

EXAMINERS' COMMENTS ON THE PERFORMANCE OF CANDIDATES

PAPER – 1 : FINANCIAL REPORTING

Question 1.(a) Most of the candidates had correctly mentioned empty beer bottles as “assets” but they failed to answer the second part of the question. They could not substantiate the answer with reference to the relevant provisions of AS 2.

(b) Majority of the candidates wrote that Proposed Dividends should be shown under ‘Current Liabilities & Provisions’ in the balance sheet but they did not refer the provisions of AS 4.

(c) Except for few candidates, majority of them could not ascertain carrying amount of investment in separate and consolidated financial statements of Bright Ltd., as asked in the question.

(d) Most of the candidates could not provide the required answer in accordance with the provisions of AS 28.

Question 2. Very few candidates attempted this question correctly. Most of the candidates failed to arrive at the correct amount of provision for SARs by fair value method. Another mistake committed by many candidates was using employees leaving rate of 3% thrice instead of twice in the year 2008-2009, consequent to which, subsequent calculations also went wrong.

Question 3. Most of the candidates could not prepare the correct consolidated balance sheet of Air Ltd. and its subsidiaries. They erred in computation of purchase consideration and its discharge, retained earnings, pre and post acquisition profits, which resulted in wrong computation of capital reserve (Cold Ltd.) and goodwill (Dry Ltd.).

Question 4. Most of the candidates ascertained the amount of purchase consideration correctly but failed to arrive at the correct amounts of capital reserve, cash of Y Ltd. taken over, combined cash balance in the balance sheet after absorption. Some candidates had not understood the language used in the question paper i.e., “Stock and Debtors are to be taken over at 5% less than their book values.” They had wrongly applied this revaluation for both the companies instead of making adjustment in the values of stock and debtors of Y Ltd. only.

Question 5. (a) This part of the question was satisfactorily answered.

(b) Majority candidates failed to give the required journal entries for forward contract in accordance with provisions of AS 30, AS 31.

Question 6.(a) Most of the candidates ascertained the correct amount of debt portion in convertible debentures.

(b)(i) This sub-part of the question was fairly well answered by majority candidates.

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(ii) Few candidates had explained the theory of verification of liabilities instead of purpose of valuation of liabilities in financial accounting and reporting.

(iii) Most of the candidates had omitted to answer this sub-part of the question. Few candidates had explained the concept of financial lease and its recognition without reference to AS 19.

Question 7.(a) Most of the candidates had mentioned about call option and put option and gave irrelevant answers. They could not substantiate their answers with reference to AS 31.

(b) Depletion expense as per IFRS 6 was correctly computed by most of the candidates.

(c) Majority of the candidates could not give the required answer in line with the relevant accounting standards. Most of them did not mention that building should be removed from Balance Sheet.

(d) Most of the candidates had scored full marks by ascertaining original cost of the machine. However, they could not suggest the required accounting treatment for the cost incurred during the period between the date the machinery got ready for use and the actual date when the machine was put to use.

(e) The candidates had correctly ascertained present value of minimum lease payments. However, they could not ascertain the amount of lease liability as per AS19.

PAPER – 2 : STRATEGIC FINANCIAL MANAGEMENT

Overall performance of the candidates is satisfactory. However, the question wise performance of the candidates is given as under:-

Question 1. has four parts of 5 marks each and is compulsory. Performance in Part (a) and (c) was good but in part (b) and (d) the performance was poor to satisfaction.

Question 2.(a) The problem is based on interest rate swap. Not many candidates could do it correctly.

(b) This is a question on the mergers and acquisitions. Most of the candidates attempted this question very well.

Question 3.(a) This question is on capital structure and EVA. Most of the students attempted well.

(b) This question is on generic swap. Most of the candidates did well in this question.

Question.4.(a) This question is about valuation of the company. Performance in this question was average.

(b) The question is on valuation of shares and impact of share re-purchase on EPS. Performance in this question was very good.

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Question 5.(a) This question relates to portfolio management based on risk and return. Most of the candidates attempted this question very well.

(b) This question is on Capital Budgeting based on inflation adjusted decision making. Performance in this question was very good.

Question 6.(a) This question is on Forex arbitrage gain/loss. Most of the student could not perform well in this question.

(b) This question on Dividend Policy is based on Walter's model. The performance in this question was very good.

Question 7. This question has 5 parts of 4 marks each with a choice to attempt any four on various important aspects of today's world of Financial Management. The Performance was average.

PAPER – 3 : ADVANCED AUDITING AND PROFESSIONAL ETHICS

Question1.(a) Very few candidates referred to AS 29 and SA 560. They could not distinguish between AS 4 and AS 29. Many candidates could not arrive at the proper conclusion.

(b) Most of the candidates failed to understand that AS 7 is applicable to Contractors. They could not analyse the nature of the business of B Co. Ltd. Many candidates have not defined the applicability of AS 7 properly and could not substantiate their answer with the provisions of relevant accounting standard.

(c) Many of the candidates mentioned that the detention charges are part of capital expenditure. Candidates could not understand the problem, so failed to conclude whether the amount paid is to be capitalised or treated as revenue item.

(d) Without understanding the requirement of the question, majority of the candidates have suggested the procedure to collect overdue amount. They also failed to mention that the amount of deposits is not safe and is likely to be unrealised and hence auditor's duty is to qualify the report.

Question 2.(a) Fairly well answered. However, few candidates have not explained the clause 6 of Part 1 of First Schedule of the Chartered Accountants Act, 1949.

(b) Many candidates were confused regarding the relative of the director and directorship for a CA who is partner of the statutory auditor of the company.

(c) Though conclusion was correctly drawn by many candidates on the basis of 'disqualification due to indebtedness', they omitted to refer to 'the use of influence as concurrent auditor for wrong doing'.

(d) Only few candidates did not mention details of records to be verified / scrutinized for the purpose.

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Question 3. (a) Requirement of Section 224(6) were omitted by most of the candidates while giving more emphasis on what is the proper communication and why it is necessary. Most of the candidates have produced two or three conditions required for the auditor before accepting the appointment where previous auditor has resigned and his audit fee is not paid.

(b) Most of the candidates were able to show knowledge about SA 620 but could not explain properly the extent to which auditor can rely on the expert opinion. Candidates have concluded it correctly that auditor can use the work of an expert, but some of the candidates could not mention the auditors duty to review and examine the work done by an expert.

(c) Many of the candidates could not discuss the different types of control for moving the data through and out of the computer and wrote irrelevant points on different types of controls, while wrongly emphasising on white box / black box approach.

Question 4.(a) The point of 'independence of the auditor' was discussed by many candidates but they could not mention the guideline issued by the ICAI in August 2008

(b) The responsibility of auditor in relation to Section 297 of the Companies Act could not be explained properly by many candidates. Many of them stressed on AS 18 while some of the candidates did not refer to Sections 301, 297 and 299.

(c) Many candidates could not understand that Clause 4 (vii) of CARO 2003 has a mandatory application for the listed companies irrespective of the size of paid-up capital and reserve or turnover. Therefore, they wrote irrelevant points in their answers.

Question 5.(a) Majority of the candidates have given the general points instead of main features of Co-operative Society.

(b) Most of the candidates emphasized on Form 3 CD and very few referred to the adverse opinion in Form 3CA or 3 CB. Most of the candidates have discussed reporting u/s 40A (3) in Form 3 CD but very few have mentioned the basic principles of SA 700.

(c) Many candidates wrote on features of Due Diligence and did not mention anything about the hidden liabilities and overvalued assets which the question required. Many of them wrote about various types of Due Diligence and its detailed procedure.

Question 6.(a) Most of the candidates failed to explain the requirements u/s 227 (1A) on the points referred in the question. They gave the detail reporting u/s 227(1A).

(b) Handful of candidates discussed the participative approach etc.

(c) Many Candidates could not mention the major provisions of Sarbanes-Oxley Act 2002. They have discussed about the history and reasons for enacting this Act.

Question 7.(a) Except few, majority of Candidates have explained 'Circuit Filter' on correct lines.

(b) This part of the question was satisfactorily answered except few candidates, who referred to irrelevant point's viz. KVP, NSC.

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- (c) Most of the candidates failed to give the required answer in accordance with 'Guidance Note on Audit of Miscellaneous Expenditure'.
- (d) This part of the question was fairly well answered.
- (e) Many candidates wrote irrelevant answers, assuming the question as a problem in Cost Accounting.

PAPER – 4 : CORPORATE AND ALLIED LAWS

Question 1. Performance of students in all the parts of the question has been highly satisfactory, except Part (b) where the students did not know the provisions of the Companies Act, 1956 and the answer given by them was partially not correct.

Question 2. Performance of students has been quite satisfactory in both the parts of the question.

Question.3. Performance of students has been highly satisfactory in both the parts of the question.

Question 4. Performance of students in both the parts of the question has been highly satisfactory.

Question 5.(a) Students did not know the matter to be included in the 'Directors Responsibility Statement' under section 217 (2AA) of the Companies Act, 1956.

(b) Unsatisfactory Performance. Most of the students did not know the conditions to be complied for the Initial Public offer (IPO) as prescribed by SEBI.

Question 6.(a) Highly satisfactory performance.

(b) Average performance. Many students did not state all the steps involved in E-Filing & Authentication of Documents

Question7.(a) Highly satisfactory in both the parts (i) and (ii).

(b) Highly satisfactory.

(c) Highly satisfactory.

(d) Unsatisfactory. Many students could not explain the rule of 'Reasonable construction under the interpretation of Statute, Deeds etc.'

(e) Unsatisfactory. Most of the students could not explain the meaning of Asset Reconstruction, Financial Assets under the Securitization & Reconstruction of Financial Assets Enforcement of Security & Interest Act, 2002.

On the whole the performance of students has been quite satisfactory.