

SUMMARY OF EXAMINERS' COMMENTS ON THE PERFORMANCE OF CANDIDATES

I. General Comments :

- (1) The answers of the candidates reflected lack of understanding of Accounting Standards, Standards on Auditing and company law. Therefore, their answers were found to be lacking in substance. A thorough reading of the basic text of the Accounting Standards, Standards on Auditing and Bare Acts is required to strengthen their fundamentals.
- (2) Generally, answers in all subjects have exhibited lack of systematic and logical approach, conceptual clarity and analytical thinking. Intense learning of the study material will help to develop conceptual clarity.
- (3) In the subject of Advanced Accounting, solutions to practical problems have not been given in the prescribed format with suitable working notes. While solving practical problems, it is very important that the answers should be supported with proper working notes. Questions requiring practical application of Accounting Standards have not been answered well, reflecting lack of application skills.
- (4) In the subject of Management Accounting and Financial Analysis, the performance of the candidates showed lack of exposure to certain specific areas of finance such as forex operations, forward rate agreements, swaps, arbitrage, EVA etc.
- (5) In the subject of Corporate Laws and Secretarial Practice, candidates were not aware of the latest amendments in the law. They have also not written the main sections and case laws, which have to form part of the answer. Further, they were not able to apply the provisions of law correctly. Drafting skills were wanting in the area of Secretarial Practice.
- (6) The presentation of answers was also very poor in many cases. The major deficiencies were -
 - (i) not starting the answer to a new question on a fresh page;
 - (ii) answering the different sub-parts of the questions in different places instead of answering the same one after the other;
 - (iii) leaving blank pages in between the answers;
 - (iv) writing the question number outside the margin, which is intended for answers;
 - (v) not marking the questions answered in the cover page inspite of specific instructions to do so;
 - (vi) very poor handwriting;
 - (vii) lack of expression;
 - (viii) spelling mistakes; and
 - (ix) grammatical mistakes.

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II. Paper-Wise Specific Comments :

PAPER – 1 : ADVANCED ACCOUNTING

Question 1. Few candidates made mistakes in apportionment of profits of Shuk Ltd. (subsidiary company) between pre-acquisition and post-acquisition which resulted in wrong computation of goodwill, minority interest and consolidated profit and loss account for the purpose of consolidated balance sheet of Kush Ltd. (holding company). Some of them erred in adjustment due to revaluation of plant, furniture, fixtures and fittings of Shuk Ltd. Few candidates failed to eliminate unrealized profit on stock and inter-company debts in the consolidated balance sheet.

Question 2.(a) Some candidates were not able to compute the correct amount of average adjusted profits, net assets owned by equity shareholders and goodwill. Hence, they could not arrive at the accurate amount of total consideration due to the vending shareholder.

(b) Few candidates failed to calculate the correct value of economic value added from the given data.

Question 3.(a) Majority of the candidates could not arrive at the correct value of goodwill under equity and long term fund approaches. The candidates who computed the correct value of goodwill failed to show the leverage effect on goodwill.

(b) Most of the candidates were not able to apply the provisions of AS 30 "Financial Instruments: Recognition and Measurement". They could not give the required journal entries to record the hedging transaction.

Question 4.(a) Large number of candidates could not apply the provisions of Section 77A of the Companies Act regarding buy back of shares. They could not determine the maximum number of shares to be bought back and therefore, could not give the required journal entries.

(b) Most of the candidates failed to understand the provisions of AS 30 "Financial Instruments: Recognition and Measurement". They failed to calculate the value of loan initially to be recognized and amount of annual amortization for the subsequent years till closure thereof. Consequently, they could not give the required journal entries.

Question 5. Some candidates were not able to apply the provisions of AS 28 "Impairment of Assets", AS 13 "Accounting for Investments" and AS 7(Revised) "Construction Contracts" properly, and therefore, were not able to answer the question correctly.

Question 6. (a) Few candidates failed to apply the correct present value factor for different categories of employees which resulted in wrong valuation of human capital.

(b) Small number of candidates could not indicate how to record the given transactions in the background of Accounting Standards.

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PAPER – 2 : MANAGEMENT ACCOUNTING AND FINANCIAL ANALYSIS

Question 1.(a) In this problem on Leasing vs. Borrowing and Buying option following common errors were found in answers given by candidates:

- (i) Although in the question, it is clearly mentioned that payment of installment is in advance but some candidates considered the payment of installment in the end of the year leading to wrong answer.
- (ii) Some candidates took 7% discount rate instead of 10%, deducting tax benefit from WACC also, which is completely wrong.
- (iii) Taking wrong annuity factor for calculation of installment for loan repayment.
- (iv) Equal installment amount not arrived by some of the candidates consequently leading to wrong calculation of interest amount on outstanding loan.
- (v) Some of the candidates were not aware of the concept of Break Even Lease Rental (BELR).

(b) In this question of financial services (Factoring) most of the candidate could not compute correctly the estimated amount of receivable and hence could not compute the saving of overdraft interest by availing the factoring services. Further, majority of candidate only computed correctly only following three amounts:

- (a) Saving in Administration Cost
- (b) Saving of Bad Debts
- (c) Factoring Charges

Question 2. (a) In this question of Valuation of Firms following errors were noticed in the answers given by candidates:

- (i) It appears that the concept of Free Cash Flow (FCF) is not clear to the students as only a few candidates prepared the table exhibiting the FCF. Those who prepared the table committed mistake in taking Working Capital instead of Change in Working Capital (ΔWC).
- (ii) Those who have tried to solve the question could not proceed beyond the computation of FCFs and could not calculate the PV of FCFs.
- (iii) It was also found that candidates have made mistakes in calculation of EBIT by applying the given growth rates.

(b) In this question of Mutual Fund some candidates committed errors such as ignoring capital gain while calculating returns, showing the annual return as monthly return etc.

(c) In this theoretical question of role of Financial Advisor in Public Sector Undertaking following errors were found in candidates' answers :

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- (i) Some candidates mentioned the general functions of financial management or financial advisor instead of role of financial manager in PSU.
- (ii) Most of the candidates even could not mention the key areas of functioning of Financial Advisors in PSUs such as Capital Budgeting, Budgetary Control, Cost Control and Reduction, Pricing Policy etc.

Question 3. (a) Though the question on Option was conceptual in nature but most of the candidates were not clear about the concept of the expiration date cash flow and expiration date investment value.

(b) In the answer of this question following errors were noted:

- (i) Some candidates ignored the stream of dividend on bonus shares from 4th years onwards and in some cases considered it from 5th year onwards instead of 4th year onwards.
- (ii) Some ignored the sales expenses of shares.
- (iii) Some candidates used simple method of averaging, ignoring the concept of time value of money.

(c) Since a lot of statistics were involved in this question following major errors were noted in the answers of the candidates:

- (i) Most of the students were unable to rank the returns correctly.
- (ii) Most of the candidates could not give the required working to deal with the ranking of securities based on Excess Return to Beta Ratio.

Question 4. (a) In this question of Valuation of Business:

- (i) Only handful candidates could touch upon the correct valuation on the basis of P/E and Dividend Valuation Methods.
- (ii) Only a few candidates could calculate the cost of equity. Majority of candidates given the incorrect/ partly correct working of Beta (Equity) of target company and hence computation of equity.

(b) In spite of fact that the question is of basic nature on the topic of Foreign Exchange, following errors were noticed in answer of candidates:

- (i) Applying the reverse rate for the conversion of US Dollars into GBP i.e. more amount is payable in GBP.
- (ii) Calculation of wrong amount of interest in forward market cover.
- (iii) Calculation of wrong number of currency option contracts.
- (iv) Wrong amount of premium payable for the option contracts.

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(v) Leaving the balance (USD 3647) uncovered on account of fraction of currency option contract by Forward contract.

(c) In this theoretical question on Depository System in the category of major player most of the candidates mentioned the name of two depositories participants NSDL and CDSL instead of issuers, stock brokers, clearing corporation, investor, banks etc.. Some candidates even confused it with the Global Depository Receipts and American Depository Receipts.

Question 5.(a) In this question of Interest Rate Swap only very few candidates could work out correctly the first part of question i.e. All in Cost of Funds but could not proceed further. Remaining candidates exhibited lack of knowledge of the concept of LIBOR. Some of candidates even committed mistake in the calculation of period of swap.

(b) In this theoretical question without understanding the meaning of the term 'Swaption' candidates started writing lengthy answer. Only a few candidates written that "Swaption" is combination of 'Swap' and 'Option'. Majority of candidates mentioned the term 'Swap' and that too in great detail, leading to wastage of their precious time in the examination.

(c) This theoretical question on the popularity of Stock Market Futures also not properly understood by most of the candidates as they explained in details the concept of 'Future' without linking it to the Stock Market Index.

PAPER – 3 : ADVANCED AUDITING

Question1.(a) The question is based on AS-29 and Provisions of the CARO 2003. The students have not been able to attempt this question satisfactorily because of lack of knowledge of the Provisions of the CARD 2003 relating to non-deposit of tax dues under dispute, its amount and the forum where the case is pending.

(b) This question relates to external confirmations and is based on SA-505: The students have not properly understood the question. Consequently their performance has been very poor. They have not mentioned the reasons for non-payment by a debtor, and debtor's financial positions, who had confirmed his debt. They have also failed to give the type of advice, the Auditor should give to his client.

(c) The question pertains to revenue recognition and is based on AS-9. The majority of the students were confused and failed to appreciate the importance of date of Bill of Lading, which they thought was irrelevant. Hence their performance has been poor.

(d) The question relates to preparation of Cash Flow Statement. It is based on the provisions of Section 211 (3C) of the Companies Act 1956 and also needs reference to AS-3.

Question 2.(c) The question is based on Clause 9 of Part 1 of First Schedule to the Chartered Accountants Act, 1949 and Section 226 (3) (e) of the Companies Act, 1956 as amended in 2000. The attempt of the students in general has not been satisfactory because they did not specifically mentioned that if the CA holds shares in the Company with a voting right, he would be guilty of professional misconduct. Some of the students

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have written that the Auditor was a joint holder of shares with his wife of which he did not have any knowledge at the time of accepting the appointment.

Question 3.(b) Majority of the candidates failed to answer in accordance with the provisions of Section 227 of the Companies Act, 1956 resulting very poor performance for both the sub parts.

Question 4. (a) Additional matters to be reported by statutory auditor of the Banking company to the shareholders :

The auditor is required to report to the shareholders under Banking Companies Regulation Act, 1949 and the guidelines issued by the Reserve Bank of India from time to time.

The performance of the students has been extra ordinarily poor. It appears that they are particularly careful about reporting requirements of the auditor under Companies Act 1956.

They are totally unaware of the additional reporting requirements under the Banking Companies Act, 1949 and also under the guidelines of the RBI.

(c) Indicators to be considered while verifying the compliance of laws and regulations: - Majority of the students have not been able to attempt this question satisfactorily. The reason for this is that they were supposed to write what amounted to non compliance of laws and regulations, i.e. indicators of non compliance. They have instead explained the compliances with regard to various matters under various laws and regulations.

Question 5.(c) Broad matters to be considered while obtaining business for a new audit engagement of a manufacturing concern: The performance of the students has been an average one. They had tried to touch a very small number of matters to be covered in the answer.

Question 6.(b) The performance of students has not been satisfactory. They have written uses of check lists rather than the use of check lists as a tool of internal control by the auditor.

(c) CEO I CFO certification to the Board: (Relating to Corporate Governance): The performance of the students in this question has been highly unsatisfactory. The reason has been that they actually did not know the importance of the key position that CEO/CFO occupies in the company administration. The duties and responsibilities of CEO/CFO are such which warrant a lot of dependence of the Board of Directors of the company on CEO/CFO. This is why CEO/CFO has to report on variety of important matters to the Board of Directors, which has been ignored by the students.

PAPER – 4 : CORPORATE LAWS AND SECRETARIAL PRACTICE

Question 1. Most of the candidates attempted question 1(a) correctly, but while answering question 1(b) many of them did not state correctly the conditions for

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recognition to a stock exchange covered under section 4(2) of the Securities Contracts (Regulations) Act, 1956.

Question 2. The performance of the candidates while answering sub-part (a) of the question was average. Many of them did not state correctly power of Reserve Bank to inspect authorised person under section 12 of the Foreign Exchange Management Act, 1999.

Most of the candidates attempted well sub-part (b) of the question by correctly stating the kind of approval required for the given transactions under the Foreign Exchange Management Act, 1999.

Question 3. Most of the candidates stated correctly the penalties covered under section 15F and Section 15G of the Securities and Exchange Board of India Act, 1992.

The performance was satisfactory in respect of sub part (b) of the question but many of them did not state correctly the constitution of benches of the commission under the Competition Act, 2002.

Question 4. The performance of the candidates was satisfactory in sub part (a) of the question. In part sub part (b) of the question, performance of majority of candidates was poor. Most of the candidates did not explain the provisions relating to protection to employees of the company under section 635B of the Companies Act, 1956.

Question 5. Most of the candidates correctly stated provision of Sole Selling Agent covered under section 294(2) of the Companies Act, 1956..

Most of the candidates did not attempt well the sub part (b) of the question. They failed to decide whether directors' bona fide decision not to declare dividend and to accumulate available profits into reserves is mismanagement or not.

Question 6. Most of the candidates have attempted this question in a proper manner.

The drafting of the resolution for appointment of the managing director was not upto the mark. It requires a lot of improvement.

Question 7. Most of the candidates correctly stated the provision of retiring director covered under Section 256 of the Companies Act, 1956 in sub-part (a) of the question.

In sub-part (b) of the question, the performance was not satisfactory as most of the candidates were not familiar with the case law on which the question was based.