

SUMMARY OF EXAMINERS' COMMENTS ON THE PERFORMANCE OF CANDIDATES

PAPER – 1 : ADVANCED ACCOUNTING

General Comments

The overall performance of the candidates, as commented by the examiners, was not satisfactory. The quality of most of the answers reflected lack of candidates' knowledge and understanding of the subject. Questions requiring practical application of Accounting Standards and Guidance Notes in real life situations have not been answered well. It is also observed that the candidates neglect the theoretical aspects of the subject; they should go through the study material carefully. A thorough practice and lots of reading of the subject is required to maintain the level of knowledge expected from the students of Final Level. The candidates must present their answers in organized manner and solutions to practical problems should be given in prescribed formats along with suitable working notes.

Specific Comments

Question 1. Holding Company Accounts: The answer to this question was satisfactorily answered by most of the candidates. Few among them erred in apportionment of reserves and profits between capital (pre-acquisition) and revenue (post-acquisition) which resulted in wrong computation of goodwill/capital reserve and minority interest. Some candidates did not prepare the consolidated balance sheet taking care of the format given under the Companies Act. Few candidates showed inadequate knowledge of AS 21 'Consolidated Financial Statements'.

Question 2. Corporate Restructuring: This part of the question was well answered by most of the candidates. Some of the candidates were not able to compute the purchase consideration and therefore, could not complete the question.

Question 3.(a) AS 6 and AS 10: Average performance was observed in this part of the question. Most of the answers reflected lack of knowledge of provisions of AS 6 and AS 10.

(b) Valuation of Goodwill: Most of the candidates attempted this question correctly. Some of the candidates erred in calculation of super profit and consequently, failed to arrive at the correct value of goodwill.

Question 4.(a) Accounting for Not-for-profit Organizations: The candidates exhibited poor knowledge on this topic. Except few, no candidate was able to give required ledger accounts in this part of the question.

(b) Value Added Statement: The answer to this question was satisfactorily answered by most of the candidates.

Question 5.(a) Cash Flow statement as per AS 3: Most of the candidates attempted this question correctly in accordance with provisions of AS 3.

(b) AS 18: The performance of the candidates, in this part of the question, was average. However, few candidates could not substantiate their answers with relevant provisions of AS 18.

(c) AS 19: The candidates exhibited poor knowledge on AS 19. Very few candidates were able to give correct value of machine to be considered by Lessee Ltd. and the interest charges of each year.

Question 6.Theory Question: Average performance was observed in this question. The comments of the examiners regarding this question were mixed varying from fairly average to poor performance. Most of the answers lacked proper presentation, good expression and clarity. Many candidates gave irrelevant answers without reading the requirements of the question. Few candidates could not write the short note on maintenance of books of account by stock brokers.

PAPER – 2 : MANAGEMENT ACCOUNTING AND FINANCIAL ANALYSIS

General Comments

General Comments: The performance of candidates has not been as expected of CA Final students. Examiners have reported a lack of understanding of basic concepts like Cost of Capital, EPS, Derivatives, Foreign Exchange fluctuations etc. Students are advised to read extensively so as to develop a thorough understanding of the above mentioned topics. This shall help them attempt the paper on correct lines.

Specific Comments:

Question 1. This was a practical part requiring candidates to decide between two alternatives regarding 'purchase' or 'lease'. Some candidates used the wrong Cost of Capital whereas a few were unable to approach the problem from the Lessor's point of view.

Question 2. (a) This practical question part required candidates to have a sound understanding of 'Acquisition' and its effect on EPS.The question was reasonably well answered by most of the candidates, however, a few were unable to compute the number of shares issued by A ltd, EPS, New market price of A ltd etc.

(b) This practical question part required candidates to compute the value of the company from the given information.Many examinees were able to correctly compute the earnings/cash flows for the two years 2005 and 2006 but could not estimate cash flows for the subsequent years , thereby arriving at the wrong answer.

Question 3. (a) This was a practical question part requiring candidates to decide upon the financial viability of a project from the information given.Most of the candidates were able to compute correctly the earnings before tax but failed to work out the problem as a whole. Many students were unable to grasp the requirements regarding transfer pricing, withholding tax and manpower cost.

(b) This practical question part required candidates to compute the price of futures contract and the prospective gain on short future position. Examiners have reported a lack of knowledge of concepts regarding future contracts, hedge ratio and future price which led to wrong answers in most of the cases.

(c) This practical question part required students to arrive at a decision regarding the possibility and benefit of a hedge for its foreign currency risk. Many students have been reported to have insufficient knowledge of the required basic concepts like hedging, selling / buying rates etc because of which they arrived at the wrong answers.

Question 4.(a) This was a practical question part requiring candidates to have a sound understanding of YTM and valuation of bonds. Most of the candidates lacked a conceptual knowledge of the above mentioned concepts and hence arrived at the wrong answers.

(b) This was a practical question part requiring students to have a clear understanding of mergers and dividend valuation models. Many candidates got the entire answer right. Generally, this question part was well attempted.

Question 5. (a) This practical question part required candidates to compute the forward rates from the given information. A majority of the candidates were unable to solve this problem correctly. In most cases they failed to work out forward rates of govt securities under different interest rates/maturity periods/current prices etc.

(b) This practical question part requiring candidates to compute the present value of stock was attempted well by most of the candidates.

(c) This theory question part required students to have a sound understanding of derivatives. Majority of the candidates were able to write a few points correctly. The performance has been reported as average and could have been better.

Question 6. (a) This theory question part required students to explain the green share option. This question part was reasonably well attempted by a majority of the candidates.

(b) This theory question part required examinees to write about double taxation agreement on GDRs. The performance of this question part has been reported to be good.

(c) This theory question part required students to have a conceptual understanding of foreign exchange market and their associated risks. A majority of the candidates performed well , however, a few gave unnecessary and irrelevant details.

(d) This practical question part required students to have a basic understanding of risk and CAPM. Very few candidates gave answers on the desired lines. The overall performance in this question part has been reported as average.

PAPER – 3 : ADVANCED AUDITING

General Comments

Performance of the Candidates, in general, was satisfactory. In Q.1(c), 1(d), 2(c), 4, and 6(a), their answers lacked the understanding of the question, its requirement and knowledge of the topics and relevant statute. Writing of some candidates was illegible.

Specific Comments

Question 1.(a) Generally well attempted by most of the candidates. Most of the candidate mentioned AS 5 but some candidates failed to identify that it was not a prior period adjustment.

(b) Average performance. Most of the candidates replied to the question in a general manner rather than highlighting the applicability of AS 16.

(c) This question is based on Guidance Note on Accounting for Credit available in respect of MAT under the IT Act, 1961. Poor performance. Candidates, in general, answered this part of the question under IT Act, 1961. Most of the answer did not cover the Institute's guidance note on credit for MAT under IT Act.

(d) This question is based on ASI 14 'Disclosure of Revenue from Sales Transactions' (Revised). Only handful candidates highlighted the requirement for disclosure of revenue for sales transactions as per ASI-14 (revised). Most of the candidates failed to understand the requirement of the question towards the exhibition of sales in the P & L account.

Question 2.(a) This question is based on section 2(2)(iv) of the Chartered Accountants Act, 1949. Well answered. Candidates in general have a good idea on the relevant provisions of the Chartered Accountants Act, 1949.

(b) Good Performance. Most of the candidates answered this question correctly.

(c) This question is based on the topic Professional Ethics (Clause 5 and 6 of Part I of Second Schedule to the CA Act, 1949). Poor performance. Most of the candidates could not answer it correctly.

(d) This question is based on the topic Professional Ethics (Clause 3 of Part II of Second Schedule). Satisfactory performance. Many of the candidates attempted this part correctly by highlighting the relevant provisions of the CA Act.

Question 3.(a) This question is based on the topic EDP Auditing. Average Performance. Some candidates discussed about the method of EDP auditing, rather than method of collecting and evaluating audit evidence under EDP auditing.

(b) This question is based on the topic Qualified Audit Report. Average Performance. Most of the candidates highlighted the circumstances under which the audit report can be qualified rather than highlighting the "features of qualified Audit Report".

Question 4.(a) This question is based on the topic Due Diligence Review of Cash Flow. Not attempted by many candidates. Even those who have answered have failed to understand the meaning of “due diligence review of cash flow” and presented a general answer on cash flow statement.

(b) This question is based on Companies (Accounting Standards) Rules, 2006. Poor Performance. Candidates failed to give the meaning of small and medium sized company as per Companies (Accounting Standards) Rules, 2006.

Question 5.(a) This question is based on CARO. Good Performance and well attempted by most of the candidates. Some of the candidates mixed internal control with internal audit and could not answer properly.

This question is based on the topic Investigation (embezzlement in cash receipts). Average performance. Most of the candidates just highlighted the need for strengthening the cash department and adequacy of internal control instead of investigation of “embezzlement in cash receipt”.

Question 6.(a) This question is based on the topic Reporting obligation of NBFCs accepting/holding public deposits. Poor performance. Most of the candidates failed to mention the special points pertaining to NBFCs and just answered general reporting requirements under section 227 of the Companies Act, 1956.

(b) This question is based on the topic audit under value added tax(VAT). Fairly good performance by most of the candidates.

Question 7.(a) This question is based on AAS 26 “ Terms of Audit Engagement”. Average performance. In many cases the answers failed to cover the important aspects in the engagement letter. Few candidates answered about the manner of appointment of auditor and compliance with the Companies Act, 1956.

(b) This question is based on Applicability of CARO. Good Performance. Most of the candidates answered this question correctly.

Question 8.(a) This question is based on Peer Review. Fairly good answered by most of the candidate.

(b) This question is based on Supplementary Audit u/s 619(4) of the Companies Act, 1956. Average performance. Some of the candidates related this to special audit.

(c) This question is based on AS 14 “Accounting for Amalgamation”. Fairly good answered by most of the candidate.

(d) This question is based on Form 3 CD of Tax Audit. Good performance.

(e) This question is based on the topic Circuit Filters as specified by SEBI. Good performance.

(f) This question is based on AAS 30 “External Confirmations”. Good performance.

PAPER – 4 : CORPORATE LAWS AND SECRETARIAL PRACTICE

General Comments

The performance in general was “average”. The following are the suggestions that candidates are to take note of

- (a) Improvement in the English Language.
- (b) Main Sections/Important case laws, if any and relevant to the answer should form part of the answer.
- (c) Devoting sufficient time for adequate preparation.
- (d) Updating the knowledge in the subject by way of amendments.
- (e) Drafting skills in respect of answers to questions based on secretarial practice.

Specific Comments

Question 1. Many of the candidates in their answer to the question on the general powers of the Board of Directors relating to selling the undertaking of the company, wrongly stated that contention of shareholders was tenable on the plea that directors were the agents of the company and shareholders and therefore usurp the powers of the directors vested in them under section 291 and 292 of the Companies Act, 1956.

Though the candidates by and large performed well, some of the candidates did not state the obligations of the recognized stock exchange to maintain books of accounts and to furnish periodical returns to SEBI under section 6 of the Securities Contracts (Regulation) Act, 1956.

The performance to sub-part (c) of the question was satisfactory. However the powers of a stock exchange to impose restrictions in respect of voting by members and appointment of proxy by amending the rules under section 7 of the SCR Act, 1956 were not clearly stated.

Question 2. The problems relating to determination of residential status of various persons under the FEMA, 1999 were solved in general and provisions of section 2(u), (v) were not stated. Meaning of Capital Account transactions was written in general. Most of the candidates did not state the meaning of the term ‘agreement’ as per the provisions of section 2(b) of the Competition Act, 2002. Further, the obligation on the Central Government to refer the case to the Supreme Court before issuing order for removal of the Member of the CCI due to allegation of abusing his position as a member was not well attempted by majority of the candidates.

Question 3. The performance to the question based on fulfilling conditions by an unlisted company for public issue of equity shares as per the SEBI (DIP) Guidelines, 2000 was poor. Further factors to be considered for adjudging the quantum of penalty under Section 15J of the SEBI Act, 1992 were not stated. The Rule of Harmonious Construction in resolving conflicts

between section 166(1) and section 210 of the Companies Act, 1956 was not properly explained.

Question 4 Disentitlement of the Managing Director to payment of compensation on the allegation that he was guilty of breach of trust or gross negligence in or gross mismanagement in the conduct of the affairs of the company were not stated clearly. Also candidates did not refer the case law on the situation i.e. Bell vs. Lever Bros (1932). Powers of the Central Government to obtain information about the terms and conditions of the sole selling agents under section 294(6) of the Companies Act, 1956 were not properly stated.

Question 5. Computation of the limit up to which loans may be advanced to or investment in securities of another company by the Board of Directors and the procedure to be followed thereon in case if the limit is being exceeded by the company were not properly stated. Further in sub-part (b) of the question relating to employee's deposits under section 417 of the Companies Act, 1956, most of the candidates did not state that such moneys from employees be treated as security deposits and how utilization of such monies under the provisions of the Act, to be done.

Question 6. The provisions of section 591, 592 and 594 of the Companies Act, 1956 were not stated correctly by most of the candidates.

Further in sub-question (b), candidates wrongly dealt with the provisions of Accounting Standards instead of referring to the provisions contained in Section 227 of the Companies Act, 1956. Some of the candidates also wrongly stated that the auditor should physically verify stock authenticity of the Manager in respect of value of closing stock and that the auditor is liable for over-valuation of stock by the management of the company.

Question 7. Remedies available to the majority of shareholders in resolving issues relating prevention of oppression and mismanagement under section 397 and 398 of the Companies Act, 1956 were not properly dealt with. Further steps to be taken by the company in a scheme or arrangement under section 517 of the Companies Act, 1956, were not brought out correctly.

Question 8. Some of the candidates were not aware of the limit of remuneration prescribed by the Central Government in respect of Managing Director. Resolution for recovery of the excess remuneration so paid by the company to the MD was also lacking in language and section content. In respect of question relating to share qualification, candidates did not specify the time limit (ie, two months) within which the director should acquire the share qualification. There were no references to the concerned sections 269, 270 and 283(1) of the Companies Act, 1956.

Question 9. Candidates were not aware of the procedure in the appointment of Directors in a Producer Company as per section 581P of the Companies Act, 1956. Similarly, the provisions of section 534 of the Companies Act, 1956 regarding floating charge by a company within 12 months of the commencement of winding up and legal consequences were not stated.