

## **KE1 – Financial Accounting & Reporting Fundamentals**

### **September 2018**

#### **Examiner's comments**

### **Comments on Student's Answers to Questions**

#### **Question 1 – MCQ.**

Most candidates had understood the question and answered well. Overall performance in this question was satisfactory. However, many of the candidates had given incorrect answers to 1.7, 1.8, & 1.9.

#### **Question 2**

- 2.1 Some students had written generic answers, without relevance to the information given in the question. Some appeared not to have clear knowledge re 'PEST' factors, making reference to incorrect factors. (e.g.: geographical, natural, environments) A few students wrote examples of factors, without mentioning the factors.
- 2.2 Similarly, some had given examples of stake holders Eg: owners, pressure groups, shareholders, investors, etc., without first defining the categories of stakeholders, for Sri Lankan Airline.
- 2.3 Most students answered this part of the question, giving the point of view of suppliers of goods, but not considering the point of view of those providing resources.
- 2.4 The question referred to source document & books of prime entry, but some students had dealt with how those transactions were to be accounted for. In part iii, some mentioned that the "general ledger" was a book of prime entry, instead of the general journal. Most students appeared to have had no idea about the source document for 'cash deposits', indicating "receipt" or "bank statement" under part (i)
- 2.5 Students were asked to explain "double entry & its role in accounting". But a large number of students had only explained the double entry system without describing it's role in accounting.
- 2.6 Approximately 25% of the students wrote journal entries without giving a narration. Some produced " T " accounts instead of journal entries.

- 2.7 This part asked students to give two reasons for the nature of the said lease, but some had provided more than what was asked for in the question i.e. minimum lease payment etc., losing both marks & time.  
Many had given incorrect criteria for recognizing a finance lease, answers being wrong or incomplete, in most cases.
- 2.8 A majority of students didn't score marks for this part of the question, many indicating that this was a purchase related module instead of it being a sales related module. Most students lost marks or didn't answer this part.
- 2.9 Students knowledge related to deductible & taxable temporary difference was very poor. Those who had answered this part had given wrong conclusions/wrong reasons. Some had only given reasons, without concluding it was a deductible/ taxable temporary difference. Most students failed to score marks for this part.
- 2.10 Additionally, many students failed to apply the gross profit margin formula to compute the cost of goods sold.

On average, overall performance was at a satisfactory level. A majority of the candidates were able to obtain more than 50% of the marks allocated to this question.

### Question 3

This question had three parts. Students were asked to prepare two statements using the information provided, to obtain the individual account balances in the payable ledger and the adjusted balance in the payroll control account. Although the students were asked to prepare two statements, some answers were written as journal entries to correct the control account and sub ledger.

Almost all students had attempted this question obtaining an average of around 7 marks.

Common mistakes made by students included

1. Preparing a reconciliation for the difference between the control account and sub ledger.
2. Writing journal entries.
3. Taking Rs.567,000 without adjusting the difference in Purchase of Trading items
4. The balances in Payroll ledger not tallying with the payroll ledger control account balance, after the adjustment and in some cases, not properly answering part "c" of the question.

Generally the question was well answered.

### Question 4

Students' knowledge of Ratios and Bank Reconciliations were being tested in this question.

Some appeared to have a poor knowledge of ratios, as it was observed that incorrect formulae were applied in computation of ratios. Some had failed to identify current assets and current liabilities. Long term investments had in some cases been considered as current assets. Bank loans payable after 2 years, had been treated as current liabilities.

The Current Ratio & Quick Ratio should have been presented as a single number or as a ratio - but had in some cases been shown as a percentage or number of times.

The collection period for Receivables & Payables should have been presented as number of days, but had been shown as a percentage or number of times.

Some candidates were not aware that bank statement balances should be reconciled with adjusted cash book balances. Most candidates however, had answered this part of the question, in an acceptable manner.

### **Question 5**

This is a question about SLFRS for SMEs and LKAS 16. About 90% of the candidates did not attempt this question and poor responses were observed, in general.

Part (a) – Many candidates had given answers without carefully analyzing the issues required to be covered in the answer. Majority of the students failed to mention this was a finance company.

Simplifications in accounting for R&D costs were not understood by most of the students.

Part (b)1- Even though the study text had given clear examples of options available in full SLFRS but are not included in the SLFRS for SMEs, many students misunderstood this part and had mentioned EPS, Interim financial report, segment report etc.

Part (c) – Some had incorrectly calculated depreciation after revaluation of vehicles – ignoring the fact that the useful life of the vehicle does not change.

Most students had not presented the financial impact correctly. On average, most students' knowledge on SLFRS for SMEs, appeared to be very limited.

### **Question 6**

Almost all of the students had not understood the question, due to a lack of knowledge in the area tested. This question was mainly framed to test basic knowledge regarding the dissolution of partnerships. Most students had not understood the working of a Realization Account. Some had prepared a Profit & Loss Account or Income Statement instead of Realization Account.

Common mistakes included the following: The Realization Account had been prepared in a columnar format, and in some cases, each item of Income & expenditure, had been divided between partners. The Current Account had been interpreted as the Realization Account. Adjustments had also been made in the Current Account & transferred to Capital Account. Some had prepared "T " accounts for each and every asset/liability. The Question was technically very clear, yet students appeared to be unfamiliar with the concept of using Realization Accounts in Partnerships.

The overall performance in this area was very poor.

### Question 7

The answers to part (a) of the question were satisfactory. However, most of the candidates did not submit answers to part (b), whilst those who did answer, gave irrelevant answers, due either to not having studied this topic, or not having understood the question.

Common mistakes included the following:

1. Valuation of inventories as at 31.03.2018 ignored the selling price & cost of selling the slow moving items. The correct computation was  $17400 - 800 + 300 - 5 = 16895$ .
2. A few candidates had not adjusted for the error of recording the purchase as a sales return. The correct purchase value should have been  $\text{Rs.}11,500 = (112,400 + 3,000)$ .
3. The incentive received (Rs.1400) for the operating lease on the land, had not been taken as differed income, by almost all candidates. A few had also incorrectly set off the value of the entire incentive, from prepayment. The correct answer should have been 28 i.e.  $(1,400/50)$  as 'other income' for the current year & an amount of 1,372 i.e.  $(1,400-28)$  carried forward as differed income, under non-current liabilities.
4. Only a few candidates had correctly adjusted the 'under provision for taxation' in the previous year (Rs.500). The correct amount to be provided for, in the current year, as income tax provision, was Rs.6,660, i.e.  $(\text{Rs. } 22,000 \times 28\% + 500)$ . Many candidates treated this as an over provision and incorrectly deducted this value from the current year estimate.
5. A few candidates had incorrectly categorized the redeemable preference shares as part of Equity & not as a Non-current liability.
6. A few candidates had correctly adjusted the prepayment of lease rent for the land, i.e. an amount of Rs.1, 825. Some however, had not charged this amount to Admin. Expenses in the Profit & loss account.

## **KE2 – Management Accounting Information**

**September 2018**

### **Examiner's comments**

## **Comments on Student's Answers to Questions**

### **General comments about submission of workings**

There were many instances where marking examiners could not award marks due to the failure of candidates to submit workings. If a candidate had made a mistake, and the relevant working had not been shown, it would not have been possible for the examiner to award marks, for the correct steps shown in the workings, which might have otherwise, possibly, have earned some marks.

### **General comments 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 would have been awarded for the illegible section.

### Question 01

Percentage Selection by Candidates Question No.	Correct	Incorrect
1.1	78%	22%
1.2	13%	87%
1.3	27%	73%
1.4	35%	65%
1.5	27%	73%
1.6	51%	49%
1.7	36%	64%
1.8	49%	51%
1.9	71%	29%
1.10	51%	49%

Question 1.2 had the poorest answers, as reflected above, and is evidence of students not having a good knowledge of 'the absolute error calculation'.

Average performance on questions 1.3 and 1.5 were also at unacceptable levels, indicating that many students did not have a proper grasp of Absorption costing techniques and Marginal Costing techniques.

### Question 02

Q.2.1. Many students had used EOQ formula instead of EBQ. Questions 2.2, 2.3, and 2.10 had been satisfactorily answered by a majority of the candidates.

Q. 2.4 Part (i) - Some students had considered the VAT portion also as a part of Revenue.  
Part (ii) - Many students had calculated difference in profit margin, instead of changing the total profit based on 1Kg of cost of ingredients.

Q. 2.5. Some candidates had taken the longer path (Joint Probabilities) of computing for nine scenarios, rather than computing it in a simplified method, which would have been time consuming.

Many students had not recognized the probabilities as being mutually exclusive.

- Q.2.6 Many students had also not applied the correct formula (Compound Interest) in calculating the value of FD in 10 years.
- Q.2.7 Most candidates had computed the Present Value of Capital Outlay, but many had not presented it in monetary terms.
- Q.2.8 Some students had not understood the word “Critique” and just stated irrelevant points, i.e. ‘Difficult to understand’, ‘Lack of knowledge of staff on Standard Costing’ etc.
- Q.2.9 Some students had also made a common mistake in computing the actual hours.

### **Question 03**

Optional 10 marks

This question had been designed to test the Intended Learning Outcomes (ILO) of Chapter 1 Introductory Mathematics “and Chapter “Probability” of ICASL Study Guide.

Some students had not attempted this question and even those students who attempted the question had not performed well. The average marks obtained by students for this question was 3-4, with only a few students scoring more than 5 marks.

Part a

Many students obtained a fair score, on expected profit computation.

Performance on Standard Deviation on profit calculation, however, was poor.

Part b.

Some students had correctly explained the COV implications to the farmers, but many students appeared not to have understood the question, showing a lack of knowledge in this area.

### **Question 04**

Optional 10 marks

The Question had been designed to test the Intended Learning Outcomes (ILO) of Chapter 11 “Absorption, Marginal and Activity based costing “of ICASL Study Guide.

- a. Only 10% -15% of students had attempted this question and most of the students who did attempt it, did not score 5 marks.

Many students had not applied the correct percentage of cost allocation for Factory Maintenance and Administrative costs, based on cost drivers.

Some candidates had not computed Total Overhead Cost, but had taken Unit Overhead cost for allocation of cost.

Students' knowledge of 'Activity based overhead cost allocation' was very poor, as they didn't seem to have sufficient knowledge, to correctly allocate Overhead Costs based on cost drivers.

- b. Many students did not answer this part satisfactorily, showing a lack of knowledge regarding the Theory of the ABC costing system.

### Question 05

Optional 10 marks

This question had been designed to test the Intended Learning Outcomes (ILO) of Chapter 16 "Mathematics for Business Functions" of ICASL Study Guide.

Most students had attempted this sum and obtained reasonable marks, the average being 5.

Part a.

Most candidates had answered this part satisfactorily, but in some instances, the demand function had been multiplied by price to create the Revenue function. E.g.  $(850 - .006x) * P$

Part b.

Many students did not appear to have the technical knowledge to derive the Total Revenue Function and Total Cost Function, to arrive at MR and MC. However they did have the understanding that  $MR=MC$  at the point of profit maximization.

Part c.

Most students had successfully attempted this part, but some students had computed the increase in revenue instead of increase in profit.

Some candidates had calculated the profit from both scenarios correctly, but had not presented the increase in profit, which was what was required.

Part d

Many candidates had not scored full marks on this part, even though they had correctly answered part b i.e. re profit maximizing point (Optimal level). This shows a lack of knowledge, of the applicable theory, related to the Optimal Level of production.



## Question 06

Optional 10 marks

This question had been designed to test the Intended Learning Outcomes (ILO) of Chapter 17 “Budgetary Control and Budgetary Systems” of ICASL Study Guide.

### Part (a)

1. Many students had performed well and scored 4 marks out of 8 marks, for this part. Many students however, had made a common mistake in calculating ‘normal loss’, applying 4 percent to the material used on the finished product. (E.g. Product A  $14,400 \times 2 \times 4\%$ ). They had not taken into consideration, the fact that the loss had already taken place, once the product had been manufactured. The correct computation should have been - Product A  $14,400 \times 2 / 96\% \times 4\%$ .

Most students had shown the final answer for each material, but had not shown the total Material Purchase Cost – i.e. the aggregate of the items of material cost.

2. When computing the total labor cost, many students had multiplied the number of hours used by the daily rate, instead of the hourly rate.

In calculating the total labor hour requirement, they had erroneously considered the total production of 24,000 units, instead of 14,400 ( $24,000 \times 60\%$ ) which is the production for October.

### Part (b)

Most students had not understood the question and had therefore merely mentioned ‘how to prepare the cash budget’, instead of stating the ‘usefulness of the cash budget’.

## Question 07

Compulsory Question 20 marks

This question had been designed to test the Intended Learning Outcomes (ILO) of Chapter 7 “Process Costing” of ICASL Study Guide

Many students had performed well in this question, with the average score being 12 of a total of 20 marks. Many students had not presented their answers in the required format, i.e. presenting the answers for parts a, b, c and d, separately. This is an indication that students had not paid attention to planning their answers, which is very important, to achieve a high score.

Part (a) - Many students had answered this part correctly. Some students however, had not correctly identified the ‘normal loss’ or ‘scrap value’.

Most students had computed the abnormal loss i.e.(Rs. 1,020,000), but had not computed the real impact, after adjusting for ‘scrap sales’.

Expected Output has not been computed correctly and they have made following common mistakes.  
E.g. Some taken 93,000 units which is actual output

Some taken 100,000 units which is total input

Part (b) Many students had applied the normal loss percentage 5% to this part also but sum itself clearly say actual normal loss is in line with the standard normal loss. Further they have calculated abnormal loss as well which is irrelevant.

### **Part (c)**

Some students had confused the Profit Margin with Profit Mark-up, and had erroneously used the profit markup to derive the sales price.

Some students had omitted to take the Value of process 1 inputs, in calculating per unit cost, at Process 2.

The percentage of work-in-progress completed had not been clearly identified, in conversion cost.

Some students did not appear to have adequate knowledge re the equivalent unit computation on WIP, as they had not presented the Statement of Equivalent Units.

Others had not computed the profit margin and selling price, as they had stopped the calculation, at the point of computing the cost.

Students were expected to do the calculation using the Weighted Average Cost method in valuing the product cost, but some had not followed this method.

### **Part (d)**

The percentage completed had not been clearly identified in computation of Conversion Cost, as some students had applied the total cost \* the 8,000 units.

## **KE3 (A) – Fundamentals of Taxation**

**September 2018**

### **Examiner's Comments**

### **Comments on Student's Answers to Questions**

#### **General**

The overall performance of candidates was not satisfactory compared with performance in previous examinations.

It appears that the candidates had not followed the instructions issued by CA Sri Lanka to all students relating to the examination paper. The under mentioned reasons had an adverse influence on student performance;

- Not taking time to carefully read the instructions given in the question paper, before attempting to answer the questions.
- Students had not understood the information given, or the specific response required in the question. Candidates may need to read the questions more than once, to have clarity re the information given, and the requirement of the question. This will help students to avoid giving irrelevant and / or lengthy answers, thereby saving valuable time.

If candidates use the 15 minutes extra time given to read & plan the answer, this would perhaps cause more focused, relevant answers to be given.

Poor handwriting and communication (Language) skills - If examiners can't read or understand student's responses easily, this will result in marks not being awarded on such answers.

#### **Question 01**

##### **Part 01 (a) – Multiple Choice**

The question tested candidates' knowledge in the under mentioned areas of taxation:

Part 1.1 – Section 2 "Chargeability" of income tax to a person.

Part 1.2 – Calculate statutory income from trade of (SME) a limited company.

Part 1.3 – Calculate tax liability of a company on dividend distributions.

Part 1.4 – State the interpretation (Sec.217) for tax purposes of the terms "Persons" and "Trade".

Part 1.5 – VAT liability of a small and medium sized businesses and registration threshold.

## **General Comments**

Overall performance was unsatisfactory. Approx. 30% - 35% or more of the candidates scored over 60% of the allocated marks. A majority of the candidates scored less than 50% of the allocated marks.

Some candidates had answered the multiple choice questions on the outer cover or inappropriate places in the Answer Booklet, showing that instructions had not been read properly.

Candidates had been clearly instructed to mark the chosen option, in the specially formatted answer sheet.

## **Specific Comments**

### **Part 1.1**

Many candidates had incorrectly chosen option B. It is to be noted that a resident individual is liable to income tax not only in respect of income derived or arising in Sri Lanka, but also income derived from outside Sri Lanka.

### **Part 1.2**

Many of the candidates failed to give the correct answer, and had incorrectly chosen option B. This option does not make adjustments to account for the sale proceeds of machinery (Capital Assets) which had been included in net profit.

### **Part 1.3**

A considerable number of students had selected answer "C" for this question and thereby lost marks. Although reference had been made to section 10 (e.g. Unit Trusts) exemption in the study pack, under the subject 'tax on distributable profits', students had not taken this into consideration.

### **Part 1.4**

A large number of candidates had chosen option A. It should be noted that, as per the Sec. 217, partnerships are not included in the definition of a "Person".

### **Part 1.5**

Almost all candidates had successfully selected the correct answer.

## **Question 01 - Part (b)**

### **Short answers questions.**

This question tested candidate's knowledge in the under mentioned areas regarding taxation.

1.6 – Tax administration in Sri Lanka.

1.7 – Steps in an appeal settlement.

1.8 – Tax recovery actions available under the Inland Revenue Act.

1.9 – Due dates for payments and submission of VAT Returns.

1.10 – Computation of tax (NBT) payable in a straightforward, non-complex scenario.

## **Part 1 (b)**

### **General Comments**

Overall performance in this question was unsatisfactory. Around 60% of the candidates scored 40% or less of the allocated marks.

Generally, answers to parts of the question pertaining to tax administration (i.e. part 1.7 related to tax appeal settlement & part 1.8 related to recovery actions available under the Act) were extremely poor.

Many candidates failed to produce an accurate answer for part 1.9, due to a lack of knowledge regarding due dates for payments & submission of Returns in respect of VAT.

### **Specific Comments**

#### **Part 1.6**

Almost all candidates had successfully attempted this part and scored full marks as allocated. A few candidates had confused some tax types administered by different tax authorities, with those of tax collections on behalf of the given tax authority.

#### **Part 1.7**

A majority of the candidates had misunderstood the requirement of the question, and had not focused on **appeal settlement procedures**. Instead they had described irrelevant issues, such as stages prior to the CGIR's determination, or criteria that must be fulfilled to submit a valid appeal etc. A handful of candidates were able to score full marks as allocated, whereas a large number of candidates were unsuccessful, some to the extent of scoring zero marks.

#### **Part 1.8**

Many candidates failed to produce an accurate answer for this part. Some had replied without making reference to the applicable jurisdiction, to reclaim arrears or take legal action. Although many knew that recovery was possible by way of seizure and sale of movable & immovable property, they were not able to present a comprehensive answer describing how it could have been done. Many had given very short, generic answers, such as 'go to court', 'take legal action', 'seize assets', 'impose penalty' etc. which resulted in their scoring lower marks.

#### **Part 1.9**

A significant number of candidates had not noticed that the particular entity was engaged in manufacturing, and that this business was liable to pay VAT on a monthly basis.

Only a few candidates knew that VAT returns were to be submitted quarterly. Some candidates had overlooked the requirements stipulated in the question, and calculated the balance VAT payable, based on given facts, which was irrelevant.

#### **Part 1.10**

A fair number of students demonstrated thorough understanding in calculating NBT accurately. However many candidates had not known that the income from sale of biscuits fell into the category of 'distributors' and therefore only 25% of such income was liable to NBT. Had the students read the question carefully, they would have easily noted that income consisted of both manufacturing and distribution income.

It was also noted that very few candidates had added NBT input credits when calculating NBT liability. A few candidates appeared to know that NBT input credits could only be claimed in the manufacturing sector.

## **Question 02**

This mini scenario question was set to test candidate's knowledge on corporate income tax (Taxation of Companies). Candidates were required to compute the gross income tax liability of a Private Limited Company, which was a subsidiary of another company.

### **General Comments**

Overall performance was satisfactory, i.e. around 50% to 55% of candidates scored 50% or more of the allocated marks. It is evident that candidates had understood the significance of learning corporate tax, at this level.

### **Specific comments on common mistakes made by candidates, including errors of principle/shortfall in technical knowledge etc.**

- Business income adjusted for tax purposes - Computation of adjusted trade profit always commences with "Net profit as per accounts" figure. Some candidates commenced the computation with the "Annual turnover" figure. This method should be avoided, as it is cumbersome and time consuming, leading to a loss of marks.
- Although it was stated that the foreign travel was to be limited to 2% of previous year's business profit, many had omitted to account for it, when 'adjusted profit' was calculated. Having computed the limitation at Rs. 42,000 (i.e. 2% of previous year business profit) the entire foreign travel component of Rs. 48,000 had been disallowed by many.
- Some candidates had not read the question properly, and had incorrectly taken 12 months Lease Rentals as the actual payment made, when ascertaining 'allowed lease rent'.
- A considerable number of candidates had not known that Purchase of Tools did not qualify for capital allowances and that only renewal or replacement of it was allowed. Many had incorrectly claimed capital allowances on Tools.
- A number of students had insufficient knowledge re treatment of adjusted trade losses, and had not known that under section 32, the claim for deductions for a Trade Loss was limited to 35% of Statutory Income. Many had set off the whole loss amount against 'other income' and arrived at Statutory Income, which was incorrect, thereby losing marks.
- Some had ignored the facts given in the question and missed the fact that the Donation to approved Charity was 'in kind', and could not be used to claim qualifying payment relief.
- Income Tax Rate - The intention of the examiner was to test candidate's knowledge of tax rate applicable for Groups of companies. Many had incorrectly applied the concessionary rate of 12% applicable to taxable income of SMEs less than 5M.

- Some candidates had incorrectly dealt with this as individual income tax and erroneously claimed tax free allowance and had applied progressive rates thereon.

### Question 03

This is a large scenario question.

The question was set to test candidate's knowledge on income tax of a resident individual having different sources of income. Candidates were required to compute the income tax liability, tax credits, and balance tax payable by the resident individual.

#### General Comments

Overall performance in this question was excellent with approx. 70% of candidates scoring 50% or more of allocated marks.

Specific comments on common mistakes made by candidates, including errors in principle / gaps in technical knowledge etc. are as follows:

#### ➤ **Income from Employment**

Most of the candidates were able to calculate gross salary accurately. A majority of candidates also successfully identified the value of fuel reimbursement for the Motor Vehicle as an 'employment benefit' and knew that it would not be taxed, since the value of conveyance is less than Rs. 50,000/= per month. A few candidates however, had treated the fuel reimbursement as liable. Most candidates had correctly calculated housing benefits. Mistakes made by the others included the following.

- Despite the fact that remuneration exceeds Rs. 1.8 million some students had incorrectly applied the maximum rental value limit at Rs. 120,000 instead of Rs. 180,000.
- A few candidates did not know how to derive liable housing benefits, in an appropriate and methodical way.
- Many candidates failed to calculate profit from furnishing, or used different methods, all of which were inappropriate.
- Those students who completed the study pack sample questions & answers related to profit from furnishing, would have done better.

Some candidates had not read the information given - relating to medical bills paid for injuries caused whilst at work, and credit card cost reimbursements if they are for official expenses. Many had not identified that such expense reimbursements would not be liable as an employment benefit.

#### ➤ **Rent Income**

Most candidates made various mistakes when calculating rent income.

- Some confused the rent income portion with the profit from furnishing portion.
- Most had done the calculation and compared with NAV, which was not necessary.

- **Income from Investments**  
**03.01 Interest received from personal loans**  
Some candidates incorrectly treated 'interest on personal loans' as exempt. Others had mistakenly identified the total proceeds from settlement of the loan, as liable interest income.
- **Dividend Income from foreign currency**  
A few candidates did not know that Dividend Income received in foreign currency was an exempt income. Some indicated that the dividend income was exempt – and also stated that WHT is deducted at source, thereby losing easy marks.
- **Business Income**  
A majority of candidates had computed adjusted Profit from Business correctly, as anticipated. A few candidates had disallowed the full amount of Telephone & Electricity expenses, ignoring the fact that only 15% of the cost was relevant to the professional service. One of the biggest weaknesses noted was that some candidates had erroneously commenced the 'adjusted profit calculation', not with "Net Profit", but with "Service fees received".
- **Section 32 Deductions**  
Many candidates had correctly identified 'interest on housing loan' and 'annuity paid to wife' as a deduction under Section 32. But a few candidates had incorrectly treated these as qualifying payments.
- **Tax free allowance**  
Most candidates categorized Tax Free Allowance under qualifying payments.
- **Qualifying payments**  
Most candidates had correctly identified applicable items for qualifying payment relief. But a few candidates had confused these with section 32 deductions, and claimed such deductions as qualifying payment relief.
- **Tax Calculation**  
A majority of candidates had correctly applied progressive rates. However, a few did not know that Business Income could be taxed at a maximum of 12%, when computing income tax liability. Although many candidates were successful in identifying the applicable Business Income to be taxed at maximum of 12 % ( under Section 59B or Section 59F), some had difficulty figuring out the applicable part of Business Income remaining liable, at such concessionary rate. Only a few incorrectly taxed Business Income at the rate of 10% maximum.
- **Tax Credits**  
A majority of candidates had deducted Tax Credits from the Tax Payable amount. However, a few deducted Tax s from the amount of Taxable Income.



## **KE3 (B) – Fundamentals of Law**

**September 2018**

### **Examiner's Comments**

#### **Comments on Student's Answers to Questions**

##### **Question 01**

The Study Materials provided by the ICA adequately covered the expected answers. Candidates should study questions and answers of previous years, when preparing for the examination.

##### **Question 02**

The Study Materials provided by the ICA adequately covered the expected answers. Studying the Study Materials provided by the ICA would have helped the candidates to give correct answers without difficulty. Candidates should read the question and understand what the examiner is testing before they start answering.

The Question was straightforward and easy.

##### **Question 03**

Part (a)

The question requires candidates to make reference to a decided case and decide whether Sirinimal (S) is bound by the contract relating to the Bill.

There was a mistake as to the nature of the contract.

There had been no genuine consent (or reality of consent) on the part of Sirinimal to enter into a contract relating to a Bill of Exchange.

A contract entered into under such a misconception, renders it void, and as such would not be binding on the parties to the contract. Consequently such transactions would be void.

Similar facts had been discussed in the case of Foster vs Mackinnon (1869) L.R.4.P.704 where an elderly person (M) whose eye sight was not good, endorsed a Bill of Exchange thinking it was a guarantee.

It was established that there was no negligence on 'M's part in making this endorsement and the contract could not be binding on him and was thus void.

Considering these facts, it can be concluded that Sirinimal would not be bound by the contract relating to the Bill, and therefore, would be not liable, on the Bill – of - Exchange signed by him.

#### Part (b)

The question requires candidates to discuss with reference to decided cases, re the clarification sought by LLS about the remedy injunction and the possibility of seeking an injunction from court to prevent Suki from singing in Singapore.

An injunction is an order given by a court prohibiting a party from breaching obligations under a contract. Granting an injunction is an equitable remedy which is given at the discretion of the court.

Similar facts were discussed in 'Warner Brothers Pictures V Ingolia (1956) NSW 988. Ingolia agreed to sign with Warner Brother pictures (WBP) in America. After disputing her contract, she flew to Australia and started performing in a theater there. WBP sued her and asked for an injunction preventing her from signing in Australia.

The court granted the injunction, as she had breached her contract with WBP. Therefore, considering the above facts, the court may in all probability grant an injunction, in the given scenario, as it seems that Suki had breached her contract with Lanka Literary Society.

### Question 04

#### Part (a)

The question requires candidates to discuss with reference to a decided case whether Bindu (B) could refuse to take further deliveries of wheat.

In the given scenario Arjun (A) has breached the contract by not supplying goods in conformity with agreed quality. Further there seems to be a high degree of probability that a future delivery of 500 tons too would be of the same quality as the first two deliveries. As a result 'B' has the following as remedies;

1. He can repudiate the whole contract and reject future deliveries.
2. He can opt to accept the future instalments of wheat and claim damages from 'A' for breaching the contract by delivering wheat of a different quality.

A similar incident to the given scenario was discussed in 'Robert A Munro and Co. V Meyer (1930) 2 IOB 312'

### Facts of the case

'A' sold 1,500 tons of meat and bone meal of specified quality to 'B'. These goods were to be shipped in instalments of 125 tons per month. After about half the goods had been shipped and paid for, 'B' discovered that they were not of the specified quality. Hence the transaction could have been rejected. Therefore 'B' refused to take further deliveries.

Held: 'B' was entitled to reject future deliveries; as he was not bound to take the risk of receiving goods which did not conform to contracted quality.

### Part (b)

The question requires candidates to explain with reference to a decided case the legal principles which apply to the given scenario i.e. 'C' sold her own goods to the partnership at market price and made a profit, without the knowledge of her partner 'M'.

'C' has an obligation under the Law to:

1. Render true accounts and disclose all things affecting the partnership.
2. Account to the partnership, any benefit 'C' derived, without the consent of 'M', from this transaction.
3. To disclose any secret profit 'C' made out of this transaction, and to account for that profit to the partnership.

A similar incident was discussed in the following case 'Bentley V Craven'.

Bentley (B) and Craven (C) were partners. 'C' was employed to buy sugar for the firm. 'C' sold his own goods to the firm at market price and made a profit without informing 'B'. It was held that 'C' must account to the firm for the profit made from this transaction.

In applying the above principles, it seems that 'C' has breached all the above principles. Consequently 'C' should disclose the secret profit he made and account to the firm, the profit he made.

## KE4 – Processes, Assurance and Ethics

### September 2018

#### Examiner's Comments

### Comments on Student's Answers to Questions

#### General comments

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

As in the previous examinations, to score well, candidates needed to demonstrate good theoretical knowledge. In this exam, well prepared candidates demonstrated their ability to make application of this knowledge, whilst modelling their answers to the question requirement. Generally, candidates were able to demonstrate good time management and address the required number of questions.

However, many candidates appeared to have lost focus, in addressing the question requirement, and therefore produced irrelevant answers. Many candidates demonstrated poor theoretical knowledge, as regards business processes and the assurance aspects of internal controls. It was observed that poor exam performance was due possibly to the fact that the candidates had not read the study text, and practiced past papers. Many candidates were unable to comprehend the question requirement. The examiner was testing for certain learning outcomes, as given in the study text. Many candidates had written general answers which were not adequate for professional exam

#### Specific Comments

##### Question no 01

It was observed that the candidates had not performed satisfactorily in this question. Marks for each part of the question was obtained as follows;

1.1	External environment	65%	1.6	Internal control	26%
1.2	Inherent limitation	61%	1.7	Ethical behavior	60%
1.3	Procurement process	90%	1.8	Conduct an audit	56%
1.4	PPE management	90%	1.9	Assurance service	55%
1.5	Sales and receivables	60%	1,10	Audit evidence	33%

It was observed that knowledge of internal controls was poor and that many candidates did not have a clear idea about audit evidence.

## Question no 02

Overall performance of candidates was 'average'. Some candidates demonstrated a lack of understanding of basic principles & concepts in auditing. It is advisable that they study the text book and acquire the knowledge. Many had given lengthy answers, although the question specifically required short answers.

- 2.1 Candidates were required to define the terms 'fraud risk and compliance risk'. A majority of the candidates defined 'fraud risk' as an action of internal persons and those outside of the business' but failed to mention that 'such action would cause a loss to the company'. Some candidates wrote of the negatives in compliance with laws & regulations i.e. that it would result in delays in business activities.
- 2.2 Candidates were required to state three conditions under which the acceptance of risk would be a preferred response to an identified risk. Average performance in this part of the question was good. Some candidates however, had written a framework for risk management such as, risk assessment, risk responses such as avoidance acceptance transfer, reduction etc.
- 2.3 This part of the question dealt with Control. Candidates were required to address the risks given in the scenario. The main Controls expected - for the risk of claiming more money, was the voucher to claim the payment, supporting documents as evidence for expenses, and approval after checking them. It was observed that most candidates lacked knowledge of the process of approving payments, and related control procedures.

Many candidates had produced satisfactory answers for the second part, which was on unauthorized access to the building.

There were some candidates who had misunderstood the question and stated that the building should be locked.

Many candidates had written that the electronic security devices such as biometric finger scanning should be used, but they had ignored the fact that this could only be used for individuals registered to use the building.

- 2.4 Candidates were required to state the responsibilities of the internal auditor and the external auditor in relation to 'internal controls'. Some candidates had written one answer for both, as they had similar responsibilities, but ignored the fact that the external auditors were required to consider the effectiveness of internal controls as part of the annual audit process.

Many had misunderstood the responsibility of the auditors, due to a lack of theoretical knowledge, explaining that they had direct responsibility for internal controls and were responsible to shareholders. Some had written that an internal auditor expresses an opinion.

- 2.5 In this part of the question, the examiner expected the candidates to identify two business risks indicated in the given scenario. Candidates were expected to address the risk of keeping cash in the drawer and having a cash 'imprest' in excess of requirement. Some candidates merely reproduced the question – i.e. keeping cash in the drawer and a petty cash 'imprest' of 200,000/- Some candidates had wasted time writing the impact & solution to overcome the risk of theft. Others wrote that the business risk arose as there was no authorized officer in charge of petty cash. This is a reflection of a lack of knowledge about the petty cash process.
- 2.6 This part of the question was on Credit Evaluation. Most of the candidates accepted that the documents submitted as per the given scenario were not sufficient, but some were unable to assess why such documents were insufficient. Many wrote that the financial condition of new customers, past and current financial statements etc. should be reviewed, but only a few candidates had written that cash flow statements and business plans should be reviewed.
- 2.7 Candidates were required to explain the importance of general IT controls and applications controls. It was observed that some candidates had misunderstood the question and written about the importance of having internal controls in business operations. Most candidates demonstrated poor knowledge of I T controls, as they were unable to distinguish between the two IT controls.
- 2.8 This part of the question was on Ethical Principles impacting a chartered accountant. Many candidates understood the question and wrote relevant answers, but some candidates who did not have a clear knowledge of ethical behavior expected of Chartered Accountants, wrote that 'the payroll officer is bound by professional ethics'.
- 2.9 In this part of the question the examiner expected candidates to discuss two types of audit procedures by giving an example for each type of audit procedure. A majority of the candidates had identified the two audit procedures, but had not discussed the procedures as they relate to sales, as required in the question. Some candidates had written irrelevant answers on external audit and internal audit, re observation, inquiry, limited assurance, reasonable assurance etc., which may be attributed to a lack of theoretical knowledge.
- 2.10 Candidates were required to explain the term 'appropriateness' in relation to audit evidence. In this part of the question the examiner expected candidates to address the measures of quality, relevance, reliability etc. and provide support for the basis on which the opinion is formed. Only a few candidates had provided support for their conclusions.

### **Question 03**

Part a;

As per the given information, the directors were unaware of the internal controls. The candidates were required to explain, what was meant by an internal control system, with particular reference to the components of COSO framework.

Some candidates misunderstood the question, and wasted time explaining that internal controls would help in avoiding frauds & errors, and listing the components of the COSO framework, in isolation. They appear to be of the view that internal controls are there only to avoid fraud & error. Unable to link the COSO components to the internal control, some had written only the COSO definition, as they had not understood the question.

Some candidates who did not have adequate technical knowledge on recent developments re internal controls, which are risk based, wrote that it would help to safeguard assets, avoid fraud and error and assist in timely production of financial reports.

Part b;

Candidates were required to describe the role of a CEO, in designing & implementing internal controls, and to give reasons as to why this was part of the role of a CEO. The examiner wished candidates to comment on the responsibilities of Management, and how they varied from the responsibilities of Directors. Many candidates appeared confused by what the question specifically required. Instead they had written incorrectly, that the CEO was responsible to the shareholders. Some who had not understood this part of the question, wrote the components of COSO framework as a CEO's responsibilities.

#### Question 04

This question was on internal controls and professional behavior of the accountant.

Part a;

Candidates were required to recognize deficiencies in internal controls, as described, at Kiddies (Pvt) Ltd, demonstrating a sound theoretical knowledge on **assessing the consequence** of operational risk events happening at Kiddies (Pvt) Ltd. These should have been prevented by Internal Control Measures, such as segregation of duties, physical control of assets, authority and limits of approval, supervision, accounting and reporting. Candidates with sound knowledge about sales processes, would have easily assessed the event and recognized the deficiencies.

A majority of the candidates demonstrated poor theoretical knowledge. Most had reproduced the Risk event given in the question, as the control deficiency, without identifying the consequences of such events.

Some candidates did not address the requirement in the question, which was to recognize control deficiencies. They wrote that there may be control deficiencies due to ineffective design of controls, or if they were designed adequately but not applied properly, or due to human error, oversight or fraud. Although they knew the causes for control deficiencies, they were unable to assess the deficiencies in the given scenario. It is possible that this may be due to their not having practiced doing past papers.

Part b;

The question required an explanation of self-interest threat and the threat in acceptance of gifts in the given scenario. Almost all the candidates demonstrated poor knowledge on professional ethics. They were unable explain that evaluating the tender of the friend would have resulted in a conflict of interest, given the conflicting loyalties. Many had incorrectly identified the acceptance of gifts as a 'familiarity threat'. Many had produced general answers, without reference to professional ethics.

### **Question 05**

Part a;

This part of the question was in relation to auditors exercising professional judgment when conducting an audit. It was observed that the majority had decided to omit this question, when selecting from optional questions. This may be due to poor technical knowledge in planning and performing audits. Some candidates had misunderstood what was required in the question, and written about financial, operational, procurement issues etc. The candidates would have found the material for their answer, in the question itself, if they had read the question properly.

Part b;

Candidates were asked to list other sources from which audit evidence can be obtained. They demonstrated poor knowledge in this area. Despite the question itself having stated that the accounting records on their own do not provide sufficient audit evidence, many candidates had written 'accounting records' as audit evidence.

### **Question 06**

This question was on internal control weaknesses in the payroll process. Candidates should have demonstrated knowledge re the objective of having Internal Controls, which is to reduce the risk at the level of the business process, with operations & control procedures being introduced to achieve this objective. In the given scenario, candidates should assess whether Star (Pvt) Ltd was able to reduce Risk in the payroll process. In order to recognize control weaknesses, candidates should have a sound knowledge of control procedures, such as segregation of duties, authorization and approval, management review, lines of reporting, financial reporting etc. Candidates should have assessed whether such control procedures were in place at Star (Pvt) Ltd.

Part a;

Candidates were expected to recognize three control weaknesses in the payroll process of Star (Pvt) Ltd where Risk areas had been identified. Most candidates had merely reproduced the Risk Event and appeared to lack technical knowledge. Some candidates had written general answers. For example they stated: as the supervisor takes the attendance, he can favor some workers, by allowing them to come late and sign in.

They could have easily recognized the control weaknesses, if they have assessed the risk area, being mindful of the control procedures. This, most candidates, failed to do.



Part b;

Candidates were required to identify the Risk arising from identified 'control weaknesses'. Most candidates answered this part without reference to the technical issues involved. Most stated that there could be theft of salaries, favor shown to certain employees who may be paid more, and as salaries are prepared manually, errors may happen etc.

Part c;

This part required candidates to state four improvements to strengthen the payroll process. Many candidates did not link this to the concept of internal control. Most were of the view that 'salaries' should be computerized. They had not addressed the lines of authority, supervision, segregation of duties etc.

### **Question 07**

This question was based on inventory management and the procurement process. One part was on internal controls.

Part a;

Candidates were required to apply the theory pertaining to the calculation of inventory cost to the Scenario described in the question, and identify the costs which were not being managed by the company. According to the given scenario, scrap iron was a low-cost option and steel billets were of comparatively high cost. Also, the company had done ad-hoc purchases, and failed to manage inventory cost.

Based on the scenario described, candidates should have established issues such as:

- a) scrap iron being purchased as and when suppliers made delivery, resulting in over stocking, which in turn necessitated an additional overdraft facility, to fund the scrap iron.
- b) the company running out of steel billets, causing it to initiate emergency imports. This resulted in the payment of additional shipping cost and higher prices.

Candidates were unable to identify the issues given in the scenario. Many were not able to comprehend the fact that the question required them to identify inventory cost, in order to manage this cost, which was expected to be high. Most candidates ignored the phrase 'manage' and identified incorrect inventory costs such as cost of scrap iron, cost of spare parts, cost of billets etc. As a result, they gave wrong examples. This was a reflection of insufficient technical knowledge re inventory controls.

Part b;

In this part of the question candidates were required to give the formula for better management of inventory cost. Candidates were required to state this standard formula, explain the components of the formula, and explain the conditions to optimize inventory quantities and better manage inventory cost.

Some candidates had not understood the term 'managing cost'. Many had given the correct formula but were unable to explain the formula. Only a few candidates had mentioned the EOQ formula as an alternative, in managing inventory cost, in the absence of bulk order discounts. Some candidates were confused, due to the problem of steel billets being out of stock, resulting in escalation of costs arising from urgent purchases, and suggested that the most relevant formula to be applied - is reorder level.

Part c;

In this part of the question examiner expected to test the knowledge of candidates relating to business risks connected with the inventory management process. Candidates were required to refer to the scenario. Majority of the candidates had attempted this part of the question but only a limited number has obtained satisfactory marks as they lacked the theoretical knowledge re the inventory management process. Some candidates had incorrectly given the risks relating to business operations such as corruption, non-compliance with laws, scrap iron being outdated due to new inventions etc.

Part d;

In this part of the question, candidates were required to recognize internal controls as Risk Management measures, for the identified risks. A majority of the candidates had attempted this part of the question, but the answers were not up to the expected standard. As in other questions in this paper, a majority of the candidates demonstrated poor knowledge of internal controls. It was disappointing to note that some had identified the risks, but were unable to recognize internal controls to address such risks. They gave general answers in place of controls, such as;

- In order to reduce cost use local items, or do research on new raw materials
- In order to avoid stock-outs, implement budgetary controls, or buy sufficient stocks
- In order to overcome liquidity problems, sell off all scrap iron and settle overdraft
- To avoid excess stock - sell off

They had also given generic control measures such as management control, physical control, inventory control, financial control etc.

In the parts of (e) (f) (g,) of the question, the Examiner expected to test candidates knowledge on the procurement process.

Part e;

This part covered the theory pertaining to supplier selection and evaluation. In the given scenario the new purchasing manager had changed the selection process applicable to selection of suppliers to be based on the lowest price, as well as suppliers being ethical (familiar). It was expected that the candidates would check whether the evaluation matched the accepted procurement procedure.

Many candidates had attempted this part of the question and some had given satisfactory answers. Some had misunderstood what the question required, which was to identify those items that had not been evaluated.

Instead they explained how to do the evaluation such as, obtain reference from other suppliers, obtain quality certificate, get recommendation from the banks etc. Candidates should

take time to plan their answer, responding to the requirements in each question.

Part f;

The Examiner expected to test the knowledge of candidates, re business risk in the purchasing process. Although some candidates provided satisfactory answers, some had misunderstood the question to mean risks of the total operation of the business, including financial risk, failures of operational activities, selection of wrong suppliers etc.

Part g;

This question was on the shipping process. Candidates were required to explain what a bill of lading was, as the Purchasing Manager had stated that the bill of lading was not an important document in accounting for purchases. Almost all candidates had attempted this part of the question, but were unable to provide satisfactory answers. They were expected to explain the rights of the exporter holding the bill of lading. Many candidates did not have a clear idea about the bill of lading. Many candidates had written irrelevant answers i.e.;

- they can be used to obtain loans
- they are needed to get insurance claim for damages
- they are Issued by the exporter

## **Conclusion**

The overall impression is that the vast majority of candidates were unprepared for this exam and had not put enough effort into learning many of the basic concepts and processes. Many candidates were able to identify some relevant issues in the given scenarios, but not all could adequately explain and discuss their points in sufficient depth. Candidates must ensure that their answers are tailored to the specific question requirement, and to the given scenario.

## KE5 – Commercial Insight for Management

### September 2018

#### Examiner's Comments

### Comments on Student's Answers to Questions

#### Question 01

##### General Comments

Overall performance of the candidates was good for the Multiple Choice Questions (MCQ) which carry 20 marks. The MCQs were based on effectiveness of control procedures, connected stake holders, price theory, arc price elasticity, marginal cost, deficit of balance of payment & fixed exchange rate, financial market, team working/empowerment, short run total cost curve and project initiation document.

##### Specific Comments

Most students could not choose the correct answer for Q. no. 1.8 & 1.10. A fair number of students had selected correct answers for 1.5, 1.3 & 1.4.

#### Question 02

##### General Comments

Overall performance of candidates was good. This question carries 30 marks and required candidates to,

- 2.1 State three perspectives of the Balanced Scorecard, other than financial perspectives.
- 2.2 Explain the accountant's role as a business generalist.
- 2.3
  - I) Relate explicit costs & implicit costs in deriving accounting profits & economic profits.
  - II) Define the term implicit costs.
- 2.4 State 3 benefits of customer profitability analysis.
- 2.5 Discuss how the quantity demanded of a normal good gets changed due to changes in the factors given.

- 2.6 Explain 3 types of business plans.
- 2.7 I) Define the term 'under-capacity'.  
II) List two planning and control activities associated with under capacity.
- 2.8 Explain concepts of Average product and Marginal product.
- 2.9 Explain the nature of leadership style as per Gillen's 'Stopped clock'.
- 2.10 State 3 problems associated with the coercive change approach.

### Specific Comments

- 2.1 Customer perspective, internal business perspective and innovation & learning perspective are 3 perspectives required by the question. Most students gave the correct answer. A few stated management perspective, Marketing perspective, IT perspective, HR perspective etc. which did not earn marks.
- 2.2 Some explained correctly that an Accountant is called upon to issue general guidelines on business matters, especially by small business Organizations, on HR, IT, Marketing and Treasury matters. Some provided general answers – e.g. an accountant is consulted on different matters, without being specific. A few incorrectly explained the accountant's traditional role i.e. preparation of financial statements, budget, cost control etc.
- 2.3 (a) Most of the students correctly provided the equations below.  

$$\text{Accounting Profit} = \text{Sales revenue} - \text{Explicit cost}$$

$$\text{Economic Profit} = \text{Sales Revenue} - (\text{Explicit cost} + \text{Implicit cost})$$
 (b) Implicit costs are benefits foregone by not using the factors of production in their next best profitable way, as per most of the students who earned full marks. A few just mentioned Implicit cost as being an opportunity cost, without a clear definition, whereas some others stated that implicit cost is the cost incurred by the owners.
- 2.4 Some stated benefits such as ability to focus Company's resources on most profitable areas of demand, ability to focus on areas of product development or market development, ability to categorize customers in terms of profitability and ability to highlight cost of obtaining new customers and benefits of retaining existing customers. Some stated indirect answers, in that, Customer Profitability Analysis (CPA) will help to reduce the cost and CPA will help forecast profits etc.
- 2.5 Some students correctly discussed that the change quantity of good demanded is dependent upon the change in price of the good, due to two reasons namely substitution effect and income effect. When price of a good rises, consumers will buy other goods instead. Also a rise in price will reduce consumers' real incomes which is the income effect. Some incorrectly discussed the relationship between complements and price.
- 2.6 A few just named types of business plans, i.e. single use plans, standing plans and contingency plans, whereas some explained the types of plans, as expected. A fair number of students explained incorrectly about marketing plans, operation plans, financial plans, strategic plans, capital expenditure plan, capacity plan, long term plans or short term plans.
- 2.7 Under capacity means more production is being demanded than is able to be produced, as stated by those who earned the allocated marks. Loading, sequencing, scheduling and monitoring & controlling are planning and control activities associated with balancing existing capacity and available demand. Some incorrectly defined under capacity as the difference between actual production and maximum capacity, i.e. not producing to the firm's ability.

- 2.8 Average Product (AP) is total production divided by number of units. Students who earned the allocated marks correctly stated that Marginal Production (MP) is the change in the total output due to one unit change in the input factor, and also correctly drew the graph, where marginal product curve intersects the average product curve at the point of maximum output. Some had correctly drawn the graph but not defined the AP & the MP whereas others defined the terms correctly but did not draw the graph, as expected.
- 2.9 The contingency-approach to leadership where there is no one right way to lead that will fit all situations, was explained correctly by some, including that in different situations leaders need to interact with their teams in different ways, depending on the circumstances of each situation. Some just described different leadership styles, namely wholly task-focused or wholly people focused, whilst a few explained trait theories, for which marks were not awarded.
- 2.10 A fair number of candidates stated correctly that 'failure to ensure implementation' and 'failure to attack the root causes of resistance' were problems associated with a 'coercive change approach'. Around 10% of the candidates had not answered this part at all. Some incorrectly identified 'high cost', 'difficulty in control' as problems.

### Question 03

#### General comments

Overall performance of candidates was good. The question carries 10 marks and required candidates to;

- (a) State the extra 3Ps of the extended marketing mix, with an example from a service Organization.
- (b) Explain 04 elements of the customer focused 'C'.
- (c) Discuss two prime determinants of the price of a product or service.

#### Specific comments

- (a) Most candidates managed to get the allocated marks for stating 'people, processes and physical evidence' as 3 Ps. But many were unable to cite examples. Well-trained front line staff, efficient loan processing and distribution of brochures are examples of 3 Ps of a bank. Some just described 3Ps instead of providing examples.
- (b) Cost, Choice, Communication and Convenience were the 4Cs as defined by those students who earned marks. Some just listed the 4 Cs but did not explain further. A few stated psychological pricing as one customer focus C', for which no marks were awarded. Some concluded 'Cost' means the price paid by the customer. They had ignored the other part of the cost i.e. opportunity cost. Some explained that 'Communication' was passing information about the product to the customer.

They did not mention that successful communication included creating an open dialogue with potential clients, based on their needs and wants.

- (c) Cost, Competition and Customers are prime determinants of price. Some stated that price of substitutes, expected margin, and quality of good, are also determinants. Most of the candidates who mentioned 'Customers' as a price determinant were unable to discuss that price is dependent on elasticity of demand.

#### **Question 04**

##### **General comments**

The overall performance of candidates was satisfactory. The question carried 10 marks and required candidates to;

- (a) Draw a diagram to depict the consumer surplus and the producer surplus, prior to imposition of tax, assuming product had an elastic demand and supply.
- (b) Explain the effect of sales tax on consumer surplus and producer surplus.
- (c) Discuss the deadweight loss with reference to the graph drawn.

##### **Specific Comments**

- (a) Most students had drawn the consumer surplus and the producer surplus on a graph correctly. A few had drawn an inelastic demand curve whereas others had drawn an inelastic supply curve and ended up with producer surplus being incorrectly shown.
- (b) Some had shown the effect of sales tax on consumer surplus and the producer surplus. A few could not explain properly, their correctly drawn graph. Some had shifted the supply curve to the right instead of the left, whereas others shifted the demand curve to the left instead of supply curve, and arrived at wrong effects on the consumer surplus and producer surplus.
- (c) Some described deadweight loss as a loss of economic efficiency when the market equilibrium for a product was not optimal, due to monopoly pricing, price ceilings or taxes/subsidies imposed by the government. Some had shown correctly the loss of consumer surplus and the loss of producer surplus, by drawing the graph, and also the deadweight loss. Those who drew inelastic supply curves ended up with an incorrect loss of consumer surplus, producer surplus and deadweight loss.

#### **Question 05**

##### **General comments**

Most candidates who attempted this question were unable to score at least half of the allocated mark of 10. The question required students to;

- (a) State types of Managerial Roles suggested by Mintzberg.
- (b) Explain the 'Unity of Command', 'Scalar chain', 'Esprit de corps' general management principles developed by Fayol.
- (c) State four principles of scientific management pioneered by Frederick W Taylor.

### Specific comments

- (a) Interpersonal, Informational and Decisional roles were stated correctly by some. Others stated incorrectly that, a managerial role was akin to 'managing a business', 'managing managers' or 'managing employees and works'. A few stated Managerial Roles was to do with planning, leading and controlling.
- (b) The correct answers - Unity of command means an employee should receive orders from one superior. Scalar Chain is the chain of supervisors ranging from the ultimate authority to the lowest rank. Esprit de corps means work teams and extensive face to face verbal communication to encourage team work.
- A few gave incomplete answers like 'whole staff have one manager to resolve their problems' under unity of command, whereas others stated 'one controls the entity under centralized administration'.
- According to a few candidates, Scalar chain was incorrectly defined as 'employees needing managerial staff to resolve their problems'.
- Likewise, a few had stated that Esprit de corps meant 'everybody should work for an Organizational purpose', earning only a few marks.
- (c) Those who earned the allocated marks – stated that 'development of a true science of work, scientific selection & progressive development of workers, application of techniques to plan, measure & control work for maximum productivity, and constant & intimate co-operation between management & workers, are principles of scientific management. Some provided unacceptable answers like 'impose fair rules/regulations', 'motivation', 'training & development' etc.

### **Question 06**

#### General comments

Average performance of candidates for this question was 50%. The question carried 10 marks and candidates were required to;

- (a) List the four main objectives of Govt. Economic Policy.
- (b) Discuss two ways that Governments could influence commercial decisions of a Business Organization.
- (c) Explain how Monetary Policy can be made to complement the achievement of Fiscal Policy objectives of Demand Management.

#### Specific comments

- (a) As stated by most students who scored the marks allocated the main Government Objectives would be to achieve economic growth, control price inflation, achieve full employment and achieve a balance between exports & imports.



A few mentioned 'sustainable developments, development of infrastructure & local industries, economic efficiencies, elimination of poverty, foreign exchange rate-control etc.' which were not main objectives, as expected by the examiner.

- (b) This part of the question was answered correctly by a fair number of students i.e. that Government could outlaw anti-competitive practices, regulate monopolies in order to encourage competition & discourage monopolies. Encourage expansion of output capacity by granting tax incentives for investments etc. Nevertheless a few gave incorrect answers like regulating minimum reserve ratios, imposing taxes to defray government expenses.
- (c) The correct answer was that a policy of low interest rates might stimulate bank lending and increase demand in consumption, whereas high interest rates might reduce borrowing and result in a reduction in demand. Strict credit controls might lead to a reduction in demand. Some did not specify non-fiscal measures and their consequences, for example, they mentioned that demand management could be influenced by a change in interest rates- for which marks were not allocated.

### Question 07

#### General comments

Average marks awarded for performance in this question was 45%. The question carried 20 marks and the candidates were required to;

- (a) Summarize three characteristics of monopolistic competition.
- (b) Discuss three reasons why monopolistic competition creates more waste of resources than perfect competition.
- (c) Explain why monopolistic competition does not achieve allocative or technical efficiency in the long run.
- (d) Recognize the factors that have caused the inflation that prevails in country Q.
- (e) State two policy level steps to control inflation.
- (f) Explain why the wage-price spiral is a common phenomenon in developing countries like country Q.

#### Specific comments

- (a) Product differentiation, non-price competition, independent decision making, no significant barriers to entry, imperfect information are some of the main characteristics of monopolistic competition.

Some candidates incorrectly summarized that monopolistic competition produces homogeneous products, firm will become a price taker etc.

- (b) In line with expectations, some discussed the following issues:
  - average cost is not minimized at profit maximization point, due to differentiation,
  - economies of scale will not be achieved and
  - differentiation associated costs are considered as waste of resources. E.g. Advertising costs.

Some stated that since a monopolistic firm decides the price, waste of resources can take place - for which no marks were allocated.

- (c) Allocated marks were awarded for answers that stated that allocative efficiency occurs both when price equals marginal cost ( $P=MC$ ) and when average cost of equilibrium output is the lowest point. A few had drawn the graph and explained that a monopolistic competitive firm will not meet allocative efficiency and technical efficiency since  $P>MC$  and average cost of equilibrium output is not at the lowest point.

Some had provided acceptable explanations without a graph being drawn. This part had not been answered by a fair number of students.

- (d) A fair number of candidates answered this part correctly. Import cost push inflation, a huge increase in wages, a fall in value of currency, and expectation of inflation, are reasons for inflation in the country Q. A few gave wrong answers e.g. Labor market issues, product differentiation etc. having led to inflation.
- (e) Reduction in import quantities, entering into Free Trade Agreements (FTA) and reduction of production cost, as well as deregulation of labor markets, are the main steps that can be taken by country Q, to control inflation. Some incorrectly stated that foreign reserves could be purchased to have better exchange rate, for which marks were not allocated. A few believed inflation could be controlled by reduction of prices of goods & services, but they had not reasoned on how practical it is to implement.
- (f) One reason for inflation to occur is the expectation of inflation, and protective action taken to mitigate its effects. To protect future income, wages & prices will be raised now, by the expected amount of future inflation. This can lead to vicious cycle known as 'wage-price spiral'.

Some explained that the real value of wages leads to a wage-price spiral, which was not elaborative enough for marks to be awarded.

Some held the view that due to income distribution disparity, wage-price spiral could be *experienced* in the country Q, for which, marks were not awarded