

## **KB1 – Business Financial Reporting**

**June 2018**

### **Examiner's Comments**

#### **Question-wise comments**

##### **Question 01 (10 Marks)**

Conceptual framework of SLFRC & Regulatory framework was tested. Most of the candidates did not properly answer their questions based on the action verb "Discuss".

##### **Part (a)**

Three criteria to be satisfied for faithful representation were written by most of the candidates, which was directly copied from the standards book given for reference. Though some of the candidates answered the question by identifying the Investment Property part and the PPE part it was not linked to the conceptual framework due to a lack of theoretical knowledge. Some of the candidates had referred other sections of the conceptual framework which were not relevant to the question.

##### **Part (b)**

Though the book on the "Code of best practices on Corporate Governance 2017" was given for reference, most of the students answered based on the previous publication and failed to give the correct answer as "three Non-Executive Directors or one third of the total whichever is higher".

##### **Question 02 – (10 Marks)**

Students are expected to know the SLFRS for SMEs related to the going concern disclosure under part (a) and part (b) and the identification of Investment Property, accounting for fair value gains.

##### **Part (a)**

Most of the students had not stated the fact "material uncertainties related to events or conditions that management cast significant doubt on entity's ability to going concern".

##### **Part (b)**

Most of the students had identified this property as an Investment Property but failed to give reference to the SLFRS for SMEs (section 16) with regard to the fair value measurement and the fair value gain of Rs. 15 Million was considered as a current year adjustment instead of Rs. 5 Million. Lack of knowledge in identifying prior period adjustments was seen therein.

### Question 03 - (10 marks)

This question tests the students' knowledge in regards to identification and the manner of disclosures under related party transactions.

Most of the students may have misunderstood the question due to a lack of attention to the requirements of the question. Therefore the relationships were considered from the holding company (HHL) perspective although the question required to give the relationship from the perspective of Helen PLC.

**Part (a) (ii)** The requirement was to prepare a disclosure note but most students disclosed it as transactions in financial statements.

#### Part (b)

Most students lacked knowledge of the retrospective application of policy changes according to LKAS 1, *Presentation of financial statements*. Further most students were not aware of the need to prepare a third statement of financial position instead answered that a disclosure is adequate.

### Question 04 – (10 marks)

#### Part (a)

Classification of pension schemes as per LKAS 19, *Employee benefits* and the accounting treatment was tested.

A fair number of students could not identify the two schemes correctly. As a result the accounting treatments suggested were incorrect. There were some students who identified the two schemes correctly but failed to suggest the correct accounting treatment applicable to the respective schemes. Some candidates identified the two schemes as long term employee benefits and did not state whether the schemes fall under defined benefit plans or defined contribution plans. Some students who did not make any reference to the schemes, wrote many paragraphs about employee benefit schemes going through the reference books in general without any reference to the question.

The performance of students of Part (ii) of the question was poor. Many wrote lengthy answers without answering the exact requirement of the question. The question was how the contribution paid should be recognized under the two schemes separately; many could not answer this part. The majority wrote all the steps involved in determining the deficit or surplus of a defined benefit plan given in Sec 57 of LKS 19 but failed to state how the contribution paid could be recognized.

#### Part (b)

The performance of students of this part was at a reasonable level identifying it either as equity or liability but as expected by the examiner, some key elements were not properly indicated or explained.

### Question 05 – (10 marks)

Students were required to compute, assess and recommend liquidity and efficiency levels based on financial accounts of two years. Some of the students were confused and did not properly identify the ratios to be considered under the two categories (liquidity and efficiency). Most of the students had ignored working capital management under assessment of efficiency. Most of the recommendations given were not adequately explained.

Overall performance was at an acceptable level.

### Question 06 – (25 marks)

**Part (a)** - To test the application of knowledge on consolidated accounts.

A large number of students incorrectly made adjustments to the intercompany balances of the joint ventures in Maczi's books for consolidation purposes. It was incorrectly eliminated (removed) both from the trade receivables and trade payables (i.e. incorrectly treated Vaczi as a subsidiary).

Some students incorrectly computed the deferred consideration due to misinterpreting the discount factor. The interest due on discounting too was also incorrect.

Majority of students have classified deferred liability under current liabilities instead of non-current liabilities. It was also stated as an investment in an associate instead of an investment in a joint venture. Many students failed to do the intercompany dividend adjustment.

Overall performance of this part was at an acceptable level.

**Part (b)** – To test knowledge of the basic accounting treatment for joint operations under SLRFS 11, *Joint arrangements*.

It clearly status to differentiate between the accounting treatments of the two types of joint arrangements. Most of the students described the two arrangements and right arrangements without identifying the accounting treatments. It was observed that students had directly copied description from the reference materials.

### Question 07 – (25 marks)

This question was mainly framed to test practical application of accounting standards under different specific areas.

**Part (a)** – Students could not distinguish between provisions, contingent liabilities and contingent assets (application of LKAS 37). Some students have identified the warranty provision as a contingent liability and had not given the accounting entry required.

**Part (b)** – The adjusting event criteria has not been identified as per LKAS 10, *Events after the reporting period* by some of the students and had not re calculated the provision as Rs. 900 million. Further adjustments required in the financial statements were also not given. Some students have mistakenly linked this to LKAS 8 *Accounting policies, changes in accounting estimates and errors* as an estimate change and concluded that a prospective adjustment was required.

**Part (c)** – Some of the students had considered the broadcasting license as a government grant rather than a separate acquisition of an intangible asset and had recognized the intangible asset at fair value instead of cost.

**Part (d)** – Though the information given as minimum lease payments (MLP) is equal to its fair value, some of the students have re calculated the present value of MLP. Some of the students have failed to identify the lease payment on land and building separately and dealt with it as one lease payment. Without separation of the lease to land and buildings separately, students have identified the agreement as a finance lease. This has resulted in incorrect computations of lease liability, depreciation and interest.

**Part (e)** – Some students had considered that the quoted price of a similar asset is Rs. 140 million rather than Rs. 75 million. They could not identify level 2 and 3 inputs in the given scenario and had just extracted the SLFRS 13, *Fair value measurement* standard reference.

**General Comment** – Students had just extracted paragraphs from the given student reference but failed to relate it to the given scenario or a proper justification was not given for their conclusions. Students should not directly copy paragraphs from the reference material given and the practical application of theory should be justified emphasizing principles given in the standards or other reading materials.

Majority of the students performed poorly in answering this question.

## KB2 – Business Management Accounting

June 2018

### 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 01

##### General Comments

Question has been designed to test the Intended Learning Outcomes (ILO) of Chapter 3 "Contemporary Management Accounting" of CA Sri Lanka Study Guide.

The average performance for question 01 ranges from 3 **marks to 4 marks** out of 10 marks allocated and around only 21% of Candidates have scored more than 5 marks out of 10.

The question tests the knowledge about Life Cycle Costing and Application of Target costing.

The specific comments and weaknesses observed under each part were as follows.

##### Part (i)

Most of the candidates had calculated the annual cost for three years separately and computed the unit sales price, it shows their poor knowledge on the main features of the life cycle costing method that is to consider all costs within the life cycle to calculate the product cost.

Further most of the candidates had mixed up the Profit Margin with the Profit Mark-up.

## Part (ii)

It is a straight forward question from the CA Sri Lanka Study Guide but most of the candidates had mentioned only the total cost considerations as benefits of the lifecycle costing and failed to identify other benefits.

This indicates that candidates do not use the CA Sri Lanka study guide for their studies to the extent they should.

## Part (iii)

This part tests the theory knowledge of how Target Costing could be used to **gain competitive advantage** and the performance of candidates was not at an acceptable level since most of the candidates explained only what target costing is and failed to exactly answer the requirements of the question.

## Question 02

**Part (a)** of the Question had been designed to test the Intended Learning Outcomes (ILO) of Chapter 3 “Contemporary Management Accounting” of the CA Sri Lanka Study Guide.

**Part (b)** of the Question had been designed to test the Intended Learning Outcomes (ILO) of Chapter 18 “Working Capital Management” of the CA Sri Lanka Study Guide.

Around 5% of the candidates had not attempted this question and 17% of the candidates have scored “0” marks. Average marks scored range between 2 to 3 marks out of 10 marks, only around 15% percent of the candidates had scored more than 5 marks out of 10 marks.

### Part (a)

This part of the question tests the theory knowledge on Kaizen Costing, the question clearly asked the characteristics of Kaizen Costing but a majority of the candidates explained where Kaizen Costing can be applied.

Some candidates explained how Kaizen costing would help generally but failed to relate it to the competitive environment, this shows that many candidates have not clearly read and understood the question properly.

**Part (b)** this part of the question tests the ability of identification of a working capital financing policy of a company.

- (i) Most of the Candidates had mixed up this with Working Capital Management. Further most of the candidates had failed to identify the working capital policy of the given scenario. Even though the question clearly says to “**Identify**” the working capital financing policy, some candidates had explained in a lengthy manner the aggressive & conservative financing methods taking a substantial amount of time.
- (ii) Most of the Candidates had failed to mention the Advantages and Disadvantages of the present working Capital policy, since the candidates have misunderstood the first part of the question.

### Question 03

This Question has been designed to test the Intended Learning Outcomes (ILO) of Chapter 9 “Cost – Volume – Profit Analysis” of CA Sri Lanka Study Guide.

The average performance for question 03 ranges from 3 **marks to 4 marks** out of 10 marks allocated and around 15% of candidates had scored more than 5 marks out of 10 Marks.

**Part (a)** Most of the candidates had made mistakes on identification of the fixed cost, only the fixed costs allocated to Product P have been taken to evaluate option A, not considering the total Fixed Cost. Some candidates had recalculated the profit for part B which is given in the sum itself.

**Part (b)** many candidates had not done this part in a correct way other than the reduction of variable costs.

Only a few candidates had attempted this part of the question indicative of the poor knowledge on calculation of the safety of margin.

### Question 04

#### General Comments

This Question has been designed to test the Intended Learning Outcomes (ILO) of Chapter 17 of “Responsibility Centre Accounting” of the CA Sri Lanka Study Guide.

The average performance for question 04 ranges from 1 **to 2 marks** out of 10 marks allocated and around 3% of candidates had scored more than 5 marks out of 10 Marks.

Further it was noticed that nearly 23% of candidates have not attempted the question and around 24% of candidates had attempted it but could not score any marks.

#### Part (a)

Most of the candidates did not have sufficient knowledge on computing the ROI and RI and the performance was very poor.

**Part (b)**, many candidates had not understood the requirements of the question and did not answer this part and a few candidates explained that the NPV is superior to the ROI and RI which was not totally relevant to the answer.

### Question 05

This question was designed to test the Intended Learning Outcomes (ILO) of Chapter 18 “Working Capital Management” of the CA Sri Lanka Study Guide.

The average performance for question 05 ranges from 4 **to 5 marks** out of 10 marks allocated and only around 30% of candidates had scored more than 5 marks out of 10 Marks. Students scored the highest marks for this question in the paper. However it was noted that 7% of the candidates had not attempted it or scored zero marks.

### Part (a)

Many students had scored between 4 to 5 marks for this part. It was noted that many candidates had not correctly identified the additional margin on credit sales and applied only a 10% margin.

### Part (b)

Performance on this section of the question was very poor, some candidates has just tried to draw some diagrams of the Cash Operating Cycle but failed to score marks.

Except for a very few, all candidates had failed to identify the requirement of the second part and had not attempted this part.

### Question 06

#### General comments

This Question had been designed to test the Intended Learning Outcomes (ILO) of Chapter 4 “Standard Costing as a Planning and Control Techniques “ of the CA Sri Lanka Study Guide.

The average performance for question 06 ranges from **13 to 15 marks** out of 25 marks allocated and around 47% of candidates had scored more than 15 marks out of 25 Marks.

**Part (a)** of the question tests knowledge on the computation of Planning and Operating variances of material price and usage.

Many candidates had performed well on this part of the question but some candidates have made a common mistake of calculating the material usage planning variance by taking the actual material usage as 159,600 instead of 158,400 ( $2.64 \times 60,000$ ).

Some Candidates had taken the budgeted output instead of the actual output in calculating the variances in this part.

Some candidates had calculated the planning and operating variances for price and usage per unit without considering the actual output.

### Part (b)

Some candidates had not understood the requirements of the question and it seems that they have failed to understand the word “Demonstration” that is because they have not referred to the action verbs given at the end of the paper itself.

**Part (c)** of the question tests the decision making knowledge in the areas where an investigation should be performed based on variance analysis. The candidates had not understood the word “Demonstration” and some candidates had failed to answer the question in a satisfactory manner.

Many candidates gave the causes for the adverse labour efficiency variance as unskilled labour, instead of instances where the investigation of a variance is meaningless.



### Part (d)

Many candidates do not have adequate knowledge on the yield and mix variance, some candidates had calculated the mix variance for yield variance and the yield variance for mix variance which indicates poor knowledge on the basic concepts.

### Part (e)

Candidates had not performed well on this part and some candidates had recomputed the mix and yield variances for this part as well, which shows that the candidates have not understood the requirements of the question.

Many candidates had failed to build their answer based on their answer for part d.

Many candidates had scored well on this part, however some candidates had started on this sum at the end and failed to manage the time to complete the other parts.

It is advisable to read the question paper in the given time period and plan how to answer the question before writing the answers.

### Question 07

This question had been designed to test the Intended Learning Outcomes (ILO) of Chapter 12 “Multi Constraint Decision Making” of the CA Sri Lanka Study Guide.

The question consisted of two parts, candidates had scored marks only in Part (a) and the performance on part b was very poor.

The average performance for question 07 ranges from **07 to 08 marks** out of 25 marks allocated and around 23% of candidates had scored more than 12 marks out of the 25 Marks.

### Part (a)

It requires to demonstrate the production plan identified by the company within the given circumstances, the performance of candidates on this part was not satisfactory.

Candidates had not correctly identified the important points in the given scenario and most of them had considered all four products individually and had failed to identify that resource limitations differed for products A & B and products C&D, two separate product groups.

Products were ranked 1 to 4 based on the contribution per limited resource unit.

Some Candidates had applied LP for the 2 groups (A & B and C & D) separately and drew one graph.

Some candidates had failed to identify the feasible area in the graph drawn for the LP method.

### Part (b)

Very few candidates had identified the requirements of the question, hence most candidates had not provided the correct answer. This indicates the inability to properly comprehend the information given and the requirements of the question.

## KB3 – Business Law and Tax

June 2018

### Examiner's Comments

#### Question-wise comments

##### Business Law

##### Question 01

- (a) Some candidates discussed the judgement given in Saloman Vs. Saloman and Saloman Co. Ltd. This was irrelevant. Some candidates had written at length which was a waste of time.

The question required candidates to give five instances where the courts had lifted the veil of incorporation and not the effects of incorporation.

Some candidates have repeated the same thing and wasted time without getting any marks.

The study guide provided by the CA has dealt with this and candidates who had studied the study guide would have been in a better position to give good answers.

- (b) The question requires candidates to state the answer with reference to the landmark case, where the nature of authority of the Company Secretary and where this authority could be exercised.

Many candidates had mentioned the duties and functions of the Company Secretary showing a lack of understanding of the question. Further, some candidates had mentioned section 221 of the Companies Act which deals with secretaries. This is not relevant.

Many candidates, did not know the details of the landmark case 'Panorama Developments Ltd. V Fidelis Furnishing Fabrics Ltd'.

According to this case, the present day secretary is no longer a mere clerk and has authority to:

- Make representations on behalf of the company on day to day running of the company's business.
- He can enter into contracts on behalf of the company with regard to the day to day running of the company's business.
- He can sign the contracts on behalf of the company in relation to its administrative matters.

Despite the above mentioned shortcomings the question was fairly well answered.

The question is fairly well dealt with in the study guide provided by the CA.

### **Question 02**

- (a) This is a straightforward question. Candidates who had prepared well could have provided satisfactory answers without difficulty.

Section 7 (i) and 7 (3) of the Companies Act No. 07 of 2007 give the relevant facts which should be considered when a new company name is registered. The relevant sections of the Companies Act are;

7 (i)(a). A company shall not be registered by a name identical with the name of any other company.

7 (3). In determining whether the names are identical the following words will be disregarded.

- “The” as 1<sup>st</sup> word in the name.
- ‘Company Limited’ at the end of the name.
- ‘(Private) limited’ at the end of the name.

Merely saying that Amal and Kamal cannot register the company under the proposed name is not sufficient. It should be supported by the above given reasons.

- (b) This question is also a simple and straightforward question. There are no ambiguities.

The question requires candidates to explain what is meant by an objects clause and whether the objects clause can be dispensed of in the Articles of Association of the proposed company.

Accordingly the expected answer is;

The objects clause spells out the objectives, the purpose for which the company has been formed; or the business the company can engage in and the new Companies Act (No.07 of 2007) gives the freedom to a company to either include or not include the objects clause in the articles.

- i. Amal and Kamal can dispense with the objects clause.

### **Question 03**

- (a) The examiner is testing the knowledge of candidates in relation to dividend distribution in terms of section 56 of the Companies Act No. 07 of 2007.

A company, before declaring dividends should satisfy the following.

1. Pass the solvency test.
2. To pass the solvency test, the company should establish that it is able to settle debts as they fall due in the normal course of business and the value of company assets is greater than the aggregate value of its liabilities and stated capital.

The first condition that the company’s ability to pay its debts as they become due in the normal course of business has been fulfilled.

The second condition has not been fulfilled as the total assets of the company are less than the total liabilities and stated capital.

As a result the company will not pass the solvency test.

The statement made by Martin is correct.

Some candidates have merely mentioned that the statement made by Martin was correct without giving reasons.

- (b) This is relatively an easy question. Equity capital is raised through issue of shares of a company to the public. Debt capital is raised by a company primarily in the form of money borrowed and repaid over a period of time with interest at an agreed rate.

Advantages of debt capital over equity capital are;

1. Proposed company is asset intensive and raising loans may be quicker.
2. Raising debt capital can be cheaper than equity capital.
3. As the lender does not get ownership of the company, the owner can still control the affairs of the company.

#### **Question 04**

- (a) The question requires candidates to explain whether proposals made by the directors of UPL are in accordance with the provisions of the Companies Act No. of 2007. Candidates are expected to give the relevant sections. The relevant sections are 113 and 116.

By giving proper notice to the registrar of Companies, Certificate of Incorporation can be kept at a location other than the company's registered office. Many candidates failed to mention it.

Some candidates failed to state the correct section.  
E.g. Section 119 was stated instead of section 116.

The Companies Act No. 07 of 2007 is permitted to be used in the examination hall for reference purposes. Despite this some candidates failed to mention the correct section.

- (b) The question required candidates to analyse the method of winding up that is most applicable to FPL. The most applicable method is the shareholders' voluntary winding up. Many candidates explained all winding up methods.

The question does not require candidates to state all winding up methods. Candidates had wasted valuable time in writing irrelevant details.

#### **Question 05**

- (a) The question required candidates to explain what is commonly understood by the term "insider trading". Some candidates were not able to explain what is meant as insider trading in terms of the Securities and Exchange Commission Act No. 36 of 1987 (as amended)

E.g. 1. Insider trading is trading taking place within the country.

2. Insider trading is trading done by shareholders without going through the share market.

Many candidates did not know the persons 'connected with a company' as per the Act. Some candidates had incorrectly mentioned governor of the Central Bank and the Registrar of Companies as connected persons. Candidates had not understood that the question is about the "connected persons" as stipulated in the Act.

- (b) The question required to state five (05) key features of conciliation under the 'alternate dispute resolution' methods.

Accordingly, the answer should be in relation to settlement of commercial dispute through conciliation. However some candidates had incorrectly mentioned features of debt conciliation boards and explained the procedures of mediation and the manner in which disputes are resolved. These points were not relevant in the expected answer.

The candidates who had gone through study guide provided by the CA would have been able to provide satisfactory answers.

In general, the question was answered well.

## **Business Tax**

### General comments applicable to all questions

1. The subject matter tested was within the syllabus and was adequately covered in the study guides published by CA Sri Lanka.
2. Overall performance in the paper appears to be fairly satisfactory.

### Question wise comments

The paper comprised of two (02) questions and carried 25 marks each.

#### **Question 06**

The question required candidates to assess the total tax liability including the tax on distributable profits and the balance tax payable by a company engaged in the business of developing software for both local and international clients.

The question included:

- (a) Calculation of statutory income from the following sources:
  - (i) Trade or business – this included an adjustment to profits.
  - (ii) Interest
- (b) Qualifying payments relief under section 34.
- (c) Tax credits.
- (d) Explain whether the income from franchising its brand to local companies will be liable for VAT in terms of the Value Added Tax Act No. 14 of 2002.

### Specific comments

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

### Example 01

The question (item viii) states that the company distributed a first and final dividend on 31<sup>st</sup> December 2017. It is necessary to distribute a minimum of 10% of the distributable profits for the previous year on or before 30<sup>th</sup> September, 2017 to avoid deemed dividend tax. However, a significant number of candidates mentioned that the company is not liable for deemed dividend tax since the minimum dividend has been distributed.

### Example 02

The distributable profit for the previous year is given in the question (item ix). However, a good number of candidates computed the distributable profits using the current year financial data.

Errors in principle/shortcomings in technical knowledge.

(i) Business income –

- (1) Computation of adjusted trade profits – a few candidates commenced the computation with turnover instead of net profit as per accounts. This approach is both cumbersome and time consuming. Besides, it was a wastage of valuable examination time earning no extra marks.
- (2) Share listing expenses – a good number of candidates disallowed this stating that the expense is of a capital nature. However, they failed to claim the deduction under section 25 (ii) (s).
- (3) Skills development training expenses – a good number of candidates mentioned that such expenses are allowable but failed to claim an additional 200% of the expense as a deduction allowed under section 25 (1)(x).
- (4) Housing benefit to Managing Director – majority of the candidates made mistakes in computing the disallowable part of the benefit.
- (5) Capital allowance – High speed data processor – a significant number of candidates claimed 100% instead of 50% (section 25 (i) (d))

(ii) Interest income from fixed deposits – a few candidates mentioned that this income does not form part of the assessable income since withholding tax (WHT) has been deducted. In the case of companies, WHT deducted is not a final tax and therefore the gross interest forms part of the assessable income and the WHT deducted can be claimed as a tax credit.

(iii) Qualifying payments – a good number of candidates mentioned that the donation of garbage bins to the Municipal Council is not eligible as a qualify payments relief since the donation was not made in money.

(iv) Dividend tax – most students were not aware that dividend received by unit trusts and Api Wenuwan Api are exempt from income tax and therefore WHT need not be deducted from any distribution of dividends.

(v) Rate of income tax – the profits and income of Mobi Soft PLC are eligible for a concessionary rate of income tax of 10% under the fifth schedule item 31. A good number of the candidates were not aware of this.

(vi) Tax credits – a few candidates claimed tax credits against taxable income. This is an error in principle.

(vii) Tax free allowance – a few candidates claimed tax free allowance which is available only to resident individuals and non-resident individuals who are citizens of Sri Lanka.

### Mistakes made in the application of concepts/formulae

- (i) Exempt profits – a good number of candidates made mistakes in the application of the formula to determine exempt profits.

#### Example

$$\frac{\text{Turnover from foreign customers}}{\text{Total turnover}} \times \text{Taxable income}$$

- (ii) Computation of adjusted trade profits – a few candidates commenced the computation with the “Annual Turnover” figure instead of “Net Profit” as per accounts.

### Common mistakes made by the students:

1. Section 25 (1) (s) – amount deductible in respect of expenditure in listing the shares at the Colombo Stock Exchange.
2. Section 25 (1) (x) – deductibility of 300% of the expenditure incurred by the company on the standard skills development training programme.
3. Section 25 (1) (v) – amount deductible in respect of the cost of acquisition of the internationally recognised patent for software invented by the company.
4. Section 26 (1) (0) (ii) – amount disallowed in respect of the expenditure incurred by the company in providing a place of residence to the Managing Director.
5. Section 25 (1) (d) – depreciation allowance rate for high speed data processor.
6. Fifth schedule (item 3.1) the concessionary rate of income tax applicable to the company.

### Question 07

The question required candidates to:

- (a)
  - (i) Assess the income tax liability of a club.
  - (ii) State the due date for furnishing the return of income and the penalty that could be imposed on non-submission of the return on the due date.
  - (iii) Explain under what conditions an application can be made for cancellation of the VAT registration.
- (b)
  - (i) Compute the VAT payable by a company engaged in the manufacture of cardboard packages and is a registered identified supplier (RIS) for the purpose of the simplified value added system.

### Specific comments

Instances where information given in the question was not understood.

- (a) E.g 01. The question states that the old van was exchanged with a new van having a fair value of Rs. 1 million and by paying an additional Rs. 300,000 in cash. By using simple mathematics one can deduce the sales price of the old van as Rs. 700,000. However, most candidates mentioned the sales price of the old van as Rs. 1 million or Rs. 1.3 million.

- (b) E.g.02 The question states that the supplies made during the quarter were exclusive of VAT. However, a few candidates computed output VAT on the basis that the supplies are inclusive of VAT.
- E.g.03 The question mentioned clearly the input tax paid by the company on various procurements. However some candidates applied the VAT rate (15%) to the given input taxes before claiming input tax credit.

Errors of principle/shortcomings in technical knowledge.

- (a) (i) Business Income:
- (1) Profit on disposal – A few candidates made mistakes in recognising the sale proceeds of the van.
  - (2) Capital allowance – most candidates made mistakes in determining the cost of the new van.
- (ii) Interest received from loans given to members. Some candidates mentioned that the interest was subject to WHT and therefore, not liable to further tax.
- (iii) Deduction under section 32 – a good number of candidates made mistakes in determining the amount deductible in respect of brought forward loss from the previous year of assessment.
- E.g. (1) fully deductible
  - (2) maximum amount deductible – 35% of b/f loss.

Mistakes made in the application of concepts formulae.

- (a) E.g. 01 In ascertaining the gross receipts of the club, a substantial number of candidates did not recognise interest income on loans to members.
- (b) E.g.02 Some candidates computed output VAT on the total supply without identifying the different classes (direct exports, local supplies etc.) of supply.
- E.g.03 Majority of the candidates made mistakes in the application of the formula for input tax claimable without restriction and input tax claimable subject to 100% output tax.
- E.g.04 Some candidates applied the short cut method for computing VAT by aggregating taxable supplies of different classes and applying a common VAT rate.

Candidates should display their knowledge by considering each class of supply separately and applying the appropriate VAT rate since the nature of supply can influence the tax liability.

- E.g. 1. Direct exports taxed at zero rate.
- 2. Supplies taxed at standard rate.

Majority of the candidates displayed sound knowledge/skills in the undermentioned areas of taxation of a club.

- (1) Identifying whether the club is deemed to carry on a business.



- (2) The basis of taxing the income and profits of a club where the club is deemed to carry on a business.
- (3) The structure, identification of the statutory contents and the presentation of an income tax computation of a club.

Common mistakes made by the candidates.

Most candidates made mistakes in the undermentioned areas.

- (a)
  - 1. Excluding the interest received from members in determining whether the club is deemed to carry on a business.
  - 2. Ascertaining the sale proceeds of the old van and the cost of the new van.
  - 3. Correct ascertainment of the deductibility of tax losses brought forward from the previous year of assessment under section 32.
- (b)
  - 1. Deducting output VAT on suspended supply as input VAT credit.
  - 2. Ascertaining input VAT claimable without restriction.

Other comments to be communicated to the candidates:

- (i) Read the questions carefully. Understand the information given and the requirements of the question clearly before attempting to answer. It may be necessary to read the question more than once to ensure the information given and the requirements are clearly understood. Candidates are given 15 minutes extra time to read and plan the answer.

Reading the question carefully will help candidates to save valuable exam time by avoiding irrelevant and/or lengthy answers.

E.g. The question of distributable profit for the preceding year of assessment was given. However, some candidates computed the distributable profit using financial data for the current year. Thereby wasting valuable exam time earning no extra marks.

- (ii) Computation of adjusted trade profits.

Always commence with the “Net Profit as per accounts” figure.

A few candidates commenced the computation with the “Annual Turnover” figure. This approach should be avoided as it is cumbersome and time consuming. Besides, such a method may not be acceptable to revenue authorities.

- (iii) Improve on your handwriting and language skills. The examiner cannot award marks to an answer which he cannot read or understand.
- (iv) Begin each answer on a separate page. This requirement is also mentioned in the question paper under ‘instructions to candidates’. It was observed that a few candidates commenced answering a question on the same page in which the previous answer ends.

## KB4 – Business Assurance & Ethics

**June 2018**

### Examiner's Comments

#### Question-wise comments

This paper consists of two sections and all questions are compulsory. Section 1 contained 5 questions carrying 10 marks each. The second section consisted of two questions carrying 25 marks each.

##### General comments

All the questions in this paper are based on the study text. The average performance is satisfactory. In this exam well prepared candidates demonstrated an ability to use their knowledge to relate their answers to the requirements of questions. Some candidates had wasted time in writing lengthy answers for a three marks question. Generally, candidates were able to demonstrate appropriate time management and address all the questions. Some candidates appeared to have lost focus on the requirements, as a result written answers which were irrelevant. Candidates are advised to update their knowledge with the latest pronouncements issued by CA Sri Lanka as there had been changes to the independence requirements of non-executive directors in the publication of 2017.

Specific comments:-

##### Question 01

- (a) In this part of the question the candidates were expected to express clearly two fundamental principles set out in the Code of Ethics for professional Accountants issued by CA Sri Lanka. Majority of candidates have answered this part of the question satisfactorily. Some candidates had mixed up the threats to independence and objectivity which arise in the form of self-interest, self-review, etc.
- (b) It was required to identify three circumstances where threats to independence and objectivity could arise when carrying out the audit of Hicro. The examiner expected the candidates to write the threats for each issue. Some candidates had reproduced the facts given in the question. Many candidates who had identified the circumstances where threats to independence and objectivity could arise were unable to identify the relevant threat. Some candidates just wrote the threats to independence and objectivity and explained without reference to the scenario. There were candidates who had identified only two threats instead of three, as a result they scored less marks.

- (c) In this part of the question the examiner expected the candidates to write significant features of two safeguards that could be implemented in order to mitigate each of the circumstances identified. Although the question's requirement was two safeguards the candidates are advised to write all possible safeguards. Many had restricted to two safeguards. It was observed that most of the candidates wrote irrelevant safeguards, as a result they were unable to score the required marks. The candidates, who had identified irrelevant threats wrote irrelevant safeguards.

## Question 02

- (a) It was required to state four red flags of fraud that can be identified in any business organization. Some candidates had written relevant answers, but most of the candidates had misunderstood the question and wrote irrelevant answers. Some had written fraud risk factors as the red flags of frauds. Some candidates had reproduced the facts given in the question.
- (b) 1, It was required to identify 3 possible fraud risk factors from the given scenario. Most of the candidates were able to identify the risk areas but failed to write how such circumstances result in fraud risk as the internal control system has broken down and there is a mismatch in lifestyle, the income level and the dominating personality of Olivia.
- 2, In this part of the question the examiner expected the candidates to explain with reasons whether the audit should reveal fraud that may have taken place. Some candidates have produced satisfactory answers. Most of the candidates had not understood the requirement of the question which is to **explain with reasons**. Many candidates had ignored the **words explain with reasons** and written that it is not the duty of the auditor. Some candidates who do not have the subject knowledge came to the conclusion that it is the duty of the auditor as per the scenario as there is no internal audit function and the internal control system is not in operation.

## Question 03

- (a) In this part of the question the examiner expected to test the knowledge of the candidates on corporate governance. It was required to explain why corporate governance is relevant to the auditor. Many candidates had written satisfactory answers. Some candidates who had not understood the requirement of the question explained how the code of ethics helps the auditor not corporate governance. Some candidates who had understood the requirement wrote that it will facilitate a strong control environment but were unable to explain how it is relevant to the auditor. Some candidates explained as to why it is important but not addressed the relevance to the auditor. Many candidates were unable to identify that it reduces audit risk, and they wrote that corporate governance is a regulatory requirement for all listed companies.
- (b) It was required to recognize deficiencies in the proposed board structure of SPL. The examiner expected the candidates to apply the knowledge gained from studying the Code of best practice on Corporate Governance 2017 in the areas of ;
- Composition of the board in a listed company
  - Board balance
  - Appointment of director as the chairman of the audit committee

Some candidates had written satisfactory answers, but some were unable to identify the deficiencies in the proposed board. Some candidates misunderstood the requirement and had written the requirements under the code of best practices without applying it to the scenario. Some candidates had reproduced the facts given in the scenario and failed to link it to the Code and explained the independence requirement for non-executive directors. Some candidates who had not read the question and the independence criteria of the Code properly stated that Pandula and Herath are not independent as they are employees of SPL. Some candidates who lacked the technical knowledge stated that non-independent persons cannot be appointed to the board. Some candidates wrote only the requirement of the code without applying it to the scenario.

- (c) It was required to state two factors an entity might consider when assessing the need for an internal audit function. Some candidates who have not read the question properly wrote the functions and benefits of the audit committee. As this is straight from the study text those who have studied the study text have answered well. Some candidates misunderstood the question and wrote the requirement with regard to appointment of audit committee laid down in the corporate governance code

#### **Question 04**

In this question the examiner expected to test the knowledge of the candidates on internal controls. It was required to outline 6 improvements to internal controls in the existing procedure for providing materials for construction and repair. It was disappointing to note that the performance of this question was very poor. The candidates were expected to identify the deficiencies in the system in the given scenario and write the correct procedure.

If the candidates had identified the deficiencies they could have easily written the improvements to be made to the system. Some candidates had presented in a tabular form the deficiencies and the improvements to be made. Many candidates had misunderstood the requirement and wrote answers introducing a whole new procurement system instead of the improvements. Although they showed the technical knowledge they were unable to apply that to the particular scenario. Some candidates who lacked the technical knowledge wrote to introduce segregation of duties and to assign separate codes for each project. Some candidates had not understood the question and reproduced the facts given in the question.

Part (b) It was required to differentiate between the two types of IT controls. Most of the candidates had written satisfactory answers. Some candidates had misunderstood the question and wasted time in explaining general IT controls.

#### **Question 05**

This question was on going concern.

- Part (a) It was required to assess the matters that may cast doubt about the going concern of Bakewell. The examiner expected the candidates to apply theoretical knowledge to the given practical situation. Most of the candidates attempted this part but had written only two matters as a result they obtained less marks. The examiner expected the candidates to address the matters given in the scenario. Many candidates had identified loss of customers and reduction in sales as two points but the effect of both is the same. Some candidates had identified the issues but lacked the subject knowledge therefore had written that there is no going concern issue as the flood is a natural incident and it would not affect the going concern of the company.

- Part (b) It was required to list two key procedures that can be performed to determine whether a material uncertainty exists due to the events identified on the going concern issue. Some candidates had identified the key procedures but did not address the issue. Many candidates had ignored the phrase material uncertainty and wrote general audit procedures such as inquiry, observation, confirmation etc. Some candidates had misunderstood the question and wrote that the auditor should inquire from the previous auditor ignoring the fact that the flood had occurred during the financial year.
- Part (c) It was required for candidates to analyze the impact on the audit opinion on the financial statements of Bakewell from the matters noted in the scenario. As the requirement is to analyse, the examiner expected the candidates to analyse in the form of;
- whether the use of going concern is inappropriate and if so what should be the opinion
  - If it is appropriate but material uncertainty exists and it is adequately disclosed, then what is the audit opinion
  - If adequate disclosure is not made when material uncertainty exists what is the opinion
  - As Peter & Co., is auditing this company for the first time and had come across a going concern issue due to the floods during the financial year and the previous auditor had expressed an unmodified opinion on the prior year financial statements, Peter & Co., should draw the attention of the reader to that matter.

Many candidates had not understood the requirement, and had not analyzed the impact on the audit opinion as expected. Some candidates had written satisfactory answers only for one issue writing the impact on the audit opinion including an emphasis of matter paragraph deciding that the use of going concern is appropriate when material uncertainty exists and when it is adequately disclosed. The examiner expected the candidates to analyse each issue in the given scenario, as a result many candidates did not obtain full marks.

### Question 06

- (a) In this part of the question the candidates were expected to discuss factors that A&S Co., should consider when placing reliance on the work of Herath who is the valuer. The average performance on this part of the question was good. Some candidates who seemed not adequately prepared for the exam wrote only about the independence and experience. Some candidates who either did not understand the question or lacked the technical knowledge wrote how the audit report should be prepared relying on the valuers' report.
- (b) It was required to analyze the acceptability of the accounting treatment adopted by NHL for kitchen equipment. In the given scenario there was an advance payment of Rs. 15 M included in plant and machinery, the last instalment was also not paid as at 31<sup>st</sup> March and the equipment was not delivered as at that date. However, depreciation had been provided. Some candidates had answered stating that the accounting treatment is incorrect, but the requirement was to analyze and explain why the accounting treatment is incorrect. Many candidates had failed to analyze each issue. It was noted that except for a few candidates others did not identify that providing for depreciation is incorrect as the equipment was not available for use as at 31<sup>st</sup> March. Some candidates had ignored the requirement and suggested to get a valuation for the equipment.

- (c) It was required to state appropriate substantive procedures in order to verify each of the following:
- Land and buildings
  - New restaurant of NHL

The average performance was satisfactory. Some candidate demonstrated poor knowledge in substantive procedures which are designed to detect material misstatements at the assertion level such as test of details of classes of transactions, account balances, its disclosure and substantive analytical procedure. Some candidates wrote test of controls instead of substantive procedures. Some candidates ignored the requirement and wrote substantive procedures for both items together, as a result they obtained less marks. Only a few candidates had written that the depreciation policy should be reviewed in order to check the adequacy and consistency.

- (d) It was required to recognize three potential advantages of using audit software. Some candidates demonstrated good knowledge and had written relevant answers, they had also analyzed their answer in relation to computer assisted audit software (CAAT) and general purposes audit software. The average performance for this question was satisfactory.
- (e) It was required to state four audit procedures that can be performed using audit software to test the revenue and trade receivables. Some candidates had misunderstood the question and wrote about the general usage of software. Some candidates had written about audit procedures to test revenue and trade receivable in a manual system ignoring that the requirement of the question was to use audit software.
- (f) It was required to discuss the relevance and reliability of the oral representation received from the debtor as a source of evidence to confirm the balance. Most of the candidates wrote relevant answers.

### Question 07

This is a scenario based question. The average performance on this question was satisfactory.

Part (a) It was required to assess 6 key audit risks that should be considered when planning the audit of STC. Many candidates had misunderstood the requirement and wrote about risk factors. If they had the subject knowledge they could have easily written how it affect the assertions. The candidates should learn to identify risks that may lead to misstatements in the financial statements.

- (b) (1) It was required to recommend procedures that the audit team should perform in order to resolve the issue with regard to investment in the scenario. The candidates were expected to identify the issue first and recommend the audit procedure in order to resolve that. Many had identified the issue but failed to recommend relevant audit procedures. Some had just written to verify investments without giving any procedures. Some candidates knew that reviewing the net assets position of the last financial year was the correct but went on say that it should be inquired from the previous auditors which was an incomplete answer.
- (2) In this part of the question it was required to analyse the impact on the audit report if such issue remains unresolved. The examiner expected the candidates to analyse the impact. Many candidates were unable to analyse the impact and wrote several audit opinions to be expressed. Some candidates had explained different audit opinions without referring to the given issue.

- (c) It was required to explain the responsibilities of the management and auditors of STC in relation to compliance with laws and regulations under SLAuS 250. Most of the candidates failed to understand the difference between the responsibilities of the management and auditors. Most of the candidates demonstrated poor technical knowledge, as a result they were unable to understand the exact requirements of the question.
- (d) It was required to state the audit procedures in relation to non-compliance with laws and regulations. Most of the candidates managed to secure marks writing audit procedures although they demonstrated poor technical knowledge in part (c)
- (e) It was required to outline how sampling risk affects the sample size. Almost every candidate managed to score marks.

### **Conclusion**

The average performance on this paper was satisfactory, but it was disappointing to note that many were unable to provide good knowledge which may be due to the fact that they had not practiced how to apply the principles & technics that they have learnt.

# **KB5 – Business Value Creation**

**June 2018**

## **Examiner's Comments**

### **Question-wise comments**

#### **Question 01**

##### **General comments**

Overall performance of the candidates was good. The question carries 10 marks and requires;

- (a) To discuss how the Management of the 'Green' can increase the value of the business using the primary activities of the value chain.
- (b) To recognize the importance of 'Procurement' as a support activity in adding value to the primary activities of the restaurant's value chain.

##### **Specific comments**

- (a) Primary activities are inbound logistics, operations, outbound logistics, marketing & sales and service. Some candidates stated correctly that receiving fruits and vegetables from the suppliers, handling and storing by the Production Department i.e. kitchen of the company can add value to its customers in providing quality foods. Under operations, freshness, taste and presentation of food would enable the company to provide a higher value addition. Some candidates had wasted valuable time by just describing what the primary activities are without relating it to the given case. Under 'Service', only a few mentioned that the company needs to provide quality service so that customers would be enticed to return to the restaurant in the future. Some just mentioned, under service that only serving the customers properly adds value rather than the provision of quality food and excellent customer service.
- (b) Provision of fruits and vegetables at the time it is required, at the desired quantity and quality specification at an economical price, were recognized by some candidates correctly as enabling the supporting activity 'procurement' to add value to the restaurant's value chain. Most of the candidates mentioned only the provision of "quality" goods instead of mentioning the desired quantity at an economical price at the required time.

#### **Question 02**

##### **General comments**

Overall performance of the candidates was good and the question carries 10 marks and required the candidate,



- (a) to explain the possible applications of the internet and intranet to achieve supply chain efficiencies at 'Shine Apparels'.
- (b) to explain four key benefits of e-procurements for 'Shine Apparels' (SA), through the supply chain information system.

### **Specific comments**

- (a) Some correctly explained as to how the internet could be used by SA i.e. to locate suppliers, to place orders in which SA can increase efficiencies. It was also mentioned how the intranet, could facilitate purchasing from external suppliers through connecting the company employees to the internet. Only a few stated that the intranet of SA can be accessed by external suppliers to monitor production schedules of SA and thereby the supplier could anticipate future orders.

Some had misunderstood the question, in that, they mentioned that the customers of SA could use the website of SA and transact with SA by making orders, on-line purchasing including making on-line payments.

- (b) E-procurement would enable SA a wider choice of suppliers, quick ordering, reduced inventory level, reduction of costs, greater financial transparency etc. Some came out with inappropriate answers like, SA could face competitors better and external threats as a result of e-procurement arrangements.

### **Question 03**

#### **General comments**

Overall performance was satisfactory. The question carries 10 marks and required the candidate,

- (a) to recognize the production method of Eksath Holdings (EH)
- (b) to explain the stages in the new product development process.

#### **Specific comments**

- (a) Most of the candidates had recognized correctly the production method of EH as Batch Production method which produces a batch of an item where every item in the batch is the same. A few recognized the production method of EH as the Job Production method which did not earn marks. Some only stated 'Batch Production Method' without a brief outline which earned only one out of the two marks. A few mentioned the production method as 'Chain production' for which no marks were allocated.
- (b) A fair number of students explained the stages of the new product development process in order as idea generation, idea screening, concept development and testing, business analysis, beta testing and market testing, technical implementation, market launch and post launch review. A few candidates explained the product life cycle stages i.e. introduction, growth, maturity and decline which did not earn any marks. Some could not provide the stages in the correct sequence whereas a fair number of students did not name all the stages. Some just listed out the stages without described it in relation to the given scenario.

## Question 04

### General comments

Overall performance of the candidates was poor. The question carries 10 marks and it requires candidates;

- (a) to state the possible actions the company could take in order to protect the Perline brand.
- (b) to explain four requirements the company should consider for successful brand positioning of the new product line within the market.

### Specific comments

- (a) K&S should ensure that all new products added to the existing brand meet the same quality standard as the existing branded products. If another company tries to imitate the Perline brand and introduces low quality products, K&S Holdings should take legal action to protect the brand. Some students correctly stated that since the new product is of medium quality targeting lower-end customers, a different brand needs to be introduced for such products. Some incorrectly suggested to keep the new products under the existing brand.
- (b) Some candidates just listed out the requirements for successful brand positioning as 'relevance, clarity, coherence and patience' without any explanations. In order for successful brand positioning, the product needs to be delivered at the right place, price and using the right transportation system according to some candidates who did not earn marks. A few incorrectly identified the financial capabilities of the company as one requirement for successful brand positioning.

## Question 05

### General comments

A fair number of students managed to obtain more than 45% of the allocated marks. The question carries 10 marks and required candidates,

- (a) to explain the best e-commerce business modes Alpha Stationery (Pvt) Ltd, can use to make the on-line operation a viable solution.
- (b) to discuss four main issues Alpha Stationery (Pvt) Ltd should consider before starting its e-commerce operations.

### Specific comments

- (a) Some candidates identified the 'Merchant Model' as the best e-commerce business model. Nevertheless only a few candidates could justify the "Merchant Model" as the best, since Alpha is going to set up an on-line stationery purchasing option and to distribute physical products to the buyers' location. Some candidates were unable to identify the model as the merchant model but the main two features in the model were stated, i.e. on-line payment and delivery of the items to the address of the consumer. Some incorrectly identified the "Manufacturer Model" as the best.

- (b) A few candidates discussed the issues correctly under value proposition, Revenue, market opportunity, competitive environment, competitive advantage, market strategy, organization of operations and management team. Some identified 'Threats Alpha may face due to the adoption of e-commerce' as an issue for which marks were not given since the threats were not specified. Even though most of the candidates stated that the e-commerce operation would add value to Alpha, they could not discuss as to how the value addition will take place. Only a very few stated that customers are not required to visit physical outlets to buy products and they can easily order the products on-line and thereby there will be a value addition to both the customer and Alpha.

## **Question 06**

### **General comments**

Most of the students managed to score 50% of the marks allocated for the question which carries 25 marks and the question required candidates,

- (a) to outline the steps of the HR planning process to maintain the required workforce.
- (b) to explain 04 weaknesses in the interview process as a selection method.
- (c) to state 02 possible external recruitment methods that can be adopted by Cerebro.
- (d) to assess 04 aspects of talent management to be considered by Cerebro to attract and retain talented software developers.
- (d) explain the key steps that could be adopted by Cerebro for managing the explicit knowledge of software developers.

### **Specific comments**

- (a) Number of employees required in each year for a few years need to be forecasted allowing for expected changes. Forecasts should estimate the employees for different categories i.e. for software developers, project managers, consultants etc. making an allowance for retirements, resignations, promotions, transfers etc. The difference between the numbers required and numbers available need to be identified as a recruitment gap, which needs to be filled through internal recruitment and external recruitment. Some candidates stated training & development and performance appraisal as steps of the HR planning process whereas most candidates could not relate the answer to the given scenario. A few mentioned that the HR Department should reduce the staff turnover and should introduce job descriptions.
- (b) Some candidates correctly explained the weaknesses in the interview process under the headings of scope, artificial situation, the halo effect, contagious bias, incorrect assessment and inexperience interviewers whereas the examiner expected students to explain inherent limitations in the interview process. A few candidates had just stated the headings and a few did not understand what is meant by halo effect. Some candidates, without stating the headings provided explanations and earned some marks, e.g.: immature interviewers quickly concluded on the required attributes of candidates. Some gave a generalized answer stating that a proper interview process needs to be established.
- (c) Most of the students were able to earn full marks for this part. Recruitment agencies which specialized in finding the best candidates for particular types of jobs, were identified as external recruitment methods. A few stated the internet and social media as different methods of advertising.

- (d) A fair number of candidates correctly assessed various aspects of talent management. By developing job descriptions and job specifications, talented software engineers need to be selected. Cerebro should educate the new recruits about the objectives of the organization, so that new recruits will understand what is expected of them. Thereafter training and development needs to be identified and fulfilled, and performing employees need to be retained by means of reward, promotion etc. Some candidates just mentioned that the problems faced by the employees should be identified and addressed in order to retain talented employees. Some discussed only about motivation to retain employees and ignored the selection of talented employees.
- (e) Candidates had identified and explained knowledge identification, capturing, sharing, distribution, use and maintenance as the steps for managing explicit knowledge to enhance the business and scored the allocated marks. Some candidates just listed out the steps which earned only 20% of the allocated marks.

### **Question 07**

#### **General comments**

Overall performance of most candidates on this question was poor. The question carries 25 marks and required candidates ;

- (a) to analyze the best generic competitive strategy to be used by the new SBU of Silicon (Pvt.) Ltd.
- (b) to evaluate four issues the company should consider under 'feasibility' of SAF Assessment, before implementing the crafted strategies.
- (c) to analyze the best demand-based pricing strategy when deciding the pricing for the new innovative products to be introduced to the high-end market.
- (d) to recommend suitable methods of distribution, of products to the end consumers.

#### **Specific comments**

- (a) The best generic strategy would be to use a differentiation strategy to move away from existing competitors since the company is aiming to produce a unique high quality product than industry rivals and thereby command a higher price than competitors. On the other hand a cost leadership strategy may not produce quality goods and a niche strategy is also not suitable since the company would eventually move into the low-end market. Some just described the three generic strategies and did not recommend a suitable strategy. Some candidates just recommended a differentiation strategy without a proper justification being provided whereas some did not analyze why a cost leadership and focus strategies are not suitable for the given scenario.
- (b) Availability of finance to pay for the strategy, availability of resources, ability to implement the strategy, competitor response and time constraints are factors the company should consider before implementing the crafted strategies, according to a few candidates who scored the allocated marks. Some just listed out the factors without analyzing it. A few candidates identified the long term market for the product and the risk of innovation of new products as factors to be considered before implementing the strategies.

- (c) Some candidates correctly stated and justified a market skimming strategy as the best demand based pricing strategy the SBU should consider when deciding the price for the new products to be introduced to the up-market. A few just mentioned a market skimming strategy is the suitable pricing strategy without a justification as to why a penetration strategy is not suitable. Some candidates mistakenly stated that a lower price needs to be charged at the initial stage of introduction of the product to the market.
- (d) The exclusive distribution strategy for up-end market and extensive distribution strategy for lower-end market were recommended by a few candidates who scored the full allocated marks. Some candidates mentioned that Silicon should use grocery shops and retailer shops to distribute the products among low end customers without using an 'extensive distribution' strategy. Some candidates recommended selective and extensive distribution strategies for both high end and low end markets without separately identifying it.