

EXAMINERS' COMMENTS ON THE PERFORMANCE OF CANDIDATES

PAPER – 1 : FINANCIAL REPORTING

Specific Comments:

Question 1.(a) Many candidates treated freight given in rupees as in US \$ and finally arrived at the wrong answer. Also, many candidates failed to mention that the refundable grant is accounted as an extra ordinary item as per the provisions of AS 12. Few candidates erred in the calculation of depreciation already charged and revised depreciation on refund of grant. Many candidates solved the question as theory question without supporting their answer with necessary calculations.

(c) Answers of the candidates reflected their poor knowledge in accounting for ESOP/ESPP. Some candidates were not able to calculate correctly the amount of securities premium and employees compensation expenses while some made mistake in computing the correct fair value of ESPP.

(d) Few candidates applied wrong discounting rates for calculating the total value of human resources i.e. of skilled and unskilled group of employees.

Question 2. Most of the candidates omitted to consider the preference dividend attributable to minority shareholders. Capital and revenue profits of Klear Ltd. have not been correctly worked out by many candidates, which made them to arrive at wrong solution. A large number of candidates could not attempt this question correctly.

Question 3. Majority of the candidates omitted to take into account the rectification effect of inventory valuation while calculating number of shares to be issued as purchased consideration. Also many candidates were not able to correctly draw the projected profit and loss account and balance sheet of Black and White Ltd. Almost no student was able to complete the question correctly or had not attempted this question at all.

Question 4.(a) Few candidates considered excise duty as part of 'application of value added' instead of 'value added by trading activities'.

(b) As observed by the examiners, candidates' answers in general, reflected lack of comprehension and lack of substance. Most of the candidates failed to compute carrying value of part holdings and profit on disposal as per the provisions of AS 23.

Question 5. Small number of candidates committed mistake in valuing machinery for capital employed and calculating depreciation on additional value of machinery. Some of the

candidates were unable to derive at correct future maintainable profit. However, the overall performance of the candidates was satisfactory.

Question 6.(a) Many candidates were not able to explain the reason for the difference between EVA & MVA. While small section of candidates made mistake in the calculation of cost of capital.

(b) Some of the candidates did not know the procedure to calculate NAV of a fund while few of them failed to calculate allowable management expenses.

Question 7.(a) Certain computational mistakes in determining present value of debentures to be redeemed in 2014 has been observed, otherwise candidates performed fairly well in this part of the question.

(b) Some candidates erred in calculating balance of revaluation reserve and loss to be debited to Profit and loss account for giving effect to impairment loss.

(c) Many candidates did not deduct origination fee from the amount of loan to arrive at fair value of loan.

(d) Some of the candidates were not able to calculate the correct amount received from the new investors and the amount to be credited to the reserves account on sale of mutual fund units.

(e) Poor performance of the candidates has been observed in this part of the question. Candidates were not aware of the provisions of AS 31 and also the mode of settlement i.e. net or delivery basis, which was one of the crucial factor to determine whether the given asset is a Financial Instrument or not.

PAPER - 2 : STRATEGIC FINANCIAL MANAGEMENT

Question 1.(a) This question requiring calculation of return on mutual fund investments, was found to be easy and generally answered well by most of the candidates.

(b) This question on foreign currency conversion was not answered correctly by many candidates. The question indicated two way buy-sell rates and the candidates found it difficult to identify which rate to use.

(c) The question required the application of a simple formula and the formula was wrongly applied by many students even though similar simple illustrations are found in the study material.

(d) This question required the application of monthly compounding. Many candidates were found unable to handle monthly compounding given an annual interest rate.

Question 2.(a) This question on valuation of business, was reasonably well answered by the candidates who selected it.

(b) This was a good question on forex risk hedging methods. While some candidates had handled it perfectly, quite a few struggled.

Question 3.(a) This question expected to the candidates to compute future cash flows and terminal cash flows and to value the business based thereon. It was found that most candidates had not understood the problem in the right perspective. Even the first step of projecting the annual cash flows was not handled clearly. This sort of inability requires to be corrected since handling cash flows, discounting them and computing values based thereon is fundamental to financial analysis. Candidates need practice in this area.

(b) Even though the problem is ordinary, the number of students who attempted this question was not large.

Question 4.(a) This question required calculation of bond values and yields. The answers were generally satisfactory.

(b) This was a question on evaluation of leasing and buying options. It was found to be easy and answered well by many candidates. However, tidiness of work-sheets can be improved. Students should practice neatness and orderliness.

Question 5.(a) The candidates considered this to be a question on accounting and not on the effects of financial planning. Certain candidates even went to the extent of giving journal entries. Students need to understand the differences between financial planning and financial reporting. This part of the question relating to the impact of reconstruction relates to financial planning strategy which in these times of enhanced merger and acquisition activity the students need to be aware of. It is on account of the manner in which the students attempted the question perhaps, a perception has arisen that this question may have been appropriate for Paper 1 of Financial Reporting. We would however recommend that the Students/Candidates need to be educated through reading material on the significance and effects of merger and acquisition activity on financial reconstruction and its effects.

(b) This question on impact of forex rates on timing a transaction was reasonably well answered.

Question 6.(a) This question related to portfolio management and calculation of portfolio beta. The performance was generally satisfactory.

(b) This question on options, was generally answered well. However, a finer aspect of the question was not understood. The question required the determination of profit/loss on options spread. Most of the candidates had found out unit profit/loss and not total values. Candidates should read the question carefully.

Question 7.(a)-(f) The six short theory questions were not testing. As is often seen, the expressions were poor and handwriting below par.

PAPER – 3 : ADVANCED AUDITING AND PROFESSIONAL ETHICS**General Comments**

The overall performance of the candidates has been average. Many of the candidates did not refer to relevant Standard on Auditing (SAs) and Accounting Standards (AS). A few candidates have written vague and irrelevant answers. Many of the candidates answered the questions in a general manner.

Specific Comments

Question 1.(a) Using the work of an expert : A Few candidates wrongly referred to AS 15 instead of relevant Standard on Auditing and thereby arrived at wrong conclusion.

(b) Prior Period adjustment / Estimation: Some candidates discussed AS- 2 wrongly.

(c) Compliance with Accounting Standards: Most of the candidates did not understand the question, therefore failed to discuss relevant Accounting Standards.

(d) Documentation for division of work between the Joint Auditors: The answers were generally vague.

Question 2.(b) Failure to disclose material facts: Some candidates answered the question stating that the auditor has to qualify in his report, without giving reference of relevant provisions of the Chartered Accountants Act, 1949.

(d) Disrepute to the Profession: Majority of the candidates have failed to understand the question and wrongly referred to Advertisement/Publicity and sharing of fees.

Question 3.(c) Revenue Recognition: Many candidates have given a vague answer. Few candidates wrongly referred to AS 7- Construction Contracts and AS-19 Lease Accounting in place of relevant Accounting Standard.

Question 4.(a) Audit plan to locate abnormal wastage of raw material: Most of the candidates have fair knowledge on the topic. However, many have not referred to reports on Preventive Maintenance, Laboratory and Inspection.

Question 5.(a) Tax Audit Report:

(i) Borrowal of ₹ 50 Lakhs :Most of the candidates did not refer to the correct Clause 24 of Form 3CD or the correct sections 269SS & 269T of the Income Tax Act. 1961.

(ii) Payment of Rent and Interest: Most of the candidates did not refer to the correct Clause 18 of Form 3CD or correct Section 40 A (2) (b) of Income Tax Act, 1961, but few candidates discussed AS-18 Related Party transaction whereas many discussed about T D S.

(iii) **Payment to Club:** Most of the candidates did not refer the correct Clause 17 (d) of Form 3CD.

(b) **Verification of Advances in LFAR:** Most of the candidates have answered this part well, while a few of them laid stress only on Sanction and Documentation without covering information and explanation to be obtained.

(c) **Reporting of Loan under CARO, 2003:** Many candidates wrongly referred to AS 18 – Related Parties. Only few candidates have referred to Para 4 (iii) (a) and Para 4 (v)(a) of CARO, 2003 and Section 301 of Companies Act, 1956.

Question 6. On the whole very few candidates have attempted this question.

(a) **Sarbanes & Oxley Act, 2002:** The candidates discussed only about Corporate Governance and Audit Committee inspite of required answer.

(b) **Basic elements of Management Representation Letter:** The candidates mentioned the contents of Management Representation Letter instead of basic elements of it.

(c) **Audit Plan for evaluating the reliability of controls in CIS environment:** The candidates discussed about all types of controls inspite of audit plan for evaluation the reliability of control.

Question 7. Short Notes:

(a) **Scope of Peer Review:** Many candidates discussed about the procedure viz. Planning, Execution, Report instead of the scope.

(c) **Outstanding Premium & Agents Balances:** Most of the candidates gave a general answer without giving reference to outstanding balances.

(e) **Propriety elements in CARO – 2003:** Insipite of writing Propriety Elements in CARO 2003, most of the candidates discussed reporting U/s 227 (IA), while few candidates gave a long list under CARO. Many discussed about Propriety Audit w.r.t. Government Companies whereas some candidates discussed CARO in greater details.

PAPER – 4 : CORPORATE AND ALLIED LAWS

Question 1.(a) Performance of the students has been highly satisfactory.

(b) Students' performance in this part was average because most of the students did not state the procedure as laid down in Section 269 of the Companies Act, 1956.

(c) Performance of majority of students has been highly satisfactory.

(d) Performance of the students' has not been satisfactory because most of them did not state the Provisions of Section 205C of the Companies Act, 1956.

Question 2.(a) Students' performance in this part has been average. Majority of the students did not state the provisions regarding authorization by the Magistrate.

(b) Performance of the students in this part has been satisfactory except the point regarding validity of the loan transaction.

Question 3.(a) Performance of the students has been satisfactory.

(b) Students' performance has not been satisfactory. Barring a few exceptions, students did not explain the meaning of "book-building" and conditions of different pricing under the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009.

Question 4.(a) Performance of the students has been satisfactory.

(b) Students performance in this part was not satisfactory. Most of the students did not explain the powers of the Reserve Bank of India under Sections 35 and 36 AB of the Banking Regulation Act, 1949.

Question 5.(a) Barring a few exceptions, performance of the students has not been satisfactory. Most of the students did not explain the concept of oppression and remedies to the aggrieved person.

(b) Performance of the students in this part has been average. The second part i.e. transferability and third part i.e. share capital under sections 581 ZD and 581 ZB of the Companies Act, 1956, has not been properly explained, relating to producer company.

Question 6.(a) Students' performance in this part has been highly satisfactory.

(b) Performance of the students has been average. Most of the students did not state the procedure of election /appointment of Small Shareholders' Director under Section 252 of the Companies Act, 1956 and Rules thereunder.

Question 7.(a) Performance of the students has been highly satisfactory.

(b) Students' performance has been average. Majority of the students did not state value of 'preamble' and 'provisio' in the process of interpretation of statutes.

(c) Students' performance has been highly satisfactory.

(d) Performance of the students has not been satisfactory. Most of the students did not state the obligations of Banking Companies under section 12 of the Prevention of Money Laundering Act, 2002.

(e) Student's performance has not been satisfactory. The Provisions of Section 13 of the SARFAESI Act, 2002 have not been explained properly.