

**Audit and Assurance – December 2013**

**Question No.01**

Majority of the candidates have properly understood the questions in part (a), (b) (c) and (d) and answered fairly well and obtained more than 50% out of 35 marks. These parts have been attempted by almost all the candidates and found to be somewhat easy for many and contributed heavily to their total marks.

The quality of the answers produced by majority of them for parts (c) and (d) were fairly good and they were able to explain quite correctly the key risk areas. They were also able to identify main audit procedures that should be included in the audit plan in order to address the risk areas identified in part (c) above.

Around 30% of the candidates displayed a good knowledge on SLFRS/LKAS in answering part (c) and those who produced good answers for part (d) displayed sound knowledge on application of SLAS in general. Some common deficiencies are observed in the following are errors.

Part (a) - Some candidates have not understood this part of the question properly and instead of explaining suitable bases and criteria for selecting branches for audit purposes, they have written about tests of control and substantive procedures in detail.

- The quality of the answers of some candidates is far from satisfactory.

- Some candidates discussed about sampling techniques in detail while some others mentioned performance indicators but were not able to identify a single indicator.

Part (b) - Some candidates without properly understating the question wrote about increasing the substantive audit procedures stating that deviations in 3 cases out of 25 instances tested.

They failed to mention the following matters that should be considered before they can take a decision to reduce substantive procedures.

- Reasons for deviations.
- Whether extended tests prove satisfactory.
- Whether compensating controls exist.

Thus, the quality of answers of those who did not understand this part of the question was poor.

Parts (c) & (d) Some candidates without properly reading and understanding the information provided to identify key audit risk areas, wrote in general about inherent risk, control risk and detection risk.

Large number of candidates though made a fair attempt at identifying areas of audit risk often they failed to give any explanation.

## **Question No. 02**

Most of the candidates properly understood questions in part (a), (b) and (d) and the quality of answers are fairly good in about 40% of the answers. Majority of them (about 60%) have obtained full marks for part A-(a) and A-(b). They displayed a good knowledge of the subject matter. However, answers to part (a) were not presented in the form of questionnaire. Instead, they explained various sources from which information regarding the competence and objectivity can be obtained.

Some candidates do not appear to have understood the question in part (c) and were not able to identify the fact that company does not have the freehold right over the building. They mentioned the reasons such as:

Market value will vary, market value can be overstated, market value cannot be reliable, purpose is not to sell, for not accepting market value approach etc. are not very relevant.

Although the candidates knew that the asset is under an operating lease, they overlooked the fact that it will use only for 10 years and ability to earn rent income will be limited only for that period.

Most of the candidates have understood what is expected in the questions in part A(a) and A(b). However, they could not earn more than 5 marks out of 10 marks allotted as the quality of the answer is not satisfactory.

Following are some of the common errors observed.

- Many candidates could not identify the reasons for qualification and the effect on the financial statements.
- Although part (a) deals with the audit report for 2013, some candidates discussed about the audit report of 2012 and modification thereof.
- Some candidates produced opinion paragraph rather than the basis of opinion paragraph.
- Some candidates displayed their unfamiliarity with the SLAuS-705 dealing with modification to the opinion in audit report.

Following are among the irrelevant reasons attributed for the basis for qualification.

- We were unable to verify the value of inventory that has been disposed in January 2012.
- We were appointed as auditors during the year 2013. Therefore we were unable to observe the counting of physical inventories at the beginning of that period or to satisfy ourselves concerning inventories.

A good number of candidates referred to the previous auditors in another matter paragraph which is not required.

- Some candidates just copied the reporting format from the Auditing Standard without any reference to the facts in given scenario.

For part (B) (b), large number of candidates though disagreed with the management's view, they could not give the reasons, i.e. possible effect of the unresolved matter on the comparability of the current and corresponding figures. Most of them have given incorrect reasons such as: incorrect opening balances in 2014, changing accounting policies effect of closing inventories in 2014 etc.

- Majority made mistakes in writing the basis of opinion paragraph, and identifying reasons for qualification both in 2013 and 2014.

### **Question No. 03**

There appears to be no difficulty in understanding the question on the majority. About 30% of the candidates who understood the question scored more than 10 marks out of 15 marks. The quality of the answers to part (a) and (b) was fairly good and obtained full marks.

Part (a) being straightforward, most of candidates have performed exceptionally well and earned full marks.

Part (b), large section of candidates fairly understood what is expected by the examiner and quite correctly identified the areas that have not been adequately verified and audit procedures to be recommended to perform.

Parts (c), considerable number of candidates do not appear to have read and without thinking deeply had answered generally. Although the question requires the steps to be taken by the audit manager, they have stated steps to be taken by the audit senior. Thus, hardly any candidates suggested to ensure what the senior has identified is correct or not by perusing the correspondence/agreement.

The following weaknesses were also observed\.

- Some candidates could not identify the characteristics of a company limited by guarantee.
- Some candidates described about limited liability company in general rather than a company limited by guarantee.
- Some candidates failed to identify areas that have not been adequately verified.
- Some candidates though identified areas not adequately verified correctly, they were not successful in suggesting required audit procedures to verify those identified areas.
- Although it was specifically sated in the question that working papers have adequate for the verification of fixed deposit and interest thereon, and expenses, receipt and deposit of funds, some candidates suggested audit procedure for verification of these items unnecessarily.

### **Question No. 04**

Part (a) of the question was properly understood and well answered by a large number of candidates. Many candidates presented their answers under the four main criteria as envisaged in the Auditing Standard while some others presented answers in an ad-hoc manner lacking the quality of answers.

Part (b) was not properly understood by quite a large number of candidates. Thus the quality of the answers is very low in many cases. Many candidates reproduced the content of the SALuS will not refer to the facts given in the question. Some candidates have performed exceptionally well having grasped the principles behind the work performance and work to be performed by internal auditor as given in part (b) of the question.

E.g. Study and evaluation of internal control system and documentation thereof detailed testing of sales and receipts testing of purchases and payments generally answers to part (a) were more relevant than those with respect to the part (b) because many failed to focus on the facts given in the question i.e. work performed and work stile to be started. Assessing the nature, scope and extent of testing, the quality of the work done and documentation results of the work done etc. are irrelevant in the case of purchases and payments as these work has not yet been started.

Some candidates could not differentiate between the words objective and objectivity and produced irrelevant answers.

### **Question No. 05**

Most of the candidates properly understood the question and identified correctly the Ethical and professional issues arising out of scenarios in part (a) and the circumstances where professional accountants can disclose confidential information.

Majority of them answered fairly well and obtained 7-8 marks out of 10 allotted. A good number of candidates earned full marks. Most of them seem to have extracted the answer from the relevant sections of the Code of Ethics and quality of the answers was found to be good. They displayed an in depth knowledge on the subject matter tested.

Part (a), some candidates could not identify the correct threat arising out of the issues raised in respect of WP PLC and PHAC PLC. For instance some have identified threat in WP PLC as familiarity threat instead of self-interest threat.

Some candidates though identified the threat correctly they failed to consider significance of the threat and the possible safeguards that could mitigate threat.

Some others did not mention as to how do the self -interest threat is created in part (a) (i) and how significance of the threat is determined in (a) (ii) so they could not earn full marks.

**Business Strategy and Knowledge Management – December 2013**

**Question No.01**

It is observed that poor performance shown by the candidates for the case study given in the question 01 is high and very few candidates obtained marks over 12 for the question.

Some candidates obtained ‘zero’ and less than 2 marks for the question.

It is noted that part (c) of the question straightaway from study pack and by going through additional reading, candidates must be able to find a suitable answers.

Summary is given below indicating the poor performance and the way how candidates spent their time without earning marks.

The irrelevant answers given by the candidates under each part of the question can be listed as follows.

**Part (a)**

Instead of propose factors candidates have given only the benefits of the alliance.

- Reduce the cost by foreign investors.
- Knowledge earned, share the risk.

Explaining those factors in details, candidates could earn only 1 mark out of 5 marks.

Emphasis outcomes are impacts.

- Employee may leave the company.
- Customer segment may get destroyed.

Part (b) answer is repeated to the part (a).

given the sky’s points and not the partner of alliance.

- Infrastructure that they have.
- Type and risks that they focused.

Some of candidates have listed down methods/ways of exemption instead of factors to be considered for global alliance

- Forward and backward integration.
- Try to merge with another local or international hotel.
- Introduce special packages and offer to attract more customers

Candidates have given lengthy descriptions which are not relevant for the answers and earned zero marks.

They have listed advantages and disadvantages of strategic alliances.

Followed different approaches by giving some points/concepts and for which only 1 mark earned

- e.g:
- benefits of global alliance (GA)
  - increase in profit after GA
  - increase in market shares.
  - ability to increase shareholder wealth.
  - reasons showing ability.

Common points which did not get any marks.

- Demand condition.
- Firm strategy and structure.
- Company resources & capabilities
- Relative industries.

Written the details about the company as details given in the question.

Written only a few points for part (a) and not answered the part (b) and (c)

### **Part (b)**

Most of the candidates have just mentioned the key word

### **Question No. 02**

Part (a) of the question is straightaway from study material and the theory part was answered by the candidates.

There are some candidates who are doubtful to answer the question have not given the correct answer and it seems they don't know Five Forces Theory.

Some of the irrelevant answers given for the part (a) are shown below and by describing these unwanted things candidates wasted their valuable time.

- Demand, supply, competition
- Strategy structure, factor condition
- Demand condition
- Explained demand theory

Part (b) of the question has not been clearly understood by majority of the candidates and provided average answers.

It is needed further reading of additional books to answer part (b) of the question and candidates shown poor knowledge on this.

How competitive advantages improve through CSFs, have not been explained. Subject knowledge relevant to the part (a) was good, knowledge of the part (b) was very poor..

### **Question No. 03**

Part (a) of the question is straightaway based on the additional reading whereas part (b) is relevant to the knowledge gathered by the candidates at previous examinations and re-used to apply it practically at this stage.

Candidates shown poor knowledge on the part (a) of the question while they have shown a fair knowledge on the part (b) of the question.

Some of the irrelevant answers given by the candidates are given below.

Some candidates have considered corporate leader as market leader and have given the corporate and business level leader strategies as the response, such as diversification, cost leadership, product development market development.

Students have described how to become the market leader.

Most of the answers are on general strategies not about the corrective adjustment.

They have only described the SWOT without proper evaluation the SWOT.

They have defined the SWOT in details.

Some candidates have given the SWOT without examples.

Some candidates have noted pest, BCG, five Forces as other option and not evaluated the SWOT.

Some of them have unattended the part (b).

They have discussed in details (a)  
Market penetration strategy  
Market development strategy  
Product development strategy  
Diversification strategy.

**Strategic Financial Management – December 2013**

**Question 1**

**1. What was good in answer?**

**Understanding the question**

Majority of candidates had understood part (a) and (b) of the question.

**Position (quality) of the answer**

Answers to part (a) & (b) were satisfactory.

**Answer relevant to the question**

Answers to Part (a) & (b) were relevant.

**Subject knowledge of the candidates**

Knowledge on areas tested in part (a) & (b) were satisfactory

**Planning (building) the answer**

Answers to part (a) & (b) were planned well.

**2. What was bad in answers?**

**Understanding the question**

Some candidates calculated realizable value / liquidation value of assets instead of exit cost. Most of the candidates were not understood part (c) of the question.

**Position(quality) of the answer**

Quality of the answers submitted for part (c) was poor. Report writing skills seem to be poor.

**Answer relevant to the question**

Most candidates were ignorance about the reporting format.

**Subject knowledge of the candidates**

Subject knowledge on part (c) unsatisfactory. Most do not know the importance of “planning exit strategy”.

**Planning the answer**

Need to be improved.



### **3. Common difficulties faced by the candidates**

- Unable to understand the requirement of the examiner.
- Unable to discuss the importance of “exit cost”
- Poor report writing abilities.
- Lack of knowledge on concepts such as value creation and organic growth.

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

- When calculating exit cost.
- When calculating value creation and organic growth.
- Ignore reporting format

## **Question 2**

### **1. What was good in answer?**

#### **Understanding the question**

Majority understood the question satisfactorily

#### **Position (quality) of the answer**

Quality of the answer was satisfactory.

#### **Answer relevant to the question**

Answers to part (a) were relevant

#### **Subject knowledge of the candidates**

Subject knowledge Satisfactory

#### **Planning (building) the answer**

Well planed

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

#### **Understanding the question**

Many candidates confused over the number of shares sold to Amani & Co, post IPO structure and amount raised by the shareholders. Also seems to be not understood the part (b) of the question.

#### **Position(quality) of the answer**

Theory part, need to be improved.

#### **Answer relevant to the question**

Candidates should practice how to link their knowledge to the scenario given in the question. Eg In part (b) Candidates written all about the dividend policies but not link to the question.

#### **Subject knowledge of the candidates**

Knowledge on share dilution concept and share market volatility need to be improved.

## **Planning the answer**

Answer for part (b) could have been planned better.

### **3. Common difficulties faced by the candidates**

- Lack of theoretical knowledge.
- Inability to match their knowledge to the question. ie. In part (b)
- Concept of public issue of shares and share dilution, not understood by some candidates

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

- When calculating the number of shares sold to Amani & Co
- When determining the post IPO structure
- When determining the amount raised by the shareholders by diluting their stake.

## **Question 3**

### **1. What was good in answer?**

#### **Understanding the question**

Some candidates understood the question.

#### **Position (quality) of the answer**

Some answers were satisfactory.

#### **Answer relevant to the question**

Some candidates tried their best to answer the question.

#### **Subject knowledge of the candidates**

Some candidates have basic knowledge on the areas tested.

#### **Planning (building) the answer**

Candidates have tried their best.

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

#### **Understanding the question**

Most candidates not understood the question.

#### **Position(quality) of the answer**

Quality of the answers submitted was below the average.

#### **Answer relevant to the question**

Most of the answers were not relevant to the question.

## **Subject knowledge of the candidates**

Not up to the expectation of the examiner

## **Planning the answer**

Need to be improved.

### **3. Common difficulties faced by the candidates**

- Unable to understand requirement of the examiner. (eg. part b & c)
- Lack of knowledge on the areas tested.
- Unable to answer part (a) of the question.
- Application of discounting factors and tax implications.
- Confused over leasing method.

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

- Not read the question properly before start solving it.
- Concept of discounted cash flows ignored by most of the candidates.
- Ignore the tax implications.
- Some were unable to select correct discounting factor.
- Some had calculated WACC
- Recommendations to part (c) , not considered “other relevant factors”

## **1. What was good in answer?**

### **Understanding the question**

Candidates understood the question to a satisfactory level. Specially part (b)

### **Position (quality) of the answer**

The answers of some candidates were satisfactory.

### **Answer relevant to the question**

Yes.

### **Subject knowledge of the candidates**

Some candidate had a fair knowledge.

### **Planning (building) the. answer**

The answer for part (a) had done satisfactorily.

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

### **Understanding the question**

Considerable number of students misunderstood the question.

## **Position(quality) of the answer**

Quality of the answers needs to be improved.

## **Answer relevant to the question**

There were many irrelevant answers for part (d)

## **Subject knowledge of the candidates**

Knowledge in terms of calculations such as variance, expected return, standard deviation and coefficient variation was poor.

## **Planning the answer**

Need to be improved.

## **2. Common difficulties faced by the candidates**

- Lack of theoretical knowledge in areas such as variance , expected return, standard deviation and coefficient variation.
- Majority of students confused the manner in which Rupee depreciation expressed in the question.
- Question (a) (ii) says “**if the** Rupee depreciated by 10% p.a.”. Therefore majority of students assumed Rupee depreciation not applicable to part (i) of the question.
- Unawareness of what is a mini Hydro power plant.

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

- Not read the question properly before start solving it.
- Consider equal annual installments instead of equal capital payment.
- Used annuity factors to calculate installment.
- For variance calculation probability was not used
- Entire 100% of machinery cost had been taken in to cash flow instead of 80%.
- Grace period of 1 year had been ignored.
- 1<sup>st</sup> year interest payment not shown as an out flow.
- Repayment period of US\$ loan considered as 4 years instead of 5 years
- US\$ loan repayment period had been taken from 5<sup>th</sup> year to 10<sup>th</sup> year instead of 2<sup>nd</sup> to 6<sup>th</sup> .
- Cash outflows of Rupees loan had been depreciated by 10% instead of depreciating US\$ and Euro.
- Part (d) was misunderstood as the “developer has to pay Tariff “
- Instead of advising Developer, advice was given to CEB.
- Option 1 and 2 were misinterpreted as OPTIONS coming under financial derivatives.

## **Question 5**

### **5. What was good in answer?**

#### **Understanding the question**

Majority of candidates had understood the question.

#### **Position (quality) of the answer**

Answers were satisfactory.

### **Answer relevant to the question**

Answers were relevant.

### **Subject knowledge of the candidates**

Knowledge on areas tested were satisfactory

### **Planning (building) the answer**

Satisfactory.

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

### **Understanding the question**

Most of the candidates not understood 2<sup>nd</sup> part of the part (a) .

### **Position(quality) of the answer**

Quality of the answers submitted for part (a)(ii) was poor.

### **Answer relevant to the question**

Answers for part (a) (ii) were not satisfactory.

### **Subject knowledge of the candidates**

Subject knowledge on part (a) unsatisfactory.

### **Planning the answer**

Need to be improved.

## **7. Common difficulties faced by the candidates**

- Unable to understand the requirement of the examiner.
- Unable to relate correlation and co efficient values to working capital.
- Lack of knowledge on concepts tested.

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

- Not read the question properly before start solving it.
- Answer in general terms without referring to the information given
- Written unnecessary lengthy answers. ( ie. Most not relevant to the question)
- When calculating lending and depositing rates.
- When calculating forward rate