KE1 – Financial Accounting & Reporting Fundamentals

September 2017

Examiner's comments

Question-wise comments

Question 01

MCQ 10 questions. Almost all of the students performed satisfactorily.

Question 02

10 parts from different areas of the syllabus – Compulsory – 30 marks

This section contained 10 sub questions in different topics and some of them contained a few calculations and required short or explanatory answers.

Part 2.1

Almost all the candidates had answered this section and most of the answers were incomplete.

(i) Shareholders – many had stated only about the return on investment and failed to state the importance of making investment decisions such as further investments and divestments.
(ii) In this section some of the candidates mentioned either the capability of repayment or interest payment.
(iii) Only a very few candidates indicated whether the organisation has computed the correct tax and settled without default.

Part 2.2

Expected to answer three reporting areas/information not required by adopting SLFRS for SMEs as against full SLRFS. Candidates could find the answer directly from study pack (page 658). It was observed that most of the candidates had not answered or answered incorrectly mentioning options granted by SLRFS for SMEs.

Part 2.3

This question was based on the conceptual framework for financial reporting. Candidates were required to state 3 characteristics of financial information presented in a true and fair manner. There were some irrelevant answers such as true and fair, consistency, comparability and some of the candidates mentioned only one or two characteristics.

Part 2.4

The knowledge on source documents was tested in this part in certain types of "events". Poor knowledge was displayed, certain candidates instead of the GRN mentioned "Dispatch Note", instead of the receipt mentioned the "cash receipt voucher". In part ii of the question some of the candidates answered from the supplier's point of view and not from the SPL point of view. Certain candidates had mentioned prime entry books such as the purchase Journal. It appears that some candidates have not understood the difference between "event" and "transaction".

Part 2.5

The knowledge of double entry was tested.

Certain candidates hadn't given the figures in the double entry,
   (i)   Some candidates have debited the electricity account instead of the Electricity payable
            (accrued) account.
   (ii)   Some candidates have ignored the credit purchase account and credited the Cash account.

Part 2.6

General understanding of advantages and disadvantages of computerised accounting packages was tested in this question.

More points were given by the candidates and some of them were not relevant in relation to an accounting package. Certain candidates listed the advantages and disadvantages without pointing under different headings requested.

Part 2.7

Knowledge on partnership accounting entries and special accounts related to partnerships were tested in this question.

Interest on loan and partners salary was computed for one year instead of for one month. Candidates had not carefully read the question.

Partner's loan has been credited to the capital account instead of the loan account.

Partner's salaries have been debited to the salary account instead of the partners salary account.

Part 2.8

Knowledge of basic accounting ratios was tested in this question.

Most of the candidates had not given the correct formula for the specific ratio calculation. Some of the candidates had computed the asset turnover as a percentage instead of times.

Part 2.9

The question was expected to test the knowledge of classification of liabilities as current and non-current. Some candidates had misunderstood the question and had stated the criteria to recognise a provision and not a current liability.

Part 2.10

Expected to know the definition of prior period errors and how to recognize it in the financial statements.

Most of the candidates had written the definition of prior period errors incorrectly. E.g.: "prior period errors are errors happened in prior periods".

Correction of prior period errors was also not done correctly in many instances. The need to restate the previous years' figures was not indicated. E.g.: It should be corrected prospectively or in the current period.

Question 03

Optional 10 marks

The purpose of the question was to test knowledge on Control Accounts and identification of specific discount (Trade & Cash) types.

First part of the question was answered well and candidates were able to score a reasonable amount marks from this section.

Most of the candidates failed to differentiate Trade & Cash discounts and the opposite explanation was incorrectly given and an important difference of not giving accounting entry for trade discount was not indicated. Some of the candidates considered trade discounts as credit transactions and cash discounts as cash transactions.

Question 04

Part (a) Restatement of Profits and Net Assets.
Part (b) Bank Reconciliation.

Optional 10 marks

The question was expected to test the correction of errors and bank reconciliations.

Almost all the candidates had answered this question and most of them had scored well.

Part (a)

Many candidates were confused on how to treat revenue expenditure and capital expenditure when restating profits and total assets.

Some candidates were confused about the impact on Net profit and Net assets when there is an overstatement in inventory.

Part (b)

Some candidates were confused with the treatment required in bank reconciliations when there are credit balances in the bank statement (Fav) and cash book (O/D). Therefore certain candidates had done the computations in the opposite manner.

Principle of adding unrealised cheques and deducting unpresented cheques, when the reconciliation is computed from the bank statement closing balance, was done incorrectly in the opposite manner.

Candidates are advised to present the answer giving reference to the respective working.

Question 05

Optional 10 marks

Tested knowledge on accounting of non-profit entities.

Part (a)

In preparation of the subscription account, many candidates failed to identify the subscription receivable at the beginning of the year, amount received in advance, and the amount to be written off correctly. This resulted in low marks.

Part (b)

Candidates were expected to prepare the Income and Expenditure account. In this situation it is required to prepare the bar trading account or compute the profit for the bar separately.

Some of the candidates included entries related to the bar trading account in the Income and Expenditure account without preparing the Bar Trading Account.

Subscription written off during the year was not charged to the income expenditure account.
Errors in calculation of depreciation for non-current assets, failure to calculate cost of sales in the bar trading account and failure to allocate the cost electricity between the bar and the sports club were observed.

Candidates are advised to present the answer giving reference to the respective working.

Question 06

Optional 10 marks

Cash flow statement

General Comment.

Being an optional question this was the least attempted question by the candidates. Though most of the candidates who attempted this question scored well, the following common mistakes were observed.

Specific Comments

1.   A considerable number of candidates who attempted have not identified the transactions under the correct activity.
     Ex: Some have categorized "proceeds from issue of shares" under investment activity instead of finance activity.

2.   Interest calculation (both P&L charge and the paid amount) was a common mistake made by candidates.

3.   A few candidates had deducted the depreciation amount from the net profit before tax instead of adding it back.

4.   A few candidates had incorrectly identified the working capital changes.
     Ex: Increase in inventory balance was identified as a cash inflow.

5.   Some candidates had identified the change in bank borrowings as a working capital change.

6.   Few candidates were unable to calculate the bank borrowing amount of Rs. 150,000.

Question 07

Preparation of Financial Statements for Publication – Compulsory – 20 marks

Common errors observed were as follows:

1.   The transfer of the depreciation of the revalued motor vehicle was incorrectly shown in the note for PPE by most of the candidates.

2.   The date of revaluation was ignored and the part of the motor vehicle depreciation was incorrect.

     The first 6 months depreciation was correctly computed and the second 6 months depreciation was incorrectly computed.

3.   The depreciation for the new computer was ignored by not adjusting for the addition made on 01/01/2017. Most of the candidates had not removed the depreciation element from the opening balance of furniture & office equipment and this led to incorrect depreciation calculations.

4. The other comprehensive income statement was partially incorrect due to not identifying the items that should be charged through the other comprehensive income statement. A large number of candidates made the principal error of not passing the double entries through other comprehensive income.

5. The fair value gain from investment of Rs. 250 was charged through the other comprehensive income whereas it should have been recognized as other income.

6. Most of the candidates have not correctly recorded the FVTPL investment Rs. 2750 under current assets. Only a few candidates had recorded it as "Fair Value through Profit or Loss" and the balance was recorded as 'Investments'.

7. The adjustment to inventory Rs.200 (written off to the NRV) was incorrect due to deducting Rs.1200 from the closing inventory.

8. The computation of Retirement Benefit Obligation by subtracting the payment made of Rs.360 during the year (670-360=310) and that resulted in the incorrect recognition of administration expenses.

9. Most of the candidates failed to calculate the income tax liability and tax expense for the year while considering the payment made during the year.

10. FVTPL investment and Retirement Benefit Obligation were incorrectly presented in the financial position. Most of the candidates had presented FVTPL under the Non-Current Assets and Retirement Benefit Obligation as a current liability.

11. Few candidates incorrectly recorded the dividend payment as an expense or recorded it under stated capital instead of retained earnings.

12. Most of the candidates have not presented workings properly and inaccurately inserted the values to the financial statements. Due to the inadequate workings or without proper reference, most of the candidates could not earn allocated marks for the respective sections. It is advisable to show even simple calculations as workings.

    Candidates are advised to present the answer giving reference to the respective working.

KE2 – Management Accounting Information

September 2017

Examiner's comments

Question-wise 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.	A	B	C	D
1.1	11	(39)	15	35
1.2	9	37	(45)	9
1.3	21	37	26	(16)
1.4	37	14	(44)	5
15	(63)	22	6	9
1.6	20	(38)	27	15
1.7	(10)	30	36	24
1.8	12	16	18	(54)
1.9	(12)	55	14	19
1.10	21	(35)	23	21

Correct answers are circled.

Question 02

Q.2.1. Fairly answered by many candidates. However, some had incorrectly calculated overhead absorption and selling and distribution cost.

Q.2.2., 2.7 and 2.8 Performance was poor with many candidates scoring low marks. It is evident that this type of questions was not worked out at the classroom/studies.

Q.2.3 Some candidates have applied incorrect formulae in their calculations of the variance. Many did not understand what is meant by the word 'variability' and had given irrelevant answers.

Q.2.4., 2.5 and 2.6
   Satisfactorily answered by majority of the candidates.

Q.2.9 Many had attempted to calculate the profit maximization price instead of the breakeven selling price.

Q.2.10 Some had given irrelevant answers indicating the difficulty in understanding the question.

Question 03

This is an **optional question for 10 marks** and consisted of three parts. It is based on a scenario relating to Century Packers (Pvt) Ltd (CPL) which is a third party packaging solutions business. It tests the knowledge of concepts related to normal distribution and decision making including standard error of proportion and Break Even Analysis.

Being an optional question, the candidates' preference level for this question was low compared to other questions. It was observed that a considerable number of candidates have answered only part (a) from those who opted for this question. The performance of the candidates who opted for this question was not satisfactory. Only a handful of candidates were able to score more than half of the marks allocated for the question.

Part (a)

It is required to **assess** the proportion of input bottles that could be expected within the sellable condition at a 95% confidence level.

Candidates were required to calculate the proportion of input become sellable in the sample and calculate the standard error of proportion. Then they had to apply the standard error of proportion at 95% of confidence level. A considerable number of candidates had successfully answered this part and earned substantial amount of marks allocated for this part.

Although this part was very simple and required only basic knowledge of standard error of proportion and confidence level, the following shortcomings / errors were observed in the answers.

- Certain candidates have used the formula for normal distribution incorrectly to calculate the standard error of proportion.
- Certain candidates have incorrectly used the formula for calculating "the standard error of the mean" instead of standard error of proportion.
- Several candidates have not applied the standard error of proportion to the 95% of confidence level although they have calculated the standard error of proportion correctly.
- Some candidates have applied "25" (the number of days per month) incorrectly for the size of the sample (n) instead of "400 items" which was the correct sample size given clearly in the question.
- Certain candidates have calculated the proportion of input become sellable in the sample correctly and have directly applied 400 which was the sample size to the 95% confidence level as =0.92 +/- 1.96*400 incorrectly without calculating the standard error of proportion. This was a completely incorrect approach.

Part (b)

As a whole, the performance for this part was unsatisfactory.

From part (i) of (b) it is required to **assess** the expected range of the daily sales value at the 95% of confidence level assuming **CPL** packs 100,000 bottles a day.

The following errors were observed during the evaluation;
- A considerable number of candidates have failed to apply the correctly calculated proportion of input bottles for part (a) to calculate the expected range of daily sales quantity for part (b)

(i). It is evidential that the candidates have not practiced how to use theoretical knowledge in the practical scenarios.

- Certain candidates have not multiplied the daily sales quantity from the value of charges (Sales Value) of Rs.10/- to calculate the daily sales value.

From part (ii) of (b) it is required to **assess** the expected range of the daily loss of sales (in quantity) due to defective bottles, monthly loss of revenue (in value) due to defective bottles and the additional monthly profits that could be generated with the recruitment of the new quality assurance executive at the 95% of confidence level assuming **CPL** packs 100,000 bottles a day.

The following errors were observed during the evaluation;

- Many candidates have used the formula for normal distribution incorrectly to calculate the standard error of proportion of defects.
- Certain candidates have incorrectly used the formula for calculating "the standard error of the mean" instead of standard error of proportion to calculate the standard error of proportion of defects.
- Certain candidates have made the arithmetical errors in subtracting the range of input bottles of sellable condition from 100 % to calculate the proportion of defects.
- Many have ignored the fact that the range calculated for the proportion of defects has to be multiplied from the 100,000 (number of bottles packed per day) to calculate the daily sales loss quantity.
- Certain candidates have failed to multiply the loss of sales value by the given 25 working days per month to calculate the monthly loss of revenue. Some have taken number of days as 30 days instead of 25 working days.
- A considerable number of candidates have failed to calculate the standard error of proportion after the involvement of the quality assurance executive. Some have used the formula for normal distribution and the standard error of the mean incorrectly to assess the standard error of proportion after the involvement of the quality assurance executive.
- Some candidates have not considered the savings in penalty and the cost increase due to the involvement of the quality assurance executive to assess the additional monthly profits that could be generated with the recruitment of the new quality assurance executive.

From part (c), it is required to **assess** the monthly break –even output level of the hair oil bottling section.

The following errors were observed during the evaluation;

- It was alarming to observe that certain candidates have applied completely irrelevant formulae to calculate break even quantity.
- A considerable number of candidates have not added the cost increase due to the involvement of the quality assurance executive to calculate the total fixed cost.
- Some candidates have divided the total fixed cost from the number of days to calculate fixed cost per day. This is totally an incorrect approach.
- Some of the candidates have divided the fixed cost incorrectly from the value of charges (sales Value) of Rs. 10/- instead of the contribution per unit.

The following may be helpful in enhancing the performance level of the candidates.

1. Read the question several times and answer only what is expected from the question.

2. Candidates should carefully understand the applicable theories / concepts applicable for the given scenario of the question. They should evaluate the given information and link them with the applicable theories /concepts carefully to derive the answer.
3. Be extra vigilant in computation to extract the correct details / figures to the answer script and avoid the arithmetical errors.
4. Focus on the Action Verb given in the question to provide the exact and appropriate answer.
5. By studying the theoretical context properly with applications and answering past question papers, practice questions you can improve the subject knowledge as well as the ability to write answers well.
6. Plan your answer properly and manage the time efficiently at the examination.

Question 04

Part (a)   Many had interpreted the requirement of the question as reasons for differences in variances between the two systems, whereas the examiner expects the identification of the variances that are different in the two systems.

Part (b)   Many have interpreted the requirements of this question to be calculation of total variances of material labour and overhead (3 variances), whereas examiners expect them to calculate all relevant sub variances.

Part (c)   Many had not done a reconciliation instead only a restatement of variances calculated in part (b).

Question 05

Performance poor with over 50% of the candidates either not attempting the question or scoring zero.

Some had taken the budgeted sales quantity and determination of the price quantity relationship. Some had attempted to use the formulae profit = TR – TC and wasted their time in calculating fixed cost. Some had made mistakes in solving the equations.

Some had calculated the loss of profit for part (b) as the difference between the revenues.

Question 06

Satisfactorily answered by many candidates.

Common mistakes made by candidates who failed to obtain good marks were;

- Opening stock quantity not considered for the calculation of production budget for October.
- Failure to draw up the purchase budget. Instead calculated the material purchases and creditors settlement based on production budget units.
- Cash sales and collections from debtors erroneously calculated.
- Incorrect calculation of fixed overhead.
- Depreciation adjustment ignored/incorrectly done.

Question 07

Instances where information given in the question was not correctly understood.

(i) Where the question stated that the cotton prices are mostly stable and 1,500 yards were purchased recently for Rs. 675,000, some candidates hadn't understood that the information was provided to calculate the cotton price/yard and use that to calculate the DM cost. Instead, they had thought that the DM cost was Rs. 675,000.

(ii) Some candidates had thought that 150 man hours was the requirement for the entire production of 40,000 units whereas 150 man hours were required for a batch of 1,000 units. E.g. (i) calculation of direct labour cost using 150 hours at the rate of Rs. 125 and obtaining a DL cost of Rs. 18,750 in part (a)
(ii) hiring 150 hours as the total hours in calculating the opportunity cost in part b (i).

Instances where the requirements from the candidates were not understood.

In part (c) (ii), where the candidates were required to compute the net profit for the month, if 5,000 units were not exported at the end of the month, some candidates had calculated the net profit for the month for the export of 40,000 units (instead of 35,000) deducting the full cost from Rs. 50 mn. A few had calculated the net profit for the month for the export of 5,000 units.

In part (d), some candidates had made a recommendation as to whether the management should undertake the new opportunity without computing the profit of the new section.

Shortcomings/mistakes in candidates' answers

(a) Errors in principles/shortcomings in technical knowledge

    (i) In part (a), some candidates' answers indicated that they were not aware that the prime cost consisted of only direct costs. E.g. inclusion of variable overheads in calculating prime cost.

    (ii) A number of candidates had classified depreciation as an administration cost and calculated the production cost excluding depreciation.

(b) Mistakes in application of concepts, formulae

    (i) In part (b) (i), some candidates had added the contribution from outstanding and the contribution from utilising labour for another unit of work to compute the opportunity cost, instead of selecting the better option of the two.

    (ii) In computing the differential benefit, some candidates had deducted the less beneficial option from the opportunity cost and some others had deducted the opportunity cost from the direct labour cost of the jersey section.

    (iii) In computing the value of the closing inventory in part (c) (i), many candidates had used the total cost instead of the production cost.

    (iv) In computing the net profit for the month in part (c) (ii), some candidates hadn't deducted the closing inventory value from the production cost.

    (v) In calculating the variable cost/machine hour in part (a), many candidates had failed to deduct the step-up cost of Rs. 12,000 included in Rs. 243,000

(c)   Common mistakes made by the students

   (i)   Considering Rs. 675,000 (value of recent purchase) as the DM cost and calculating the DM cost as Rs. 18 million, without considering that a jersey needs two yards of material.
   (ii)   Calculation of annual depreciation instead of monthly depreciation.
   (iii) In part (b) (i), some candidates had calculated two answers each for opportunity cost (one for each option i.e. outsourcing and utilising labour for another unit of work) and done the same in b(ii) for the computation of differential benefit.

          Some had added the contributions from both options to compute the opportunity cost, instead of selecting the better option.

          In part (b) (i), some candidates had failed to deduct the labour cost/hour amounting to Rs. 125 from the outsourcing income of Rs. 600 per hour in arriving at the net benefit per hour from outsourcing.

          Majority (except for a very few), hadn't considered the profit from the jersey section in computing the differential benefit.
   (iv)   Computing the value of closing inventory using total cost instead of production cost.
   (v)   Considering that other direct expenses would not change and calculation of VOH using 18,000 units instead of 17,500 machine has a half of the 17,500 machine hours in part (d).
   (vi)   Giving the recommendation in part (d) considering the new section profit only.
   (vii) Defining responsibility accounting incorrectly.

Good side of the answer produced

Some candidates had provided good answers for part (a). Some candidates had scored full marks for part (c).

Other comments to be communicated to the students/lecturers.

Some candidates had attempted the question last of all and it appeared that candidates had run out of time, as one or more parts were left out by some. Candidates are advised to practice past question papers in examination conditions in order to gain the required speed, so that they can complete answering all questions within the stipulated time and to attempt the twenty mark question earlier on.

Further, candidates need to provide answers according to the requirement of the question. In part (c) (ii), where the requirement was to calculate the net profit for the month when 35,000 units were exported, some candidates had calculated the net profit for the month for 40,000 and a few for 5,000 exports.

Many candidates' knowledge of opportunity cost, differential benefit, valuation of inventory and responsibility accounting was not adequate.

KE3 (A) – Fundamentals of Taxation

September 2017

Examiner's Comments

Question-wise comments

The paper comprised of three (03) questions.

Question 01

(a)   This is a five (05) part multiple choice question requiring candidates to choose the most appropriate answer out of the four (04) given options.

The question tested students' knowledge in the undermentioned areas:

1.1.   Identify the tax governed by the provincial revenue commissioners as well as the Commissioner General of Inland Revenue.
1.2.   Section 1.3 – miscellaneous exemptions.
1.3.   Liability of a company on distributions.
1.4.   Essentials of a valid appeal.
1.5.   Nation Building Tax – Applicability to small and medium enterprises and the registration threshold.

(b)   This is a five (05) part short answer question.

The candidates were required to:

1.6   State the economic and social functions of taxation.
1.7   Compute the total statutory income, assessable income and taxable income of a company by making relevant statutory deductions.
1.8   State briefly how a valid claim can be made for a tax refund of overpaid tax.
1.9   Mention the obligations of an employer under the PAYE scheme.
1.10   Compute VAT payable in a given straightforward, non-complex scenario.

Question 02

This is a mini scenario question. The candidates were required to compute the gross income tax liability and balance tax payable by a private company having a turnover in excess of Rs. 750 million.

The question included –

(a)   Calculation of statutory from the following sources:-
        Trade – this included an adjustment to profit.
        Interest – fixed deposits

(b)   Deduction under section 32 – trade loss brought forward from the previous year of assessment.

(c)   Qualifying payment relief under section 32.

(d)   Tax credits.

Question 03

This is a large scenario question. The candidates were required to compute the income tax liability, tax credits and balance tax payable by a professional having income from different sources.

The question included:-

(a)   Calculation of statutory income from the following sources:

        (i)   Employment. This included calculation of :
                -   Vehicle benefit
                -   Housing benefit

        (ii)   Rent income
        (iii)   Interest – fixed deposit
                        NRFC account
        (iv)   Dividend
        (v)   Trade – this included an adjustment to profits.

(b)   Qualifying payments relief under section 34.
(c)   Tax credits.

General comments applicable to all questions

1.   The subject matter tested were within the syllabus and adequately covered in the study pack published by CA Sri Lanka.
2.   The standard of the question can be considered as reasonable at this knowledge level being neither too difficult nor too easy.
3.   The questions were specific and devoid of ambiguities.
4.   The model answers appear to be well planned and structured and can be considered as a reliable guide to marking examiners.

5. Overall performance appears to be quite satisfactory since an examination of a sample of the bundle summaries suggest a pass rate of approximately 50% to 60% of the total candidates.

Question 01

(a) Specific comments

Majority of the candidates made a good attempt at this question. Around 70% or more of the candidates scored over 60% of the allocated marks. It was not uncommon to notice candidates scoring full (100%) marks.

Common mistakes made by the candidates

Majority of the unsuccessful candidates failed to give correct answers to the undermentioned parts of the question:

Part 1.2   Section 13 (miscellaneous exemptions) the failure is due to poor technical knowledge.

Part 1.5   Nation building tax. The failure could be attributed to the frequent amendments in recent times to the NBT Act effecting the registration threshold and the candidates failing to update knowledge.

(b) Instances where information given in the question were not understood.

(i)   Part 1.6   The question required candidates to mention social and economic functions of taxation. However, more candidates mentioned objectives or purposes of taxation. E.g. To raise funds to finance government expenditure. This is a purpose of taxation and a function.

(ii) Part 1.8   This part of the question required candidates to explain how to <u>obtain</u> a <u>refund</u> of excess payment of income tax. A good number of candidates mentioned that the over payment could be set off against the income tax payable for the next year of assessment.

Errors in principles/shortcomings in technical knowledge

Part 1.10   A good number of candidates made technical errors in computing value added tax (VAT) E.g. 1. Computing VAT on input tax.
              2. Deducting input VAT from taxable supplies when computing VAT payable.

Mistakes made in application of concepts/formulae

Part 1.10   E.g. deducting input VAT from taxable supplies when computing VAT payable.

Building/planning of the answer

Part 1.6   Some candidates included the economic functions under social functions and vice versa.

Part 1.7   Some candidates merely mentioned the statutory/assessable/taxable incomes without showing the relevant statutory deduction in a tax computation,

E.g. Total statutory income   xxx
      Assessable income   xxx
      Taxable income   xxx

Part 1.10   A significant number of candidates merely entered the answers without showing the computations. E.g. output tax = Rs. 1,014,750 without showing the computation as follows:

            15% of Rs. 6,765,000

Question 02

Instances where information given in the question were not understood.

(i)   The question relates to taxation of a company. However, a good number of candidates applied progressive rates of taxation which is appropriate to an individual.

(ii)   The question states that the company receives rent from letting its building. Under section 217, such income received by a company is defined as business income which falls under section 3(a). However, a significant number of candidates treated such income as income from property under section 3 (g).

Shortcomings/mistakes in candidates' answers

(a)   Errors in principles/shortcomings in technical knowledge.

        (i)   Computation of adjusted profits from trade or business:
                A few candidates commenced the computation taking the turnover instead of net profit as per accounts. This approach is both complicated and time consuming with consequent waste of valuable exam time earning no extra marks.

        (ii)   Interest income: A good number of candidates treated this as part of business income.

        (iii)   Rent income. A significant number of candidates treated the rent received from letting of premises as a source of income under section 3 (g). They appear to be ignorant of section 217 which defines "business" to include letting of premises by a company.

        (iv)   Trade loss brought forward from previous year of assessment. A good number of candidates either did not mention the limit to deductibility on mentioned erroneous limits. E.g. 35% of the loss brought forward.

        (v)   A good number of candidates made deductions and computation applicable to an individual. E.g. (1) Claiming tax free allowance (2) applying progressive rates of taxation.

        (vi)   Errors in principles:
                E.g. (1) deducting section 32 deductions (e.g. loss brought forward) under section 34.
                     (2) deducting qualifying payments relief under section 32.
                     (3) deducting tax credits from taxable income

(b)   Common mistakes made by the students

        (1)   Rent income: A significant number of candidates treated this as income under section 3 (g) in respect of which income tax is assessed as stipulated under section 6. They appeared to be ignorant of the definition of a business given under section 217. In terms of which "business" included 'letting of premises by a company."

(2) A good number of candidates grossed up the net interest received and included it as part of adjusted trade profit.

(3) Good side of the answers produced.
- Majority of the candidates displayed excellent skills in the identification of the statutory contents and presentation of a corporate income tax computation.
- Only a very few candidates did not know the rate of tax applicable to this company.

Question 03

Instances where information given in the question was not understood.

(i) The intention of the examiner was to test section 59B. The business carried on by Sujeewa satisfies the conditions laid down in section 59B for eligibility to concessionary rate of tax. A good number of candidates failed to understand this.

(ii) The rent rates and repair expenses included in sundry expenses are in respect of the whole house. A good number of students failed to disallow such part of these expenses attributable to private use.

(iii) The business carried on by Sujeewa is an undertaking for the provision of services and the annual turnover is less than Rs. 750 million. A good number of candidates did not know that the profits and income of such a business is taxable at a concessionary rate of 12% in terms of section 59B.

Instances where the requirement in the question is not understood.

When the examiner gives any information in the question the candidates should display their knowledge if such information is relevant to the answer even if no adjustments are necessary.

E.g. The question states that interest and capital repayment were made in respect of a car loan. Under section 26, such interest is a disallowable expense and the capital repayment is not eligible to claim qualifying payment under section 34. A significant number of candidates know this fact but were silent without displaying knowledge. Silence does not amount to an answer and the examiner cannot award marks unless the candidates expressly display his knowledge.

Shortcomings /mistakes in candidates answers.

Errors in principle/shortcomings in technical knowledge.

(i) Employment income:

- Vehicle benefit – a good number of candidates mentioned that the travelling allowance given by the employer is exempt or treated the total allowance as liable without considering the exemption limit.
- Housing benefit – a good number of students made mistakes in the computation of the benefit. E.g. 1. Not comparing rental value with statutory maximum limit.
  2. Computing the benefit under section 6 (net rent income)

(ii) Rent income – most candidates computed net rent correctly but failed to compare with net annual value. The higher of net rent and net annual value is the taxable rent income.

(iii)   Interest and dividend income - These sources of income are not liable to income tax. They do not form part of the assessable and not further taxable since withholding tax (final tax) has been deducted at source. However, a good number of candidates erroneously treated them as exempt or not taxable.

(iv)   Business income –
   1.   Computation of adjusted trade profit – a few candidates computed this commencing with turnover instead of net profit.
   2.   Loss on disposal of computer – some students added this to the cost of new computer and claimed capital allowance on the enhanced value.

(v)   Deduction under section 32 – interest paid on car loan is not allowable under this section. A significant number of candidates knew this fact but were silent. Silence does not amount to an answer and marking examiner cannot assume that the student is knowledgeable unless expressly displayed.

(vi)   Calculation of income tax liability. A good number of candidates applied the concessionary rate of tax (10%) under section 59B applicable up to year of assessment 2013/14. The rate has been amended to 12% with effect from year of assessment 2014/15.

(vii)   Tax credit – surprisingly, a few candidates did not know that payments/deduction like self-assessment tax, PAYE are advance payment of income tax liability. Such candidates claimed such amount as deductions from assessable income or taxable income.

Building/planning of the answer

(i)   Income tax computation. A good number of candidates claimed statutory deductions at inappropriate places.
   E.g. 1. Deducting qualifying payments under section 32.
         2. Deducting tax credits from assessable income or taxable income.

(ii)   A few candidates merely entered the answers without showing computations.
   E.g. Net rent   =   Rs. X
         Without showing the computation as follows:
          Gross rent   =   X
          Less: rates   =   Y
                                    X-Y
         Less 25% of (X-Y)   Z
         Net Rent   XX

Good side of the answers produced

Majority of the candidates displayed sound knowledge in the structure, identification of the statutory contents and presentation of an income tax computation of an individual.

Any other comments to be communicated to the students

Q.No. 01 (a) Multiple choice question. Candidates should answer the multiple choice questions in the specially formatted answer sheet. It was observed that a significant number of candidates entered the answers in the normal paper of the answer script.

Display your knowledge

Focus your attention on all the information given in the question and display your knowledge to the examiner even if such information does not require an adjustment to the income tax computation.

E.g. Information given in question 03, relates to interest paid and capital repayment made in respect of a car loan. The interest paid is not eligible for deduction under section 32 while the capital repayment is not eligible to claim qualifying payment relief under section 34.

A significant number of candidates knew this fact but were silent without displaying their knowledge to the examiner. The examiner cannot assume that the candidate is knowledgeable unless expressly displayed.

KE3 (B) – Fundamentals of Law

September 2017

Examiner's Comments

Question-wise comments

Question 01

Although the subject area covered by the questions is vast, it was observed that a high percentage of candidates have done well. Very high percentage of candidates have obtained marks ranging from 16-18. Few candidates scored 20 out of 20 marks.

All these areas are covered by the study pack provided by the CA Sri Lanka, hence the candidates who studied the study pack could have answered the questions without much difficulty.

Question 02

This question is relatively easy and candidates with a good general knowledge and who has studied the study pack could easily provide satisfactory answers.

Although candidates scored around 50% of marks allocated. There were candidates who did not know basic things like main legal systems of Sri Lanka (commercial law, criminal law, civil law etc.). Restrictions on the working hours of female employees under Shop & Office (special provisions) Act No. 19 of 1954 where not understood and some had mentioned about maternity leave etc.

The main difference between "contract of sale" and "agreement to sell" is the time at which the property in the goods is transferred to the buyer. Some candidates did not know this. It was evident that some candidates had not prepared well for the question on Intellectual Property Act, although this area is covered by the study pack.

Question is on intellectual properties recognised by the ACT. Hence students were expected to provide answers within that framework.

Question 03

Candidates should provide their answers within the time available for marks allocated. Although question says to "discuss" that doesn't mean that unnecessary details should be included in their answers.

(a)   Main question is whether there is a valid acceptance. Answer should be built up to prove that there is no "valid acceptance" as per the law relating the acceptance of an offer. Decision should touch on the following:

1. Acceptance must be communicated to the offeror either in writing or verbally.
2. Silence or inaction by the offeree cannot be treated as a valid acceptance.
3. Tom has not communicated acceptance to the offeror.
4. Therefore there is no proper acceptance.

A minor percentage of candidates had correctly identified the scenario and furnished fairly acceptable answers. In general performance of part (a) is below the average.

(b)   Many candidates were able to give good answers. They were able to mention the relevant decided case, namely Carlill vs. Carbolic Smoke Ball co. Most of the candidates were aware of the case as well as the facts of the case. Understanding of the question was good.

However, an important point which was not mentioned by many candidates was that this offer can be accepted by anyone.

Performance was good.

Question 04

(a)   Candidates were required to discuss whether Imran, retired partner was liable for debts incurred by the partnership after his retirement.

Retiring partner is liable for debts incurred by the company after his retirement under the following circumstances.

1.   To persons who were dealing with the company before his retirement unless he has given notice that he was no longer with the company.

2.   To persons who had no previous dealings with the company but knew him to be a partner, unless he has given notice that he was no longer with the company.

3.   However he is not liable to persons who has no previous dealings with the company and who did not know him to be a partner of the company.

Without considering the facts, some students have mentioned that Imran was not liable to Tharuni. They have not mentioned facts like:

1. Tharuni has no previous dealings with the company.
2. Tharuni didn't know Imran was a partner before.

(b)   It was noted that some candidates had performed well and secured marks in the range of 7 to 8 whereas some candidates had faired very poorly.

This wide disparity can be due to the fact that candidates has not properly understood part 'B' or where not properly prepared.

Question requires to state five rules applicable for presentment of a bill for acceptance. Any candidate who was familiar with the relevant section of the study pack would have found that it was easy to answer the section and scored full marks.

Some candidates had incorrectly given rules applicable for drawing up a bill.

KE4 – Processes, Assurance and Ethics

September 2017

Examiner's Comments

Question-wise comments

General Comments

In this exam it is expected to check the knowledge on business processes, nature of internal controls surrounding them, concepts of assurance, and principles of values and ethics. The well prepared candidates demonstrated an ability to use their knowledge to relate their answers to the question requirement. It was disappointing to note that about 50% of the candidates demonstrated poor knowledge on concepts of assurance and principles of values and ethics.

The examiner expected to test certain learning outcomes envisaged in the Study text which is based on the SLAS and SLAuS. Most of the answers to the question paper are readily available together with the respective learning outcome in the study text. The examiner further expected the candidates to produce answers using technical terms and follow action verbs. Most of the scripts witnessed that the candidates have sat for the exam without being prepared. A number of common issues arose in the candidates' answers that contributed to the poor marks such as;

- When asked to express clearly (state), write lengthy answers
- When asked to explain, state in point form
- Write general answers without using technical terms
- Base the answers on common sense and produce general answers

Question 01

This question carried 20 marks and tested almost all the areas in the syllabus. The overall performance was not up to the expected level. The performance had been as follows;

Correct answers
1.1   20%
1.2   70%

1.3   60%
1.4   98%
1.5   90%
1.6   40%
1.7   75%
1.8   75%
1.9   50%
1.10   70%

The given answers reflect that the candidates have not studied the text book. The performance of the question 1.1 which was on Porter's value chain was very poor. Although all the questions were straight from the study text the performance was not up to the expected level.

Question 02

This question consisted of 10 short questions covering the whole syllabus. Almost all candidates have attempted this question. It is disappointing to note that the performance was not up to the expected level.

2.1   It was required to state the purposes served by the cash book in the accounting system. Many have managed to secure marks, but some have given incomplete answers such as just recording receipts and payments, without mentioning that receipts and payments of cash are initially recorded in the cash book.

2.2   It was required to define negative risks and strategic risks. Some were able to produce satisfactory relevant answers, but some candidates have wasted time in describing ways of classifying risks without giving the definition such as;

Negative risks
- Risks of losses resulting from failures from internal processes
- Internal operational risks

Strategic risks
- Risks that arises in the business environment
- External risks

2.3   It was required to list the stages in the procurement cycle. Although many have produced relevant answers, some have misunderstood the question ignoring the word "stages" and started with the initial step in the typical procurement process as;
- Send a requisition to the supplier
- Check the budgetary allocation
- Call for bids from suppliers
- Evaluate bids
- Place orders with the suppliers

Some have mixed up the production cycle and wrote
- Collect raw materials
- Appoint suitable staff
- Commence production

Some have written irrelevant answers such as;
- Supply management
- After sales service

2.4 It was required to identify instances where net realizable value can be lower than the cost of an inventory item. Many candidates had produced satisfactory answers. Some had mixed up the cost of inventory with the cost of non-current assets. The majority of candidates could not identify the instances where the NRV can be lower than the cost when there are errors in production or purchasing.

Some have written irrelevant answers considering the stock as a whole such as;
It can be
- Due to inflation cost will be high
- Due to Increase in volume of stocks cost will be high
-

Some candidates have given completely irrelevant answers such as;
- Due to goods in transit
- Due to theft

2.5 It was required to state information contained in a delivery note. This part of the question was answered well. Some have written ordered quantity and the date of the order ignoring that the question is about the delivery note.

2.6 This question consisted of two parts.

Part a; It was required to identify the reason for the control deficiency in the given scenario. Many had misunderstood this question; they had mentioned that in order to implement the internal controls there should be supervision over the maintenance engineer's work. Some stated that one person cannot be held responsible due to the large volume of work, there should be segregation of duties. Some have wasted time writing about control deficiencies for stock of bicycles as they have misunderstood the term routine check, and interpreted that as verification of bicycle stocks and wrote as;
- Non verification of stocks physically
- Difference between the physical stock and stock level

Part b; It was required to state the consequence that could arise due to the control deficiency. Many have produced satisfactory answers but some have written that as routine checks are not carried out, the quality of bicycles will be reduced resulting in a drop in sales and less profit which will affect the goodwill of the entity. It was surprising to note that similar irrelevant answers were produced by many candidates.

2.7; In this question it was required to state (express clearly) controls that could be implemented to mitigate the risk of receipts being recorded incorrectly. This is a business risk in the cash management process. Most of the candidates wasted time in explaining the controls in cash management ignoring the requirements of the question, such instances were;

- Bank the collection daily
- Check total of receipts before entering
- Raise receipts in serial order

- Have two cashiers , one for receipts and other for payments
- Instruct auditor to check all the receipts and payments

2.8 ; This part of the question was on code of ethics. It was required to state the obligation imposed on an accountant by the principle of professional competence, and due care. It was revealed from the scripts that the subject knowledge in this area was very poor. Many candidates had focused on hydro power and stated that if they do not have the specialised knowledge on hydro power he should decline or consult an expert. Some have written answers referring to the requirement to comply with the code of ethics, ignoring that the question is on the obligation imposed on an accountant to their employers and clients. Such answers were as follows;

- Should perform duty with due care
- Provide competent professional service
- Act diligently
- Act with due care
- Obtain knowledge and experience
- Maintain good professional reputation

2.9; It was required to explain why an external audit is considered as an assurance engagement. Most of the candidates were able to define assurance engagement and link that to the external audit. Some candidates wrote only the definition of the assurance engagement as a result they did not score full marks. There were irrelevant answers such as;

As it

- provides more security compared with non-assurance engagements
- expresses an opinion on the internal audit report
- provides an assurance on the business activities
- provides assurance on the financial statements prepared by internal auditors

2.10 It was required to explain the interrelationship between sufficiency and appropriateness. The average performance was not satisfactory in this part of the question. Most of the candidates had written that evidence should be both sufficient and appropriate picking the phrase from the question. It was noted that some candidates had identified correctly that sufficiency is a measure of quantity and appropriateness is a measure of quality. There were some answers stating that appropriateness means relevance ignoring the fact that it should be reliable too.

Question 03

It was expected to test the knowledge of candidates on internal control system.

Part a; This part carried 2 marks, and it was required to state the party who is responsible to ensure that there is an effective internal control in a PLC. This is a direct question from the study text. Many candidates were unable to identify the difference between the responsibility of management and of the board of directors. Most of the candidates wrote that the management is responsible. Some candidates listed the officers including the board of directors, as they were not fully confident with the answer. The candidates are advised to

learn the organization structure of PLCs so that they can understand where the ultimate responsibility lies. Some candidates have written incorrect answers such as;

- Internal auditor
- External auditor
- Audit committee
- Managers
- Directors
- Chief executive officer

Part b; It was required to identify management responsibilities of internal controls. This part was well answered by many candidates, but some of them have misinterpreted the responsibility of management and without using the exact term the mentioned, encourage the staff to follow controls instead of communicating to relevant persons, introducing controls written to identify risks and analyze them

Some candidates had written the objectives of internal control instead of the responsibilities of management such as;

- to ensure the segregation of duties,
- preparation of strategic plan
- provide leadership to the entity
- safeguard of assets,
- maintain proper books of accounts

Although the above are included in the internal controls, as this is a professional exam the exact answer was expected from the students. The candidates should study the text book and practice past papers in order to understand the question's requirements.

Part c;   It was required to explain the role of internal auditor and external auditor in connection with the internal control system of the PLC. The answers provided by many candidates were not up to the expected level. It may be due to the lack of technical knowledge. They have produced irrelevant answers such as;
Role of the internal auditor
- Preparation of financial statements
- Obtain reports regarding working condition
- Obtain reports regarding the efficiency of the employees

Role of external auditor
- Advise the management to correct weaknesses of internal controls
- Preparation of financial reports
- Responsible for internal controls

Question 04

Most of the candidates had not answered this question. Candidates and tutors need to be aware of the recent articles published by the CA Sri Lanka.

Part a ; It was required to discuss the need for general ethical behavior of accountants. In this part of the question the candidates were expected to write on the ethical standards for other professional accountants in response to NOCLAR

1. Financial reporting, including keeping accurate accounting records
   The majority of the candidates have described the code of ethics which should be followed by the auditors ignoring the question's requirement such as;
   - The accountant should maintain confidentiality
   - Should not be bias and free from all forms of prejudice
   - Should be independent of management
   - Should not accept gifts as it will be a threat to independence
   - Should not hide profits to avoid taxes
   - Should be honest and maintain integrity as the profession is vulnerable to frauds

Some of the candidates have understood the question but wrote irrelevant answers such as;

- To maintain recognition and reputation of the profession
- In order to assess the profitability of the entity
- In order to compare accounts of other entities in the industry(they have mixed up with the standards)

Part a 2   Advising on the application of accounting standards.
This part of the question also refers to ethical standards for other professional accountants. The candidates should be aware of the responsibility of other professional accountants in their employment or other assurance engagements other than reasonable assurance. Many candidates were unable to address the question's requirement, and stated that if advice is given to clients there will be a self-review threat. Some candidates had written irrelevant answers such as;
- The auditor should have self-confidence and integrity.
- They should maintain confidence due to business competition
- Should update the knowledge on standards
- Should not accept gifts, or be friendly with the clients

Part b 1; It was required to explain the appropriate subject matter in relation to an assurance engagement. Many candidates have written that there should be an appropriate subject matter to come to a conclusion in an assurance engagement. Most of them were unable to explain that, that should be identifiable and collectable and should be able to evaluate using criteria and obtain evidence in order to form an opinion. It was disappointing to note that only a few candidates were able to address that several subject matters can be used for assurance engagements such as financial, non-financial, systems and processes etc. Many candidates have written incomplete answers such as;

- Subject matter is necessary to maintain reputation
- It is an area that the auditor inspect
- It should be relevant and reliable to the audit
- Information should be related to the subject matter

Part b 2;   It was required to list characteristics of suitable criteria of an assurance engagement. Some candidates have fared well but many candidates have written irrelevant answers such as;

- Sufficiency
- Segregation of duties
- Authority
- Subject matter

Question 05

Part a 1; It was required to explain the concept of relevance and reliability. The examiner expected the candidates to write the correct technical term. Most of the candidates wrote general irrelevant answers such as;

- Should be reliable to express a true and fair view
- Evidence should be relevant to the opinion
- If it is not reliable should collect more evidence

Part a 2; It was required discuss the reliability of each audit procedure

Check sales invoices and delivery notes

Most of the candidates were unable to identify that it is not a reliable check. They failed to understand that the source is the same for both types of evidence. Some candidates have written that if the delivery note is signed it will be reliable; it reflects that they knew something about the reliability but failed to identify that the validity of the signature should be checked in order to take that as external audit evidence. Many candidates had written the objective of the audit test as follows instead of discussing whether it is reliable audit evidence.

- Whether correct sales have been made
- Whether those are delivered

Call for direct confirmation from debtors

Most of the candidates identified this as reliable evidence, but failed to justify that and produced irrelevant answers such as;
- whether the debts will be bad
- actual debt liability can be checked

They failed to explain that, direct means an external source.

Part b; The examiner has given the controls and expected the candidates to identify the control objective. Some candidates have demonstrated a fair knowledge but have given irrelevant control objectives such as;

(1)   Avoid wrong payments

(2)   Many candidates were unable to identify the control objective. They wrote as; Check correct cash disbursement

(3)   In order to implement segregation of duties

(4) Some candidates explained the benefit of segregation of duties without identifying the control objective.

Question 06

30% of the candidates have not attempted this question. Those who answered also demonstrated poor knowledge in the types of audit testing.

Part a ;   It was required to explain the difference between test of controls and substantive testing. Some candidates were able to identify the test of control but were unable to explain that, it is carried out to prevent, detect and correct material misstatements at the assertion level. Some have produced relevant answers for the test of controls and substantive testing but even they were unable to identify the difference between two tests.

There were irrelevant answers such as;

Test of control

- Procedure designed to evaluate the effectiveness of the business operation
- Procedure to obtain written explanation
- A procedure to check internal audit reports
- It is a computer control such as input control
- It will be carried out by the internal auditor
- A management function

Substantive testing

- Check the actual with the budget
- Check the effectiveness of the internal controls
- Observation
- Obtain management representation

Part b;   It was required to identify the procedure to be performed in order to check the inventory for existence and valuation of the given scenario. The question is **to identify** the procedure but some **have evaluated** the procedure to be followed by the client. Most of the candidates have not understood the requirements of the question and ignored the fact that Aravinda is the audit senior. Most of the answers were based on the management aspect and candidates had stated that a stock ledger should be maintained in order to ascertain existence. There were irrelevant answers to check the existence such as;

- Introduce computerized controls
- Introduce storage protection
- Install CCTV cameras
- Update the automated inventory system

The common relevant answer for checking the existence was to carry out a physical verification but the candidates have failed to understand that usually the auditor observes the verification or carry out a test check.

Majority of candidates wrote that stock levels should be checked in order to identify the valuation. Some candidates due to poor subject knowledge wrote incomplete answers for valuation such as;

- Check bin cards (which do not carry prices) to identify the value of closing stock
- Check the data in the system with the purchase invoice
- Check whether the issues of stocks are according to FIFO

It was noted that with regard to the verification of the valuation, many candidates have not considered the provision for obsolete stocks. Some mentioned about the obsolete stocks but addressed it incorrectly stating that as the client uses the FIFO method chances of having obsolete stocks are remote.

Question 07

This question carried 20 marks and it consisted of two parts.

Part a.1   The examiner expected to test the knowledge of the candidates about the selection process of suppliers. It was required to state the documentary evidence that can be examined for the given issues in relation with suppliers. Majority of candidates had answered this part of the question satisfactorily. However some candidates have written procedures when the question is to state the documentary evidence.

Reliability of supplier-
- buyer to visit the suppliers' production centre to inspect the facilities
- check GRNs
- obtain bank guarantee
- check bank reconciliation

Financial liability-
- Written a procedure as to analyze financial information
- Obtain a bank guarantee(not inspect the bank guarantee)

Irrelevant documents (which would not be produced by the supplier)

- Bank loan agreements of the supplier with banks and other institutions
- Auditors' reports of the suppliers

Quality standard of goods-

Written procedures such as;
- Ask the supplier to produce samples of goods

Written irrelevant documentary evidence such as;
- GRN

Ethical issues

Many have written procedures such as;
- check with the labour department
- Check with police
- Check with supplier's lawyer about pending cases

Some have stated irrelevant documentary evidence such as;
- Employment records
- Law reports
- HR reports

Part a. 2 ;   Majority of the candidates have answered this part of the question satisfactorily. It was required to list ways of identifying possible new suppliers. There were irrelevant answers such as;

- the evaluation process just copying points from the part 1 such as; Suppliers reliability, Capacity to supply, Financial stability and Ethical issues
- the whole procurement process
- the circumstances in which quotations are obtained such as;

When,

A new item is required
Existing suppliers cost is high
The value of the contract is high

Some have written incomplete answers such as;

- Through connected parties
- From existing suppliers

Part a.3   It was required to identify the risks addressed by the risk management measures. Majority of the candidates have answered this part of the question satisfactorily.

Formal selection process for suppliers

There were some candidates who wrote general and irrelevant answers .The examiner expected a specific answer. Marks were not allocated for the following answers;

- Purchases will be made at excessive prices
- Goods may be ordered when not required
- Operational risks
- Strategic risks

Some have given benefits instead of risks such as;
- Reliability of goods
- Receive goods in time
- Quality of goods

Maintaining an approved list of suppliers and control over updates to the master file
The question is to identify the risk. Some candidates who have not understood the question and had stated the benefits of maintaining an approved list of suppliers
- Can select quality goods
- Can have confidence over suppliers

There were irrelevant answers such as;
- Risk of loosing customers
- Risk of complaints
- Risk of supply of goods of inferior quality

Part b 1&2   It was required to identify risks related to the non-current assets of HP and to identify the controls to mitigate them. The examiner expected the candidates to address the risks in the given issue. Some candidates who have not read the question and the scenario stated risks which are not related to the given issue, such as;

Risks	Controls
Acquisition without proper approval-	Obtain CAPEX budget approval
Disposal without authority-	Obtain board approval
Physically not available	Assets should be fixed with bolts and nuts
Breakages	educate the staff to repair

Part b 3   It was required to list ways in which HP can facilitate physical identification of non-current assets. Majority of candidates have given relevant answers. Some candidates have misunderstood the question and listed the way to check the physical items with the Assets register. Some candidates have stated irrelevant answers ignoring the requirements of the questions such as;
- Check deeds
- Check revenue license
- Check the accounting criteria
- Impairment/depreciation of assets
- Observation
  Recalculation

Conclusion

Though a fair number of candidates were successful in obtaining the pass mark, most of the scripts do not demonstrate a fair knowledge of the candidates on assurance and ethics. It was observed that some candidates have-not put any effort to read the question and plan the answer which resulted in irrelevant answers. The scripts which carried poor marks demonstrated poor subject knowledge of the candidates. The candidates are advised to study the study text and practice past papers.

KE5 – Commercial Insight for Management

September 2017

Examiner's Comments

Question-wise comments

Question 01

General comments

Overall performance of the candidates for the Multiple Choice Questions (MCQs) was good which carry 20 marks. Candidates were required to select the best example for internal/connected/external stakeholders, inefficient production combination relating to production possibility curve, the reason for shifting the demand (curve) to the left, a characteristic of a monopolist, a tactical control adopted, a suitable policy to control demand pull inflation, a result of the appreciation of the local currency, an institution government debt securities are issued, an advantage of a succession planning and qualities of useful information.

Specific comments

Most of the students have chosen correct answer for Q nos. 1.1, 1.2, 1.3, 1.4, 1.6, 1.8 and 1.10. Nevertheless a considerable number of students were unable to choose the correct answer for 1.5, 1.7 & 1.9.

Question 02

General Comments
Overall performance of the candidates was satisfactory and question no. 2 carried 30 marks. Candidates were required to;

2.1	State 3 qualities of a mission statement
2.2	(a) -List main tasks of the management process
2.2	(b) -Explain one task of the process
2.3	Discuss how staff authority differs from line authority
2.4	Explain normal goods and inferior goods
2.5	State benefits for an Organization of conducting a Consumer Profitability Index (CPI)
2.6	Explain long-run equilibrium of a firm in monopolistic competition

2.7   State 3 disadvantages of having a single supplier sourcing strategy
2.8   Explain 2 disadvantages of economic growth
2.9   State 3 advantages of outsourcing the IT functions of a Company
2.10   State 2 factors that contribute to successful project delivery

Specific comments

2.1   Brevity, Flexibility, Distinctiveness and Strategic directions are the main qualities of a mission statement. Some identified objectives, operational activities as qualities of a mission statement earned no marks.

2.2 (a) Planning, organizing, leading and controlling are the main tasks of management process. Most of the students correctly mentioned the four tasks. However a few stated both leading and directing as main tasks.

   (b) Planning involves deciding what needs to happen in the future and generating a program for action. Controlling involves checking the progress against the plans. Leading involves determining what needs to be done in a situation and getting people to do it. Most of the students explained a task correctly. But some explained leadership as directing subordinates to achieve objectives of the organization which did not earn full marks, since a leader is to determine first of all, what needs to be done in a given situation.

2.3   Line authority has authority over subordinates down the vertical chain of command, whereas staff authority does not have authority over others, but provides specialist advice. Some candidates incorrectly identified the two types of authority in terms of cost involved. Staff authority has more levels of authority whereas line authority has few levels of authority according to some students for which no marks were allocated.

2.4   Demand for normal goods rise as household income rises. *E.g.; Televisions, clothes etc.* Demand for inferior goods falls as income rises. Consumption of bread falls and consumption of nutritious foods instead rises as a result of a rise in the income. Some candidates stated incorrectly that normal goods are goods purchased daily. A few candidates stated that income elasticity for normal goods and inferior goods become plus and minus respectively which earned marks.

2.5   Consumer Profitability Analysis (CPA) enables to focus on the most profitable areas and to quantify the financial impact of proposed changes and also it helps to highlight the cost of obtaining new customers and benefits of retaining existing customers. Some provided general answers rather than being specific. E.g. CPA enables to take business decisions and gain recognition by others.

2.6   Since there is free entry and exit, normal profits earned in the short run converts into normal profit. Most of the students have drawn the graph in order to highlight only the point where MC=MR and ignored the other condition for long term equilibrium. i.e. AC=AR. A few have drawn the graph correctly, but were unable to mention the prime reason for earning normal profits in the long run.

2.7   Risk of disruption of supply and increase in supplier-power in the absence of alternative suppliers are disadvantages of having single supplier. Some have written general answers e.g. Cost will be high and efficiency of supply process will come down due to being dependent upon single supplier, which have not been elaborated and as a result, they have earned no marks.

2.8   Faster economic growth increases income disparity, tends to create pollution and structural unemployment. Some stated infant industries get eliminated due to the use of advanced technology.

2.9   Outsourcing can bring benefits of economies of scale and it can retain skills and knowledge for the core function. Some candidates just mentioned that outsourcing will reduce the cost without explaining further as to how it will work. Some candidates stated that outsourcing will pave the way to build up relationships with outsiders.

2.10   Proper planning, competent and committed staff, risk assessment and management, careful management of constraints are some factors that contribute to successful project delivery according to some students who scored the full marks allocated. Understanding over the project, use of new technology will pave the way for successful delivery according to some students who earned a few marks.

Question 03

General Comments

Overall performance of the candidates was satisfactory. The question carries 10 marks and candidates were required to;

(a) – State 3 tangible attributes and one intangible attribute of a product
(b) – Explain 2 activities to increase sales under the promotional mix
(c) – Explain target market, mass marketing and differentiated marketing

Specific comments

(a)   Availability and delivery, instructions, product variety, design, size packaging, colour are tangible attributes and image, and perceived values are intangible attributes as per some students who scored the full marks allocated. Taste of the product and information given in the package are intangible attributes as per some candidates. Production based on a big process, ability to separate the product are tangible attributes according to some candidates who earned no marks.

(b)   Sales promotions, advertising, branding, public relation and direct marketing are promotional mix activities. Some mentioned sales promotion as an activity but could not understand the meaning of the term as it is aiming at increasing short term sales volume. Such candidates identified sales promotion as attractive packaging which earned no marks.

(a)   Target market is a market segment selected for special attention. Mass marketing is to produce a single product and to get as many customers as possible to buy it and differentiated marketing is where a company markets several product versions each aimed at a different market segment according to some candidates who earned the full marks allocated for this part of the question. Some identified mass marketing as the production for the masses and they have ignored to mention '*Single product'* and '*getting customers to buy the product'*. Some explained that differentiated marketing is aiming at a different market segment but they have ignored the fact that the product under reference has several versions.

Question 04

General Comments

Answers for this question were satisfactory. The question carries 10 marks and candidates were required to;

(a) – State two consequences of a high rate of inflation
(b) – Explain 2 actions that the Central Bank could take to influence aggregate demand
(c) – Explain 2 fiscal policy measures to stimulate aggregate demand

Specific comments

(a)   Undesirable effect on creditors and fixed income earners, exports become expensive and imports become cheaper and as a result, balance of payment will suffer, harmful effect on economic growth are some consequences of inflation. A few candidates have just explained the meaning of high inflation. Some candidates had stated that there will be corruption and frauds will take place in a high inflation situation which earned a few marks.

(b)   Changes made in the money supply, interest rates and exchange rate will influence aggregate demand. Some students discussed the consequences only in a scenario of decreasing money supply. Some candidates incorrectly identified taxation as a monitory policy action.

(c)   Raising public expenditure and reduction of taxation will stimulate aggregate demand. Some candidates incorrectly mentioned monitory policy measures to stimulate aggregate demand for which marks were not allocated. A few stated to take action to control the high inflation so that aggregate demand could be stimulated without such actions being elaborated.

Question 05

General Comments

Answers for this question were poor. The question carries 10 marks and the candidates were required to;

(a) – Define '*Leadership*'
(b) – Explain how '*Leadership'* differs from '*Management'*.
(c) – Identify two key limitations each under '*Trait Theories'* and '*Style Theories'* of leadership.

Specific comments

(a)   Leadership is the process of influencing a group to achieve goals as per some students who earned full marks allocated. Some stated that leadership means influencing others without the purpose being mentioned. i.e. *'to achieve goals'*. According to some students, leadership is all about taking up challenges.

(b)   Management is coping up with complexity and management is exercised over resources, activities, projects and other essential non personal things, whereas leadership is exercised over people and it is about change. Most of the students poorly answered this part in that, some stated that a leader could take independent decisions and the manager could not take independent decisions. Some stated general descriptions E.g. The management process is broader than the leadership process. Every leader becomes a manager but every manager does not become a leader for which no marks were allocated.

(c) Ability to interact with others and situational factors have been ignored in the Trait theory. The list of traits was vast, contradicting and varied. The premise under the leadership style theory is that leaders are born and not made which is a limitation. Manager's personality may not simply be flexible enough to face the changing situations. Some candidates stated incorrectly that to implement trait theory, organizations have to incur a heavy cost. Some candidates viewed that the style theory was an incomplete one. Some candidates stated both theories cannot be implemented and are suitable for certain organizations without further elaboration.

Question 06

General Comments

Overall performance for this question was satisfactory. The question carried 10 marks and candidates were required to;

(a)-Calculate Average Product (AP) and Marginal Product (MP) of a worker
(b)-Explain the behavior of AP&MP curves in the short run using the AP and MP calculations under 6(a)
(c)- Explain two ways of obtaining internal economies of scale

Specific Comments

(a) AP needs to be calculated dividing the TP by the number of labour used for the relevant total production. Almost all the students have calculated the AP correctly. A few made some calculation errors. MP is calculated dividing change in the TP (ΔTP) by the change in the labour hours (ΔL). Some candidates have correctly stated the formula used for MP but calculated only for one instance.

(b) AP will start falling from the 4th worker due to division of labour and specialization. MP will decrease due to increasing marginal returns. MP will rise at first but eventually after the 4th worker, it must decrease in the short run. After the 8th employee, it will create a negative marginal product. At the maximum point on the AP Curve, MP=AP when MP<AP the AP curve is falling, when MP>AP, the AP curve is rising. Some candidates were unable to mention the reasons for the behavior of AP&MP curves. Some candidates have correctly calculated the AP&MP but the behavior of the curves were incorrectly interpreted.

(c) Use of modernized automated medicines, bulk purchases of raw materials, centralization of supporting functions are examples for technical, commercial and organizational economies of scale. Some candidates stated that by motivating employees productivity could be enhanced and as a result internal economies of scale could be obtained which earned a few marks. A few candidates mentioned that the materials required for the garment factory could be purchased at low cost and thereby internal economies of scale could be obtained, for which marks were not allocated since such candidates were unable to state as to how purchases are made at low cost.

Question 07

<u>General comments</u>

Average performance of the candidates for this question was satisfactory. Question carried 20 marks and candidates were required to;

(a) Calculate the market equilibrium price and quantity based on the given supply and demand functions.

(b) i) Calculate price elasticity of demand.
ii) Identify the nature of price elasticity of demand
iii) Explain the effect on price and quantity demanded resulting from a significant increase in household income.

(c) Explain the implications felt in the paddy market after the reduction in the fertilizer subsidy for paddy farmers.

(d) Explain the likely impact on the supply of the paddy market due to the introduction of disease-resistant seed.

(e) Discuss the implications of introducing a minimum price policy for paddy in the country.

<u>Specific Comments</u>

(a) Some candidates had not indicated the unit of measurement for the equilibrium price and quantity. They just indicated P=3.46 and Q=2,630. Some others have correctly applied the equation for equilibrium price and quantity but ended up with incorrect answers due to calculation errors.

(b) (i) Price elasticity of demand is -0.35 as per some students who earned full marks. However a few candidates had given the definition for price elasticity of demand instead of the calculation. Some calculated the arc/average price elasticity of demand which gave an indication that those students were lacking the knowledge about the identification of the slope of the demand curve using the demand equation. Some others have applied correctly the equation for price elasticity of demand but ended up with incorrect answers due to calculation errors.

(ii) Some candidates had correctly identified the nature of the price elasticity of demand (PED) as 'inelastic'. A few misspelled inelastic as 'unelastic'. A few concluded the nature of the PED as elastic for which marks were not awarded.

(iii) Income elasticity of demand for a necessity good, here for rice, is inelastic. Thus a significant change in household income will not have a significant change in demand for rice. Around 50% of the candidates provided this answer. Some have incorrectly concluded that when household income increases, demand for rice also increases.

(c) Reduction of the subsidy will decrease the amount supplied in equilibrium and the price will rise. Some candidates have correctly drawn the graph to show that the supply curve moving

upwards i.e. moving to the left. Some have drawn the graph to show the supply curve moving to the left for which no marks were allocated. A few explained correctly that the amount supplied will decrease due to the reduction of subsidy. However they were unable to show it in the graph correctly.

(d) Supply curve will shift downward as a result of the low cost of production with the introduction of new disease resistant seeds. This explanation has been correctly shown by some students by drawing the graph. A few gave acceptable explanations but could not draw the graph correctly.

(e) Floor price is set above the market price and as a result excess supply will be created. The Goverment either needs to purchase excess supply or production quotas needed to be introduced to prevent the floor price being reduced. Nevertheless producers tend to produce more because of the floor price which may result in surplus quantities being destroyed or stored which will in turn lead to misallocation of resources. Around 40% of the candidates gave this correct answer. Some stated incorrectly that people may tend to consume substitutes because of the floor price being set. There will be an increase in the excess supply and the quantity demanded according to some candidates who did not earn marks.