
 - (ii) Investment income – interest income from fixed deposits.
- (b) Deduction under section 52 – qualifying payment
- (c) Application of appropriate tax rate prescribed in first schedule.
- (d) Tax credit under section 2 (3) (c)

Specific comments

Instances where information given were not understood by students.

The information given in the question related to the year of assessment 2018/19 and the applicable statute was Inland Revenue Act No. 24 of 2017. However, some candidates presented the corporate income tax computation on the basis of the Old Act (No. 10 of 2006) which was repealed effective from 1 April 2018.

Errors in principle/shortcomings

Technical knowledge:

- (1) Business income –
 - (i) Rent paid – under section 10 (2) where a person is allowed a deduction for a payment from which the person is required to withhold tax, the deduction shall not be allowed until the tax withheld has been paid to the commissioner. In this case even the withholding tax has not been deducted when making the rent payments. Therefore, the company cannot claim this rent expense in calculating the gains and profits of the business. However, most candidates are not aware of this restriction.
 - (ii) Sale of computers – a good number of candidates made mistakes in computing the assessable charge on sale of computers.
- (2) Investment income
Interest income from fixed deposits. A few candidates mentioned that since relevant withholding taxes had been deducted by the bank and paid to the Inland Revenue Department no further tax is payable on such income.
- (3) Qualifying payments. Some candidates do not know that only money donations by entities to approved charitable institutions can be claimed as a qualifying payment.
- (4) Tax rate. Most candidates correctly applied the concessionary income tax rate but failed to mention the reason for selecting the concessionary rate. It should be noted that only companies satisfying any one of conditions specified in para 4 (2) other than a business consisting of selling and gaining, liquor and tobacco of first schedules are eligible for concessionary rate of taxation.
- (5) Tax credits – a few candidates claimed these from taxable income. This is an error of principle and are serious in nature.

Question 02

This is a large scenario question.

The candidates were required to compute the income tax liability and balance tax payable by a Chartered Accountant deriving income from the following sources.

- (a) Employment income
- (b) Business income. This included an adjustment to profits.
- (c) Investment income. This included
 - Rent income
 - Interest from fixed deposits.
 - Profit on sale of quoted shares.
- (d) Deduction under qualifying payments – section 52
- (e) Reliefs – section 52
- (f) Tax credits – section 2 (3) (c)

Specific comments

Instances where information given in the question was not understood by students.

The information given in the question related to the Year of Assessment 2018/19 and the applicable statute was the Inland Revenue Act No. 24 of 2017. However, some students computed the income tax liability applying the provisions of the Old Act (No. 10 of 2006) which was repealed effective from 1 April 2018.

Errors in principle/shortcomings in technical knowledge.

- (1) Instances where candidates applied the provisions Act
 - (i) Employment income – vehicle benefit provided by the employer
 - (ii) Investment income – rent income
- (2) Employment income
 - (i) Salary – some students took the monthly salary as annual salary
 - (ii) Employee share option plan – most students made mistakes in computing the employment benefits.
 - (iii) Re-imbursement of foreign travel – This receipt is excluded from employment income under section 5 (3) (b). However, some students treated this as part of employment income.
 - (iv) Director's fee – some candidates stated that this income is not further liable since final tax has been paid.
- (3) Business income
Penalty for late tax payment. This is disallowed under section 10 (i) (b) (iii). Some students mentioned that this is an allowable expense.
- (4) Qualifying payments – donation to National Kidney Fund – a good number of candidates correctly identified this as a qualified payment but failed to mention that such donation is fully allowable.
- (5) Reliefs
 - (i) Employment income – a good number of candidates did not know the relief available under the new act.
 - (ii) Relief for income earned in foreign currency. A good majority of the students did not mention the limitation to the claim.
- (6) Tax credits. Some candidates deducted this from taxable income. This is an error of principle and serious in nature.

Any other comments to be communicated to the students.

1. Read the 'instructions to candidates' given in the question paper before attempting to answer any question.
2. Question 01 (a) – Multiple choice questions. Candidates should answer this in the specially formatted paper in the answer booklet. It was noticed that a significant number of candidates entered the answers in inappropriate places of the answer booklet.
3. Read each question carefully and understand the information given and the requirements clearly before attempting to answer. It may be necessary for the candidates to read the question more than once to ensure that the requirements are clearly understood.

This will help you to save valuable exam time by avoiding irrelevant and/or lengthy answers.

Candidates are given fifteen (15) minutes extra time to read and plan the answers.

Improve your handwriting and communication (language) skills. An examiner cannot award marks to an answer which he cannot read or understand.

I have repeatedly mentioned the above matters in my comments to the past exams. However, some candidates continue to disregard these comments.

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KE3(B) – Fundamentals of Law

September 2019

Examiner's Comments

SECTION 1

Question 1

The question covers a wide area included in the syllabus. Candidates are expected to choose the most appropriate answer/answers out of the given statements. Study material provided by the CA adequately covers the expected answers. Candidates who prepared well were able to score marks over 10 without difficulty. Studying past questions and answers will help the students to answer similar questions.

Question 2

Candidates are required to provide short answers lengthy answers are not expected. Study material provided by the CA adequately covers the expected answers.

Candidates should read the questions and understand what the examiner is testing on before start answering.

Questions are straight forward and easy.

Question 3

- (a) This question has to be discussed in relation to the given scenario. This scenario relates to "reality of contract" "K" has entered into the contract under the mistaken belief that he was entering into the contract to mortgage his car. This is a mistake as to the nature of the contract. Such situations make the contract void. Hence not binding on 'K'. As per the facts given there was no negligence on "K"s part in signing the wrong document.

Examiner expects candidates to touch on these points. Candidates should get used to applying the given scenario to the underlying legal principles/decisions of the relevant cases. This is adequately dealt within the study material provided by the CA. A similar incident was discussed in 'Foster v Mackinnon' case.

- (b) The question requires candidates to discuss the given scenario with reference to a decided case whether the parties can be discharged from their obligations under the contract.

Examiner is testing these underlying legal principles namely;

1. The incident was beyond the control of the parties to the contract.
2. The incident occurred due to no fault of the parties to the contract.
3. When the above factors are present, there is frustration of the contract.
4. When there is frustration parties can be discharged from their obligations under the contract.

Incident similar to the given scenario was discussed in “Taylor v Caldwell” case.

Study material provided by the CA adequately covers this subject area.

Question 4

- (a) Candidates are expected to discuss the given scenario with reference to a decided case. This is in relation to sale of goods by an auction and the title in the goods passes to the buyer at the fall of the hammer.

Accordingly, title in the boat passed to “T” at the fall of the hammer. By the time, the agreement was signed, the title/ownership had already been transferred to “T”. Therefore, the agreement has no effect in relation to the transfer of the title.

Therefore, ‘J’s claim that the title of the boat is still with him is not correct.

A similar incident to that of the given scenario was discussed in Dennant v Skinner case.

Study material provided by the CA adequately covers this subject area.

- (b) As indicated in the question, examiner wanted this to be discussed under the Law of Agency.

In the given scenario, ‘S’ had been impliedly authorized by the Board to act as MD of SPL. Therefore, agent principal relationship had been created between ‘S’ and SPL.

An agent can bind the principal into a contract entered into by the agent under the Law of Agency.

Therefore, the contract entered into by ‘S’ with ‘T’ is valid and binding on ‘SPL’.

A similar incident to that of the given scenario was discussed in ‘Hely-Hutchinson v Brayhead Ltd’ case.

Study material provided by the CA adequately covers this subject area.

KE4 – Processes, Assurance & Ethics

September 2019

Examiner's Comments

General comments

This examination consisted of three sections. Section 1 contained one question with 10 multiple choice questions and one question with 10 short answer questions. Section 2 contained four questions of 10 marks each and only 3 questions were required to be answered. Section 3 contained one question carrying 20 marks.

As in the previous examination sessions, to score well in the exam, candidates needed to demonstrate good theoretical knowledge. In this exam well, prepared candidates demonstrated an ability to use their knowledge to relate their answers to the question's requirement. Generally, candidates demonstrated good time management and addressed the required number of questions. However, some candidates appeared to have lost focus on the question's requirement and produced irrelevant answers. There were some candidates who demonstrated poor theoretical knowledge in business processes and assurance and the concept of internal controls.

It was observed that the poor exam performance was due to the fact that candidates were unable to comprehend the question's requirement. The examiner expected the candidate to be familiar with certain learning outcomes which were given in the study text. Most of the candidates had written general answers which were not adequate for professional exams.

Specific Comments

Question 01

It was observed that the average performance was not satisfactory in this question. Marks obtained for each part of the question were as follows;

- 1.1 65% business processes
- 1.2 80% risk management
- 1.3 55% internal control
- 1.4 73% procurement process
- 1.5 90% cash management
- 1.6 90% inventory management
- 1.7 60% sales procedure
- 1.8 75% internal control
- 1.9 30% audit of financial statements
- 1.10 26% audit procedures

It was observed that the knowledge on general principles governing an audit were poor of many candidates and also many candidates did not have a clear idea about audit procedures.

Question 02

In this question the candidates were required to write short answers for which 3 marks each were allocated. Some candidates had written lengthy answers ignoring the marks allocated for each part of the question. The overall performance of the candidates was average. Some candidates demonstrated a lack of understanding of basic principles and concepts in auditing. It is advisable that they study the text book and acquire the knowledge. The examiner expected certain learning outcomes which are indicated in the study text which is based on SLAuS, SLAS, and the code of ethics. Most of the points in the answers to the questions are readily available in the study text. Therefore, any answer given based on general knowledge is not adequate. The candidates are expected to demonstrate sound technical knowledge on the theory and use of technical terms.

- 2.1 This part of the question relates to the external strategic risks and internal operational risks in relation with financial risks. Some candidates had understood the question's requirement and answered well. There were some candidates who failed to understand the question's requirement and wasted time in explaining external risks in general business environment such as PEST. Some candidates have failed to address the internal operational risks in relation to financial risks. Time was wasted by candidates in explaining internal risks ignoring the financial risks. They just wrote the risks associated with operations. Many candidates had written that there is a risk due to frauds and corruption in internal operations.
- 2.2 It was required to identify the correct element of an internal control system in the given scenario. Many candidates without reading the question and planning the answer have written communication as the relevant element of internal control, some candidates who lacked the technical knowledge wrote code of ethics as the correct element of internal control for part a. The examiner expected the candidates to apply the knowledge on the COSO framework. Majority have identified the relevant element of internal control for the other two parts.
- 2.3 In this part of the question the examiner expected the candidates to state conditions under which risk acceptance will be a preferred response to a risk by an organization. Some candidates failed to comprehend the question's requirement and wrote the impact on monetary terms such as goodwill reputation etc., Some candidates without reading the question properly, wrote the following irrelevant points;
- Ways of responding to risks such as risk avoidance, risk transfer and risk reduction
 - Risk identification such as low impact, high impact, low probability high impact
- 2.4 In this part of the question it was expected to test the knowledge of candidates on the responsibilities of the management in relation to internal controls. Some candidates wrote the responsibilities of the board of directors in spite of the question itself indicating that the board of directors delegate certain responsibilities to the management. Some candidates who had not understood the question's requirement had written supervision of staff, submission of annual accounts, holding meetings as the management responsibilities in relation to internal control.
- 2.5 In this part of the question the examiner expected to test the knowledge of candidates on the procurement procedure. It was required to state reasons why the purchasing department may be required to obtain a number of quotations from different suppliers. Most of the candidates stated general answers as to obtain goods with high quality, lesser price. Some candidates wrote to check the financial ability, ethical behavior, operational ability which were not relevant to the question.

- 2.6 This part of the question was on inherent limitations in internal controls. It was required to identify the particular inherent limitations in the given scenario. The candidates who had not read the question properly wrote lengthy answers detailing controls to overcome the weaknesses given in the scenario.
- 2.7 In this part of the question it was required to state one example each for authorization and approval controls, and arithmetical and accounting controls in relation to property plant and equipment. Many candidates stated correctly that PPE purchases and disposals should be authorized by a responsible person, however they failed to state that authorization limits at each hierarchical level should be given for authorization and approval. It was noted that most of the candidates failed to distinguish the difference between authority and approval. Some candidates wrote lengthy answers explaining the CAPEX budget without highlighting the approval process. As to the arithmetical and accounting controls many candidates mentioned recording of PPE purchases and disposals in the general ledger and calculating depreciation as a control, demonstrating poor technical knowledge.
- 2.8 In this part of the question it was required to state the relationship between morality and values. The performance for this part of the question was average. Some candidates due to lack of subject knowledge mentioned that morality is based on the law. Most of the candidates failed to connect the relationship between morality and values.
- 2.9 In this part of the question, the examiner expected the candidates to explain the importance of an auditor's ethical behavior to protect public interest. Most of the candidates who lacked the subject knowledge mentioned about fundamental principles of professional ethics such as integrity, objectivity, professional competence and due care. Most of the candidates wrote the importance of following professional ethics but failed to address how it will help the public interest.
- 2.10 In this part it was required to explain three factors that influence the reliability of audit evidence. Some candidates who had not understood the question wrote, recalculation of performance, relevance size business activity, relevance and completeness. However the averaged performance in this question was satisfactory.
- Part a; This question was on business risks associated with the payroll process. The candidates were expected to explain losses resulting from failures in the internal processes. Some candidates were able to describe risks from a business perspective although a significant number discussed audit risks and hence did not address the requirement. Many candidates failed to state that a sound payroll system would ensure that under-payments and overpayments of salaries could be avoided. The candidates were expected to address two areas in the given scenario, which are the risks of an incorrect payroll calculation and the risks of receiving incorrect information for payroll preparation. Although a majority had identified two areas they failed to focus on the business risks. Most of the candidates identified maintaining manual records of employees' daily attendance and overtime hours worked as a weakness in the system but they failed to address the risks in the payroll process. Most of the candidates wrote that there will be collusion, dummy names, manipulation of attendance records without addressing how it will affect the payroll process. The candidate were expected to give a clear description of the business risks in detail revealing relevant facts.

Many candidates had identified that there is a risk of maintaining of details of, recruits, resignations and salaries of employees by the HR Department without sending a copy of the details to the salaries branch. Most candidates wasted time in explaining the introduction of a system without explaining the risk. Some had written that, as there is no segregation of duties the HR department can change the details of employees. Some candidates have written control procedures to overcome the issues given in the scenario such as, having segregation of duties, supervision over overtime work, introducing finger print machines, swipe machines etc.

Part b; It was required to discuss how NFL can effectively manage its cash surplus. Many candidates without understanding the question's requirement wasted time in writing and explaining the risks of having surplus cash without generating income. Most candidates just listed the investments ignoring the action verb. Many failed to address the risks in investing in stocks and shares. There were candidates who stated investing in properties and other assets which are not an investment of surplus cash. Some had linked with "part a" and wrote in order to overcome the issues arising out of the risks the surplus cash should be invested in a finger print machine, it indicated that they had written general answers without planning the answer. Many candidates failed to state that the management does not have knowledge in portfolio management and in other lower risk investment opportunities they should invest in.

Question 04

Part a; This part of the question was on design and operating effectiveness of internal controls. It was required to identify the deficiencies and related implications of the deficiencies in the given scenario. Most of the candidates managed to score satisfactory marks for this part of the question. Some candidates although they identified the deficiencies, due to lack of subject knowledge wrote incorrect implications such as corruption, fraud, manipulation, management override, etc.

Part b This part of the question was on professional ethics and the examiner expected the candidates to explain conflict of interest and acceptance of gifts in relation to ethical behavior of an accountant. As in the previous examinations the candidates demonstrated poor knowledge in the code of ethics. Most of the candidates failed to address that the principle of conflict of interest occurs when they have two different loyalties. Most of the candidates wrote conflict of interest arises due to self-interest but failed to explain how it conflicts with the interests of the employer. Some candidates referred to part (a) of the question and tried to address the accountants' risk in each of the deficiencies. Some candidates who lacked the subject knowledge wrote that is a violation of professional ethics without identifying the threat and described fundamental principles of professional ethics. Most of the candidates wrote accepting a gift is a violation of professional ethics without explaining how it will violate ethics.

Question 05

- Part a. This part of the question was on business risks. It was required to identify business risks relating to each of the points in the given scenario. Some candidates who had not understood the requirements of the question, listed business risks such as operational risks, financial risks against each of the points given in the question. Many candidates failed to understand the terms “business risk” which is the possibility that the results will differ from what was expected and that will affect the ability of the organization to achieve its objectives mainly due to failure in control over operations. They should understand the proper control procedures that should be in operation in order to identify the risks. Many candidates who lacked the ability to apply theoretical knowledge to a practical situation had given general answers as theft, manipulation, misuse of vehicles referring to each of the points given in the question. Some who had not understood the requirements of the question had written suggestions to improve the situation.
- Part b. This part tested the three party relationship in relation to assurance engagements. Most of the candidates were able to gather satisfactory marks. Some candidates who lacked the subject knowledge failed to identify the three parties and wrote the bank, Fine Furniture (Pvt) Ltd and Arthur and Co., the candidates are advised that they should use technical terms and that general answers are not acceptable.

Question 06

- Part a; In this part of the question it was required to explain the two components of “appropriate” audit evidence. Many candidates wrote the components without explaining it. Some candidates explained without comprehending the question and wrote sufficiency and appropriateness instead of stating relevance and reliability.
- Part b;1; It was expected to discuss the statement made by Kalana that by obtaining a higher quality of audit evidence the audit risk can always be minimized. Many candidates just disagreed with the statement without following the action verb which is to explain it. There were some candidates who did not have the subject knowledge and agreed with the statement. Some candidates failed to address that the quality of audit evidence directly affects the level of risk in the area being audited.
- Part b 2; it was required to identify the type of audit procedure to be performed on expenses. Majority has scored satisfactory marks. There were some who lacked the technical knowledge identified the incorrect audit procedure. Although the examiner expected the candidates to analyze the issues given and identify relevant audit procedure, most of the candidates listed out the relevant audit procedure.

Question 07

- Part a; In this part of the question the examiner expected the candidates to identify the weaknesses in the cash process of the given scenario. The examiner had provided all the control weaknesses in the scenario. It was expected only to identify the weaknesses relating to the cash processes. A majority of the candidates failed to identify relevant weaknesses relating to the cash process. Most of the candidates were misguided by the information given in the scenario and wrote the weaknesses in the sales process and weaknesses in stock control. Many candidates identified that issuing manual receipts as a weakness in the cash process which was not given consideration by the examiner as there were several weaknesses in the cash process in the given scenario.

Part b; In this part of the question candidates were required to recognize the risks arising from each of the risks identified in part (a). The candidates who identified the weaknesses in the POS system, sales system and inventory management had written irrelevant risks. Some candidates had identified the weaknesses in the cash process but due to a lack of subject knowledge they failed to distinguish risks from weaknesses and wrote control procedures to address the weakness.

Part c; In this part of the question candidates were required to discuss the risks relating to the corporate sales process in the given scenario. According to the scenario corporate sales are done on credit basis and all customers get a credit period of one month. The examiner expected the candidates to address customer evaluations with regard to order acceptance, invoicing, and the delivery of goods. Most of the candidates reproduced the facts given in the question. Some candidates without understanding the requirements of the question had ignored the sales process and had written issues relating to marketing and inventory management. Some candidates failed to comprehend the question and listed out the categories of risks as operational risk, financial risks and market risk etc. Some candidates failed to comprehend the question which was to identify the risk, state the weaknesses and steps to overcome the deficiencies in the processes.

- Delay in delivery due to transport issues - should maintain a good fleet
- Get a credit period of one month , therefore should give credit, based on the credit limit
- Inventory records are not maintained therefore should maintain inventory records

Part d; The candidates were expected to identify the control measures to address the risks identified in part(c). The candidates who identified the relevant risks in the sales process wrote relevant control measures.

Part e; In this part of the question the candidates were required to explain the measures to be taken to improve the recovery of debts. A majority of the candidates had written relevant answers and managed to score marks.

Conclusion

The overall impression is that a vast number of candidates were unprepared for the exam and had not put enough effort into learning many of the basic concepts and processes. Many candidates were able to identify some relevant issues in the given scenarios but not all could adequately explain and discuss their points in sufficient depth. Candidates must ensure that they answer the specific requirements of the question related to the scenario and give focused answers.

KE5 – Commercial Insight for Management

September 2019

Examiner's Comments

Question 1

Overall performance of the candidates was good for this Multiple Choice Questions (MCQ) which carry 20 marks. The MCQs were based on Mission statement, Functions of Management, Implicit costs, Reasons for shifting of the demand curve to the left, Oligopoly, Allocative efficiency, Capital markets, Outsourcing, Market segments and Organizational change.

Specific comments

Most of the students could not choose correct answers for Q. No. 1.7 & 1.10. A fair number of students have selected correct answers for 1.3, 1.4 & 1.9.

General Comments

Overall performance for the question was of an acceptable level. Question consists of ten parts, each carries 3 marks, totaling 30 marks and requires students to;

- 2.1. List 03 tangible and 03 intangible product attributes.
- 2.2. Explain how efficiency and effectiveness would contribute in achieving the desired output from the input.
- 2.3. List 3 economic systems and state who makes decisions on resource allocation.
- 2.4. (a) State one Critical Success Factor (CSF) for an Organization in hotel industry.
- 2.4. (b) State two appropriate Key Performance Indicators (KPIs) that Management can use to monitor and control the progress of achieving the CSF.
- 2.5. (a) Explain the difference between Cardinal approach and Ordinal approach of utility.
- 2.5. (b) Of the two approaches, state which approach is better in explaining consumer behaviour.
- 2.6. State two steps to be taken to cope with a dynamic and complex environment
- 2.7. State two measures that a Government could take to rectify its current A/C deficit.
- 2.8. Explain 3 reasons why Government taxes and spending decisions are significant to households and businesses.
- 2.9. Identify 3 barriers to effective planning.
- 2.10. Explain 2 ways of capacity planning.

Question 2

Specific comments

- 2.1. Tangible attributes are availability, delivery, performance, price, design, packaging etc. Intangible attributes are image, perceived value etc. A few identified 'Price' as an intangible attribute rather than tangible. Some listed production cost as an intangible attribute for which no marks awarded.
- 2.2. Efficiency means getting the most output from the least input and effectiveness means doing the work which will results in achieving the goals. Management process strives for low resource waste and high goal attainment. Most of the students could provide the correct answer. Some just mentioned efficiency means doing things right and effectiveness means doing right things for which full marks were not awarded.
- 2.3. Some listed correctly economic systems as centrally planned economy, free market economy and Mixed economy. But only a few stated that resource allocation decision maker correctly for each system. Some identified decisions maker for free market economy as 'Executive board' rather than market forces of demand and supply. A few mentioned that only the Government will allocate resources in a mixed economy rather than both Government and the market forces being identified as the decision makers.
- 2.4. Some stated either 'Quality of the foods' or high level of customer service 'as CSF' which is acceptable and marks awarded accordingly. A few stated CSF as 'identification of issues and evaluation of alternatives and making decisions' which were not marked correct. Some wrongly identified 'making hotel attractive for foreign tourists'. Some could correctly identify CSF but not the related KPI. 'Provision of quality foods and the productivity of the service' were identified as CSF and KPI respectively by some students.
- 2.5. Satisfaction the customer derives from the consumption of a good could be measured absolutely according to cardinal utility approach, whereas the satisfaction cannot be measured absolutely but could be ranked to choose the best one. According to some, ordinal utility is preferred in explaining the consumer behavior. Some have provided the difference between the two approaches but identified cardinal approach as the better one in explaining the consumer behavior rather than ordinal approach.
- 2.6. Flexibility of business planning and awareness of the risks inherent in environmental conditions are the two steps that a business organization can take to face the dynamic and complex environment. Some mentioned that if employees are motivated and if advanced technology is adopted, an Organization could face dynamic environment which were not clear enough to award full marks.
- 2.7. Examiner expected two policies namely, Expenditure Switching Policy and Expenditure Reducing Policy. Some incorrectly stated that Government should stop depreciation of the currency.
- 2.8. Increase in Govt. expenditure and increase in taxation will boost aggregate demand and reduce the disposable income respectively and vice versa. Some stated that in order to make the economy efficient, Govt. taxes and spending decisions are significant to households and businesses without adequate explanations being provided.

- 2.9. Unknown future, Fear, Lack of creativity, Negativity, Insufficient resources are some of barriers to effective planning. Some mentioned practical difficulties in planning without those difficulties being specified.
- 2.10. Some just listed out different ways of planning for capacity without being explained. i.e. A level capacity plan, A chase demand plan, A demand manifest plan and a mix of the above 3 types of plans. A few was inclined to the view that using resources is a way of planning for capacity for which marks were not allocated.

Question 3

General comments

Overall performance for this question was not satisfactory. The question carries 10 marks and requires students to;

- (a) Explain why high rate of price inflation is considered harmful in relation to;
 - (i) Balance of payment and
 - (ii) Economic growth.
- (b) State 3 negative consequences of unemployment
- (c) Explain 2 policies that a Government can employ to create jobs/reduce unemployment.

Specific comments

- (a) Higher price of domestic goods will reduce demand for exports and increase demand for imports, as per some students who scored marks allocated. A fair number of students explained correctly that higher inflation will slow down the economic growth. A few mentioned that higher inflation rate will decrease aggregate supply and increase aggregate demand without being explained.
- (b) Negative consequences of unemployment are loss of output, gradual loss of human skills, increasing inequalities in the distribution of income, social costs and increasing burden of welfare payments according to some students who earned marks allocated. Some repeated same point differently, e.g.: loss of gross domestic production and loss of production. A few stated that there will be no full employment for which no marks were awarded.
- (c) Training labour force, introduction of new technology, encouraging research and development, providing assistance for self-employment and abolishing minimum wage regulations are key policy measures according to some students who scored allocated marks. Some incorrectly explained that providing appointment to unemployed youths on temporary basis will create jobs. Some stated that Government needs to change the monetary and fiscal policies to create employment without adequate explanations being given.

Question 4

General Comments

Overall performance for the question was not satisfactory. The question carries 10 marks and requires candidates to;

- (a) List three hygiene factors and three motivator factors according to Herzberg's Two-Factor Theory.
- (b) State four advantages of having an effective communications system
- (c) Identify three steps that a company would take to resolve misunderstandings among its employees

Specific comments

- (a) Company policy and administration, salary, quality of supervision, interpersonal relations, working conditions, job security etc., are hygiene factors and status, advancement, recognition, responsibility, challenging work, sense of achievement, growth on the job are motivator factors as per some students who earned allocated marks. Some have listed salary, bonus, incentive payments as motivator factors rather than hygiene factors. Some listed employee training and development, job rotation under hygiene factors which were not marked correct.
- (b) Communication is required for planning, co-ordination, control, managerial performance, best decision making and creative idea -implementation as per some students who earned allocated marks. A fair number of students came out with general answers. Eg. 'Communication will expedite organization activities', 'Communication will reduce the cost of obtaining information', for which marks were not awarded.
- (c) Confirmation of the message, training to express clearly and precisely, using simplified language and creating active listening culture are main steps to clear up misunderstandings in the communication among employees. Most of the students provided modes in order to build up interpersonal trusts among employees. Eg. 'Organizing social events, organizing excursion for employees'. Some misunderstood the question and answered from the view point of external customer.

Question 5

General comments

Overall performance for this question was fair. The question carries 10 marks and requires students to

- (a) Calculate the marginal product per employee using the data given in the question.
- (b) Explain the statement 'Production curves and Cost curves are mirror images of each other' with the aid of diagrams.
- (c) Explain with the aid of a diagram how a company determines its profit maximizing output level in the short run.

Specific comments

- (a) Most of the students have correctly calculated marginal product per employee as 12, 11, 10 & 9 by each employee. A few correctly calculated marginal product but stated just against worker 1 rather than in between worker 1&2 and total product 9&21.
- (b) Some correctly have drawn average product curve and average cost curve and explained them. i.e. Rising productive efficiency leads to falling unit costs and diminishing productive efficiency leads to rising unit costs. Even though some have correctly drawn the curves they could not explain the reasons as to why the curves take respective shapes. i.e. due to law of diminishing marginal returns.
- (c) Profit maximization occurs when $MR=MC$ and when total revenue exceeds total costs by the greatest amount according to the marginal approach and the total approach respectively. Most of the students have explained correcting only the marginal approach. A few have drawn the diagram relevant to total approach to explain the marginal approach which were not marked correct.

Question 6

General comments

Overall performance for the question was satisfactory. The question carries 10 marks and requires students to

- (a) State 3 advantages of having performance incentive scheme.
- (b) List 3 Non-cash benefits to staff
- (c) Discuss substitution effect and income effect of an increase in the wage rate using labour leisure model.

Specific comments

- (a)- Improvement of performance, lesser cost to the organization and retention of high quality employees are major advantages. Some have provided indirect answers. E.g. “minimize wastage of resource, satisfied staff” etc. for which only a few marks were awarded. A few incorrectly mentioned that there will be lesser productivity due to incentive scheme.
- (b)- Allowing flexible hours, provision of training and virtual office facilities, career progression are main non-cash benefits as per some students who earned allocated marks. Some incorrectly stated that provision of promotions, over time payments, provision of insurance covers meals, provision of organization’s products at lesser price as non cash benefits.
- (c)- Substitution of work for leisure is substitution effect (SE) when wage-rate is increased. Higher wage rate increases the individuals’ real income which results in spending more time for leisure and working lesser period of time. Most of the students could not answer correctly this part of the question, since “Leisure” could not be thought of as a good in explaining substitution effect and income effect. They were unable to relate the substitution effect and Income effect to the labour Leisure model.

Question 7

General comments

Overall performance for this question was good. The question carries 20 marks and requires students, in relation to the scenario given, to

- (a) Identify two factors that can determine demand and supply functions of the sugar industry in country Y except the price.
- (b)
 - (i) Calculate equilibrium price and quantity.
 - (ii) Calculate point price elasticity of demand
- (c) Calculate total cost of sugar imports to the Government of country Y.
- (d)
 - (i) Compute the total cost of this price support scheme.
 - (ii) Explain two economic implications of introducing a guaranteed price of Y\$ 40 to per kg.
- (e)
 - (i) Explain three key factors an organization should look at when undertaking a competitor analysis.
 - (ii) List two sources from where information for strategic uses can be gathered in terms of competitor response profiles.

Specific comments

- (a) Income level of consumers, price level of other substitutes of Sugar in country Y, increase in population are main factors affecting demand function, level of wages of the employees, price of inputs, weather conditions, changes in technology are main factors affecting supply function as per most of the students who scored full marks. Answers of a few students were not clear enough to award marks. E.g main food items consumed by middle income earners will affect the demand function. Highly remunerative base price will have bearing on supply function as per a few students. A few listed out factors affecting demand function and supply function without being separately identified.
- (b)
 - (i) Almost all the candidates had arrived at correctly the equilibrium price and the equilibrium quantity as Y\$ 30 and 80 Kg respectively. A few made arithmetic mistakes in arriving at equilibrium quantity in particular, as 40kg instead of 80 kgs.
 - (ii) Some have arrived at point price elasticity of demand as- 1.5 correctly. A few arrived at point elasticity as 0.667 for which no marks were awarded Some have written down the formula correctly but ended up with wrong answer.
- (c) Some candidates calculated and arrived at Y\$1,500 as import cost correctly. Some arrived at Y\$750 as cost of imports for which no marks were awarded. Some were unable to find out the import quantity and ended up with wrong answers.
- (d)
 - (i) A fair number of students arrived at Y\$4,800 as the total cost of the price support scheme to Government. Some have taken excess supply as 120kg but price as Y\$20 and ended up with wrong answer. Whereas some others considered excess supply as 160kg and price as Y\$40 and arrived at Y\$6,410 as cost of the scheme to the Government for which no marks were awarded.
 - (ii) Some correctly explained excess supply and higher producer surplus compared to consumer surplus as economic implications of the introduction of guaranteed price of Y\$40. Most of the students explained excess supply as an implication. Some just mentioned that there will be less demand as a result of introduction of guaranteed price. But they could not make a comparison of lesser demand with the quality supplied.

- (e) (i) Competitor's goals, competitors assumptions about the industry, competitor's business strategy and competitor capabilities are key factors to be considered when undertaking competitor analysis as per some candidates who scored allocated marks. Some candidates repeated the same point in different ways. E.g. competitors' capability, competitive advantage.
- (ii) According to most of the candidates, information for strategic uses could be gathered from competitor financial statements, information from common customers and suppliers, former employees, job advertisements, for which marks were awarded. A few stated both cash flow statement and income statement instead of financial statements.