

SUMMARY OF EXAMINERS' COMMENTS ON THE PERFORMANCE OF CANDIDATES

PAPER – 1 : ADVANCED ACCOUNTING

General Comments

The overall performance of the candidates was quite average. As noted by the examiners, candidates were not able to draft their sentences in constructive manner and therefore were not able to express themselves as desired and were rather sketchy. Candidates are advised to work out on practical application of accounting standards and guidance notes specifically on the recent ones. Also a thorough practice and lots of reading of the subject is required to maintain the level of knowledge expected from the candidates of final level.

Specific Comments

Question 1. Consolidated Balance Sheet:

The performance of the candidates was average in this question. An adjustment for re-valuation of plant and machinery and furniture and fixtures was not correctly done by many candidates. Consequently, the candidates could neither give the required adjustment in the capital values of the assets, nor could compute the depreciation claim on the assets over the period. Also adjustments regarding the exclusion of common items in the debtors and creditors as between the companies have not been properly done by the candidates. Even a minor adjustment on the disclosure of contingent liability has not been properly done by the candidates.

Question 2. Accounting for Amalgamations:

Poor performance of the candidates was observed in this question. The candidates were required to calculate goodwill on the basis of profit figures of the prior three years and many of the candidates have shown a total ignorance of the steps necessary to do this and also not deducted income from non-trade investment while working out average profit. The candidates have also failed to show the ratios of exchange of shares between the amalgamated companies and the amalgamated companies.

Question 3. (a) Employees Share Based Payments:

It has been a poor performance of the candidates. This part of the question was based on Guidance Note. Candidates seem to be unaware of the concept of the stock options reserved for employees and also to the nature of accounts dealt with, while recording the necessary transactions. Candidates failed to correctly arrive at the amounts to be expensed at each stage and that to be transferred to general reserves.

Question 3. (b) Valuation of Shares:

Answer to this part of the question has been satisfactory. Many candidates had distributed the retained earnings over the number of shares after making adjustments for the partly paid shares and therefore led to wrong solution.

Question 4. (a) Accounting Standard 16:

This part has been very well attempted and answered by many candidates. The essential steps in solving this problem lies in the determination of the average cost of the borrowing which some of the candidates did not even know how to compute.

Question 4. (b) Human Resource Accounting:

The answer to this part of the question exhibited lack of knowledge of the topic "Human Resource Accounting". Most of the candidates considered it as a part of social balance sheet. As per the examiners, many candidates showed 'Human assets' on liabilities side of the balance sheet under wrong heading like 'Reserve' or 'Human Liability' instead of 'Human Equity'.

Question 5. (a) AS 26:

Poor performance of the candidates was observed in this question. It seems that the candidates are not well versed with the provisions of AS 26. Unfortunately, many candidates did not know what to capitalize and when. In many cases, there has been a mix up between Rs. 22 lakhs and Rs. 28 lakhs as to which amount has to be capitalized.

Question 5. (b) Fund Based Accounting:

Part (b) of the question requires a couple of journal entries to be shown for stock and medicines received as donation and issue of medicines. Here again, there has been a total lack of application by the candidates in finding the solution.

Question 5. (c) AS 29:

In part (c) of the question, many candidates wrongly applied AS 19 instead of AS 29. Candidates clearly missed out the point that the lease in question was an onerous contract on which no future benefit was available and hence should be fully expensed out.

Question 5. (d) AS 24:

Part (d) of the question was on practical application of AS 24. Poor performance of the candidates has been noted in this part also.

Question 6. Theory Questions:

Satisfactory performance by the candidates was observed in this question. Most of the candidates were unable to express their thoughts in a clear and precise language. In part (a) of the question, candidates elaborated the value added statement instead of the advantages

of value added statement. Vague answers have been given by most of the candidates in theory parts.

PAPER – 2 : MANAGEMENT ACCOUNTING AND FINANCIAL ANALYSIS

General Comments

Candidates, generally were found to be wanting in preparation of working notes and presentation of answers. Lack of observation and practice could be the reasons.

Specific Comments

Question 1.(a) This question on investment analysis and evaluation was compulsory. The standard of answers was good. However, many candidates could not present their workings logically. The cash flows were not grouped properly in such a manner for the reader to appreciate the logic.

Following errors were found in the answers given by candidates:

- (i) Wrong computation of depreciation and tax benefit thereon.
- (ii) Students who adopted the incremental approach to answer the question could not compute the cash flows:
- (iii) Some students considered depreciation as Rs.2,00,000 p.a. instead of Rs.4,00,000, though question clearly indicates to provide depreciation on Straight Line Method (SLM) basis @ 20%.
- (b) The question was on security analysis and was answered well. However, in the calculation of standard deviation, many candidates had missed the relevance of aggregating the yield (by adding together dividend and capital appreciation) and measuring the variation.

The following major types of errors were found in the answers.

- (a) Calculation of Comparative Risk was generally wrong.
- (b) Most of the students could write a few steps correctly however, thereafter they followed a wrong approach leading to wrong conclusions.
- (c) Some students were unable to calculate Standard Deviation.
- (d) Some students directly calculated Weighted Average (expected) return without showing the required calculations of yield of individual securities of M. Ltd., and N Ltd.

Question 2.(a) This question, also on security analysis, was easy as could be seen from the fact that many candidates had scored well. However, some students had shown lack of conceptual knowledge while attempting sub part (iii).

(b) This question on CAPM Application was exactly the same as a worked out illustration in the reading material for the course. It was, therefore, surprising that quite a number of candidates had not done it correctly. The common error was found in lack of properly understanding the question and wrong calculation of expected return on each item of Portfolio (Using CAPM). Further, errors were also noted in calculation of average Return on Portfolio.

Question 3.(a) The question required recommendations regarding capital sourcing and called for some analysis and thinking. This was left out by many candidates, as there was a choice. Wherever attempted, the standard of answers was very poor. Candidates had failed to highlight that debt is cheaper and should be a preferred choice for funding the investment in fixed assets.

(b) Most of the candidates had shown the lack of understanding about the concepts of Repo and Reverse Repo. The presentations was also not upto the mark.

Question 4.(a) This question on valuation of equity shares was fairly well answered by the candidates. While correct answers were worked out on net assets basis and profit earning capacity basis, "fair value" based on a simple average of the two methods was skipped by many candidates. This could have been due to inadequate reading of the question. The following common mistakes were also found in answers.

- (i) Wrong calculation of share value either based on Net Asset Method or Profit Earning Capacity Method.
- (ii) Wrong treatment of additional depreciation.

(b) This was short notes question requiring comments on Social Cost Benefit Analysis. In many cases, answers were not to the point. Some candidates appeared confused mixing up their answers with 'social accounting'.

Question 5.(a) The question required proving the aspects of Miller-Modigliani theory stating that the value of the share is not affected by dividend declaration. Many candidates had problems in handling formula based valuation of equity shares. There were good answers too in some cases. Some of the students could not calculate the new shares to be issued. Those who calculated the correct number of new shares to be issued committed following mistakes:

- (i) They could not prove that the value of M Ltd., shall not be affected by the dividend whether paid or not paid.

OR

- (ii) Applied wrong formula while calculating the value of firm.

(b) Calculations of profit and loss due to 'forward cover' of foreign currency under two hypothetical situations were required. The question was fairly straight and simple. However, answers showed lack of understanding of basic concepts and inability to present the workings in most cases.

Following errors were noted:

- (i) The candidates made mistakes in the calculation of premium amount.
- (ii) They could not calculate interest on premium amount of Rs.39,000/- for 9 months @ 10%.
- (iii) Some students took the problem as Money Market Hedge question.
- (c) The short notes question on 'Refinancing' was poorly answered. Many candidates had not understood the concept and explained it as saying it as a method of financing the same asset a second time. Most of students were not able to understand the question. They confused it with bridge loan, securitization; consortium and other forms of finance.

Question 6.(a)-(e) Being a theoretical question, it was attempted fairly well. However, the concept of Inter Bank Participatory Certificates and Stock Lending was not clear to the most of examinees. The other mistakes found in the answers were as follows:

- (i) Some candidates confused money market with forex market.
- (ii) Some students confused IBPC as an instrument of foreign exchange market, money market transactions and lending rates.
- (iii) Some students confused Stock Lending Scheme with loan secured against stock, shares and Mutual Fund etc.

PAPER – 3 : ADVANCED AUDITING

General Comments

Performance in general was quite satisfactory. Candidates in few cases misunderstood the questions and some of them were unaware of the fact that "layman's replies" were not required. Emphasis was on technical aspects but which was lacking.

It is very sad to observe that majority of the students, in spite of presenting relevant subject matters could not apply the same for the practical issues posed in compulsory questions. It was also observed by an examiner that many candidates finishing all answers with main answer books only have obtained better marks than candidates who attempted to take and fill up more additional answer books.

The observation states that illegible handwriting led to misunderstanding of answers. Some of the candidates did not put the question numbers correctly. Even the sequence of answers and sub divisions of questions were not maintained by the candidates.

Specific Comments

Question 1. (a) Most of the students attempted this part properly. Some of the examinees failed to explain the requirements of Sec. 205. Many students' answers were not brief and to the point.

(b) Majority of the examinees made a good attempt but very few students were able to correctly make the provision for repairs. Though many examinees mentioned AS 29, very few could discuss fully. Many argued that the repairs/replacement cost was negligible and therefore there was no need to make any provision for the same. Many students made arithmetic mistake while calculating.

(c) Students have explained about AS 9 rather than AS 2. However, the conclusion was rightly given by the students. Some candidates failed to do the valuation of closing stock of garments correctly rather revenue recognition was unnecessarily discussed.

(d) Candidates on an average attempted correctly but many students failed to discuss the requirements of AS 21, while some examinees wrongly referred AS 13.

Question 2.(a) Most of the candidates attempted well. Maximum number of students has not given the guidance note on Accountants Report on which profit forecast could be made. Few students intelligently guessed and have simply answered the CA cannot give profit forecast.

(b) Many students answered fairly well but some of them failed to refer section 21 of CA Act. Some of the candidates argued that the remark "Refer to Drawer" was not misconduct.

(c) Many candidates are under the impression that clause 8 was not applicable to VAT Audit. Most of the students referred permission of previous auditor is not required under VAT. Some argued that VAT audit is not within the ambit of Company Act and hence CA was not guilty. While some others have wrongly written audit under VAT Act as allotted by Government, therefore, communication to previous auditor is not required. However, few examinees have stated that communication is required if the previous auditor is a CA.

(d) Some examinees could not understand the problem. They failed to state the auditor of a subsidiary company can not be a director of the holding company as it would affect his independence.

Question 3.(a) Many could answer correctly but specific points on CAAT were left out. Majority of the examinees admits that the Audit Software increases the probability of detecting and reducing frauds in financial statements.

(b) Majority of the examinees referred audit committee and its relevant provisions and only few could state who is an independent auditor. Many have not understood clause 49 of the listing agreement on independent director.

(c) Few examinees stated correctly what is Audit Trail, while some others are unaware of it. Many have stated that it is a computer process. Few others expressed that it is an auditing technique.

Question 4.(a) Many students attempted this part well but some of them could not explain the difference between financial and operational audit. The concept of extension of internal audit into operational areas has not been touched upon by many students.

(b)(i). Many students gave answers without referring to CARO but explained income tax provisions. Again majority of the students ignored the points on maintenance of proper books of accounts on accrual basis.

(ii). Majority of the students have not referred the fact that the loan obtained has not been utilized for the purpose for which it was taken. Instead of discussing on Para 4 (xvi) of CARO,2003, the candidates discussed about borrowing cost under AS 16.

Question 5.(a) The answers given by the students did not touch about inspection, insurance, stock audit and hypothecation/pledge. It showed lack of preparation on the examinees. While answering, many of the students had not considered banking company.

(b) Very few candidates could understand the implication of Audit Risk and the answers were very casual. Many students have written points relating to inherent risk, control risk and detection risk.

Question 6.(a) This part of the question was attempted well by the examinees but some of them did not mention that the provision of 25% of net premium was inadequate and required auditor's qualification. Many examinees were unaware of the term reserve for unexpired risks in insurance business.

(b) Most of the students did not touch upon "auction session on T + 2.

(c) Maximum number of students did not attempt properly and some of them failed to explain haphazard Sampling.

Question 7.(a) Most of the students displayed their ignorance about "Due Diligence". Many students made only headline reference on Due Diligence some others listed some points.

(b) Many of the students did well this part.

(c) Many students felt that 20% of the amount will be disallowed. They were quite ignorant about the provisions of section 40A (3) of Income Tax Act.

Question 8.(a) The policy of the Government in the Union Budget did not touch by many candidates.

(b) The candidates have not used the issue price per share but calculated at market price.

(c) Many were not clear about the concept of "Key Management Personnel". Candidates were confused as to AS 18 in respect of non executive director and so it was not highlighted by many candidates.

(d) This part has not been attempted well by many candidates. Some of the students generally failed to explain application of normal capacity with regard to allocation of fixed overheads.

- (e) This part of the question was not attempted well since no mention was there on AS 11.
- (f) Many candidates wrote on different paragraphs of audit report rather than correct presentation.

PAPER – 4 : CORPORATE LAWS AND SECRETARIAL PRACTICE

General Comments

The performance in general was “average”. The following improvements are required

- (a) Application of Legal provisions to the questions.
- (b) Improvement in the English Language and conceptual clarity.
- (c) Main Sections/Important case laws, if any and relevant to the answer should form part of the answer.
- (d) Updating the knowledge in the subject by way of amendments if any related to the questions.
- (e) Drafting skills in respect of answers to questions based on secretarial practice.

Specific Comments

Question 1. Many of the candidates answered correctly the question by stating that same person can be appointed as the Managing Director in three companies of the group with the permission of the Central Government. Few of them did not state about the provision of Section 316(4) of the companies Act.

Though the candidates by and large performed well in the sub-part (b) of the question, however some of them did not state about the effect of such withdrawal on the contracts outstanding on the date of withdrawal as provided in the proviso to Section 5 of the Securities Contracts (Regulation) Act, 1956.

The performance to sub-part (c) of the question was satisfactory.

Question 2. The provisions relating to Sections 17 and 19 of FEMA 1999 for appeals against orders of Adjudicating Authority and the time limit were not stated correctly by most of the candidates.

The sub-part (b) of the question have been attempted well by the candidates.

Though many candidates by and large performed well in the sub-part (c) of the question, some of them did not explain properly the provisions of Section 11 of the Competition Act, 2002 for removal of member of Competition Commission from his office by the Central Government.

Question 3. The performance of the candidates to this question was satisfactory; however some candidates did not define the term “relevant date”.

In sub-part (b) of the question with regard to problem relating to the lock-in period for the shares allotted on preferential basis, most of the candidates answered well but with regard to the persons not entitled for allotment of shares on preferential basis, candidates were not well aware about the guidelines issued by SEBI [Para 13.3 1(f)]

The sub-part (c) of the question have been attempted well by the candidates.

Question 4. Though most of the candidates attempted well in the provisions of Section 275, 277 and 278 of the Companies Act, 1956 but while applying these provisions in the practical question given, many candidates were confused about the option available to Mr. Raj in respect of accepting or not accepting the appointment of the given companies.

In sub-part (b) of the question most of the candidates stated well about what is 'Director Identification Number' but some of them did not state the procedure for obtaining it.

Question 5. Most of the candidates attempted well the provision regarding Special Audit as per Section 233A of the Companies Act, 1956. However candidates did not draft the application to be submitted to the appropriate authority in a proper manner.

In the sub-part (b) of the question, most of the candidates stated well the provision of Section 250 of the Companies Act, 1956.

Question 6. Many of the candidates were not aware of the provision relating to appointment of more than 15 directors in the case of inter-state cooperative society which is incorporated as a Producer Company as per section 581-O of the Companies Act, 1956, the provisions of Section 581ZD relating to transfer of shares by a member of a producer company, the provisions of Section 581ZJ relating to issue of bonus shares by a producer Company and the modes of investment, from and out of its general reserves available to a Producer Company formed and registered under Section 581C.

In the sub-part (b) of the question, most of the candidates performed satisfactorily.

Question 7. Most of the candidates answered correctly about the amount upto which the Board of Directors can borrow from financial institutions under the provisions of the Section 293(1)(d) of the Companies Act, 1956 and the amount upto which the Board of Directors can contribute to charitable funds during the Year 2008-09 without seeking the approval in general meeting under the provisions of the Section 293(1)(e) of the Companies Act, 1956.

In the sub-part (b) of the question most of the candidates performed satisfactorily.

Question 8. Most of the candidates have attempted this question in a proper manner.

In the sub-part (b)(i) of the question most of the candidates did not knew the provision that whether guarantee commission paid to the directors would be treated as remuneration or not.

Similarly in the sub-part (b)(ii) of the question many candidates were unaware about the unlimited liability of the directors.

Question 9. The performance of the candidates for this question was satisfactory.

In the sub-part (b) of the question, candidates properly stated the important points for drafting minutes of Board Meeting but drafting of resolution in other part was not upto the mark. It requires a lot of improvement.

In the sub-part (c) of the question while most of the candidates properly stated the correct time limit for filing Annual Return and Annual Accounts with Registrar of Companies but failed to state the procedure for such submission/filing.