

SUMMARY OF EXAMINERS' COMMENTS ON THE PERFORMANCE OF CANDIDATES

PAPER – 5 : COST MANAGEMENT

General Comments

The performance of the candidates is short of what is expected of a Final student. There appears to be a lack of knowledge in concepts which build upon the basics like Standard Marginal Costing, Target Costing, Value Chain Analysis etc. Students are requested to do extensive reading of the subject, in order to understand the various traditional and modern concepts. This will help them prepare and perform better in future examinations.

Specific Comments

Question 1. (a) This was a practical question part requiring students to prepare profitability statements at two different levels of output and subsequently compute the break even point from the given data. Certain students lacked the understanding of stepped costs and hence were not able to arrive at the correct answer.

(b) This was a theory part requiring students to give two examples of Unit, Batch, Product and Facility level activities. Examiners have observed that many students did not have a clear concept regarding activity based costing.

(c) This was theory part requiring students to outline the features of penetrative pricing. Most of the students have attempted the answer on the desired lines.

Question 2. (a) This practical part required candidates to determine the minimum cost. Most of the students were able to arrive at the correct answer to this assignment problem.

(b) This practical part required candidates to determine the total duration and give three different ways to reduce the project duration. Many candidates could not write about the ways to crash project time.

(c) This practical part required candidates to identify an appropriate transfer price from the given data relating to a profit centre which produces for captive consumption and also for the external market. Most of the students were able to approach the problem satisfactorily.

Question 3. (a) This was a practical question part requiring candidates to compute the rent to be charged to each bed-day for different types of wards in a Medical Health Centre. Many students were unable to compute equivalent ward days and hence arrived at the wrong rates.

(b) This theory question part required examinees to explain the concept of simulation. The question part was attempted fairly well by a majority of the candidates.

(c) This theory question part required students to explain briefly the 'learning curve ratio'. The question part was done well by most of the candidates.

Question 4. (a) This was a practical question part requiring candidates to have a clear understanding of a standard marginal costing system. Many students could not calculate the cost of labour in efficiency and hence arrived at the wrong answer. Some candidates failed to compute

correct marginal cost, Contribution and the Valuation of Stock. A majority of students also failed to answer correctly the 'Report to the management giving reasons for the losses'.

(b) This was a theory part requiring students to list the steps to be followed in Target Costing. The question part was done well by most of the students; however, a few did not use the block diagram for explanation purposes. Also, a few students gave very superficial answers.

Question 5. (a) This was a theory question part requiring candidates to explain the meaning of ERP and name six benefits arising out of the same. Although the question has been attempted satisfactorily, the examiners have reported that there appears to be a lack of conceptual clarity in this subject area.

(b) This practical question part required candidates draw a network and highlight the critical path. Many candidates failed to draw the network correctly, although they named the critical path correctly.

(c) This practical question part required students to formulate a linear programming model from the given data and identify maximum profit. Most of the students did this problem very well.

Question 6. (a) This practical question part required students to have a clear conceptual understanding of Standard Costing and Variance analysis. Very few students were able to attempt this question.

(b) This was a theory question part requiring candidates to have knowledge of integrated/interlocking systems of accounts in situations where standard costing is adopted. Many students were unable to give the correct Journal Entries.

(c) This theory part required a sound understanding of concepts of Value Chain. Many of the students were not able to answer this question on the desired lines.

PAPER – 6 : MANAGEMENT INFORMATION AND CONTROL SYSTEMS

General Comments

Candidates wrote answers without first analyzing the exact requirement of each question. Candidates exhibited lack of adequate preparation and in-depth knowledge of the subject.

Specific Comments

Question 1. (a) Most of the candidates failed to understand the meaning of 'vulnerable' and the 'key areas' that are most vulnerable when data is stored in electronic form.

(b) Majority of the candidates were clueless about common types of field interrogation as a validation control procedure.

(c) Many candidates failed to highlight distinction between general and application controls. However, second part of the question i.e. broad categories into which general controls can be divided was answered correctly by them.

Question 2. (b) Many candidates could correctly identify the information required for sales support and sales analysis whereas others listed all the information rather than being specific about each part.

Question 3. (a) Candidates lacked understanding of the question. Instead of quoting reasons for project failure, they discussed about software and hardware aspects of computer system failure.

(b) This part was well attempted by majority of the candidates.

(c) Answered by few candidates with an average performance. Various aspects of benchmarking problem were not covered by many candidates.

Question 4. (a) Very few examinees stated correctly the sequence of events which occur immediately for each transaction when controlled by the sales order entry computer program in an OLRT system.

(c) Candidates failed to split the answers into four different ways of committing computer frauds using input.

Question 5. (a) Most of the candidates attempted this question on powers of Cyber Appellate Tribunal. Few stated basic and fundamental powers like summons, receiving evidence and examination of an oath.

(c) Many candidates did not understand the meaning of "subversive threats" and hence confused them with computer frauds.

Question 6. The given question is a case study. Performance was satisfactory.

Question 7. (a) Most of the candidates gave vague answers about Enterprise Controlling.

(b) Candidates exhibited lack of conceptual clarity about integrated test facility.

(c) Some of the candidates could not explain the concept of restorative information protection.

PAPER – 7 : DIRECT TAXES

General Comments

Most candidates do not possess the required expert knowledge in income-tax. Therefore, their answers were vague and based on surmises and conjectures. Lengthy answers dealing with irrelevant points were common. Many candidates have not given proper notes in support of their answers. The presentation of answers was also very poor in many cases. Most candidates do not start the answer to each question on a fresh page. Other deficiencies were very poor handwriting, poor English, lack of expression and spelling and grammatical mistakes.

Specific Comments

Question 1. (i) Most of the candidates have answered this question without furnishing proper/adequate explanations or reasons for the treatment of various items i.e. additions/deletions made to the net profit as per profit & loss account. For example, many students have stated that interest paid on arrears of sales-tax is an allowable expenditure without giving the reason for the same, namely, because the expenditure is not penal in nature but compensatory in character.

(ii) The question only requires computation of total income. Some candidates have calculated tax payable and also book profits as per Section 115JB of the Act, which are not required.

Some of the other common mistakes committed are -

- (1) Income-tax paid on non-monetary perquisites provided to the employees was confused with FBT.
- (2) As regards expenditure on scientific research, deduction was provided at 125% or 100% instead of 150%.
- (3) Treatment of rent received from vacant land as business income or as income from house property.
- (4) Failure to provide deduction of 30% from arrears of rent received and treatment of arrears of rent received as income from other sources.

Question 2. (b) Some candidates have wrongly answered that the salary paid to Karta is not allowable. Few candidates have discussed about the maximum salary payable to partners of a firm as per Section 40(b)(v) of the Act, which is irrelevant.

Question 3. (a) Some candidates have discussed the provisions relating to section 80P applicable to Co-operative Societies. Most candidates have not explained the concept of mutuality, which is relevant in this case. A few candidates have stated that the club has to pay FBT. Some other candidates have considered the club as a trade, professional or similar association and stated that the income derived from the specific services performed for its members is taxable as per section 28(iii) of the Act.

(b) Some candidates were not aware of the recent amendments by the Finance Act, 2005 with regard to mandatory filing of return by an individual if his gross total income exceeds maximum amount not chargeable to tax before deduction under chapter VI-A and also mandatory filing of loss return by firms on or before the due date. Many candidates have answered that the firm has to file loss return for carrying forward the loss to subsequent year, which is not relevant in the context of the question asked.

Question 4. (a) Many candidates have considered site and building as a single asset and computed capital gain. Some candidates have treated the sale of land and building together as a slump sale and applied the provisions of section 50B.

(b) This question is on taxability of salary, allowances and perquisites of an Indian citizen employed in the Indian embassy at Japan. Some candidates have wrongly answered that his salary is exempt and allowances and perquisites are taxable whereas the correct answer is that the salary is taxable and the allowances and perquisites are exempt under section 10(7).

Question 5. (b) Many candidates have wrongly answered that the Commissioner has the power to revise the order under section 264 since the issue of deduction was not the subject matter of appeal before the Commissioner (Appeals).

(c) The question is whether the tax deducted at source but not paid by tenant can be recovered from the landlord. Some candidates have given irrelevant answers like the return filed by landlord is defective since TDS Certificate has not been filed along with such return and that the landlord should be given time to file the TDS Certificate.

Question 6. (a) Many candidates were not aware of what is meant by "Memorandum of cross objections" and hence, were not able to answer correctly.

(b) Most of the candidates were not aware of the ceiling of Rs.60,000 in the case of medical treatment of a senior citizen under section 80DDB.

(c) Many candidates confused the power to collect information under section 133B by the Assessing Officer with the power of survey under section 133A and have wrongly answered that the Assessing Officer could not enter the hotel after sunset.

Question 7. (a) Most of the candidates have not understood as to what is an adventure in the nature of trade and their answers were vague and based on surmises and conjectures. Some candidates have confused the same with speculative trade.

(b) Most of the candidates were not aware of the provisions relating to Explanation to section 275 and the proviso to section 129 and hence were not able to answer this question.

Question 8. Some candidates have not discussed the reasons for exclusion or inclusion of certain items. Few candidates have made mistakes in treatment of interest in the coparcenary property of the HUF and land owned by minor married daughter.

PAPER – 8 : INDIRECT TAXES

General comments

Overall performance of the candidates was very poor. The preparation level of the candidates was not commensurate with the preparation level required to appear in the Final Level of Chartered Accountancy Examinations. The candidates were not aware with the recent developments in the indirect tax laws. It has been felt that the students do not refer to "Supplementary Study Paper" and "Select Cases in Direct and Indirect Taxes - An Essential Reading for the Final Course". It has been observed that candidates resort to selective study thereby either scoring good marks in excise portion and poor marks in customs or vice-versa. Candidates do not attempt all parts of a question at one place. Further, they do not start the new question on a fresh page. It is advised that candidates should work upon their writing skills and improve the presentation of answers.

Specific comments

Question 1. (a) (i) Most of the candidates wrongly discussed about the availability of the CENVAT credit to the job worker, instead of explaining job work.

(ii) Most of the candidates defined 'input' in place of 'principal inputs'.

(iii) Generally, the candidates were unaware of the concept of deemed credit. They wrongly explained that when certain activities are considered as deemed manufacture, deemed CENVAT credit should be available.

(b) Majority of the candidates were ignorant of the recent Circular on valuation of samples.

(c) Though the question was based on valuation, most of the candidates wrongly discussed about manufacture. Even when the question stated that galvanisation doesn't amount to manufacture, the candidates wrote that galvanisation amounts to manufacture. A very few candidates were able to cite the case law on which the question was based.

Question 2. (a) The candidates gave general answer to this part. In most of the cases, the answers were wrong.

(b) Most of the candidates explained the provisions of section 11B of the Central Excise Act, 1944. However, they failed to answer the issue raised in the question.

(c) This question was based on valuation. However, most of the candidates confused it with classification and could not differentiate between the two. Only a few candidates could get the answer right, but most of the right answers were not supported by any reasoning.

Question 3. (a) Majority of the candidates were not aware of the provisions of section 9A of the Central Excise Act, 1944 and Compounding Rules made thereunder. They wrote vague answers.

(b) Very few students were aware of the Supreme Court's decision in the case of Vikram Cement v. CCEx., Indore 2006 (194) ELT 3 (SC). Thus, most of them answered wrongly.

(c) Due to the lack of understanding of concepts relating to availment and utilisation of CENVAT credit, most of the candidates could not give the right answer.

Question 4. (a) The candidates were unaware of the amendments made in section 35B and 35E and wrote vague answers. Some of them narrated the provisions relating to the powers of the Chief Commissioner/Commissioner of Central Excise.

(b) While part (i) was attempted satisfactorily, the candidates could not give correct time limit for sanction of rebate claim under part (ii).

(d) Most of the candidates were unaware of the amendments in provisions relating to interest under Rule 8(3) and forfeiture of facility of monthly payment of duty under Rule 8(3A).

Question 5. (a)(i) Most of the candidates could not explain the situation/conditions when Tribunal could extend the period of stay. They simply explained that the Tribunal cannot grant a stay beyond a period of six months.

(iii) Some candidates wrongly explained that physical export could be made only after physical checking and verification.

(b)(i) The candidates did not know that the Central Excise Officer is authorised to issue show cause notice.

(ii) Only a very few candidates could answer this part correctly.

(c) The candidates were not aware of the provisions of section 11DD relating to interest on

amount collected in excess of duty and instead discussed the provisions relating to interest on short payment of duty or interest on refund of duty.

Question 6. (a) Most of the candidates did not define customs port and stores correctly. A few candidates answered that 'goods' have not been defined in the Customs Act, 1962.

(b) The candidates lacked the basic understanding of the powers of the department when it is dissatisfied with an order made under section 47 and thus, wrote vague answers.

(c) Many candidates concluded that only proportionate amount of exemption would be available.

(d)(i) A large number of candidates failed to narrate the different situations for determining the relevant dates for submission of a refund application. Instead, they only explained that the application for refund might be submitted within a period of 6 months.

(d)(ii) Excepting a few candidates, none was able to explain the provisions of section 76 asked for. Most of the candidates answered on the basis of provisions of section 74 and section 75.

Question 7. (a) Barring a few candidates, none was aware of the provisions relating to dates of commencement of anti-dumping duty.

(b) Most of the candidates wrongly concluded that since the "essentiality certificate" has not been produced at the time of importation, the rejection of the claim of the importer by the Customs Authority is justified.

(c) Majority of the candidates were not aware of the provisions of section 5 and section 6 of the Customs Act, 1962 and thus, wrote vague answers.

Question 8. (a) Most of the candidates did not possess sound knowledge of the provisions of the Customs Act. Accordingly, they failed to distinguish between 'Fine and Penalty' and 'Rules and Regulations' and explained a lot of non-related issues.

(b) Instead of answering on the basis of the provisions of the Customs Act, 1962, majority of the candidates referred to the provisions of the Income-tax Act, 1961.

(c) This question was based on the provisions of section 70 relating to remission of duty on volatile goods. However, many candidates wrongly answered on the basis of section 23 relating to remission of duty on lost or destroyed goods.

Question 9. (a) Most of the candidates were unaware of the provisions relating to export of services and wrote incorrect answers.

(b)(ii) Many candidates wrongly answered that small service provider whose aggregate value of taxable service is Rs.4,00,000 per annum is exempt from obtaining registration.

(c) This part was not attempted satisfactorily. Even correct answers were backed by incorrect reasoning.