SUMMARY OF EXAMINERS' COMMENTS ON THE PERFORMANCE OF CANDIDATES

I. General Comments :

(1) Conceptual clarity is lacking in almost all the subjects, for which intense learning of the study material is the solution.

(2) The major areas of deficiency noticed in most subjects were lack of systematic and logical approach and analytical thinking.

(3) The performance displayed lack of knowledge of Accounting Standards, Standards on Auditing and corporate and other laws, the outcome of which reflected in poor results.

(4) Candidates have not been able to apply the Accounting Standards properly. The level of knowledge at the Final level requires the candidates to have application skills, but they have failed to live up to this expectation.

(5) Solutions to practical problems have not been given in the prescribed format with suitable working notes in the subject of Financial Reporting.

(6) Candidates lacked knowledge of specialized areas of Strategic Financial Management such as swaps, arbitrage, etc.

(7) In the subject of Corporate and Allied Laws, the performance in the allied laws was not satisfactory, displaying poor comprehension of the provisions of the various Acts. The answers were also not supported with case laws, wherever necessary.

(8) 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.

II. Paper-Wise Specific Comments :

PAPER – 1 : FINANCIAL REPORTING

Question 1.(a) Most of the candidates were not able to apply the provisions of AS 11 "The Effects of Changes in Foreign Exchange Rates" correctly, and were hence, not able to answer the question. Few among them did not treat the forward contract as speculative and failed to compute the amount of profit for the contract.

(c) Some candidates wrongly computed the borrowing costs to be capitalized as 16.5 crores (13% of Rs. 150 crores ie.Rs. 19.5 crores less income from temporary investment Rs. 3.5 crores) instead of Rs. 13 crores (Interest paid Rs. 16.5 crores less Rs. 3.5 crores).

(d) Many candidates were not aware of the provisions of Accounting Standards Interpretation (ASI) 5 and erred in creation of deferred tax liability and the corresponding charge to profit and loss account.

Question 2.(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 amortized cost for the subsequent years. Consequently, they could not give the required journal entries.

Question 3. Many candidates considered 'O' as "Subsidiary of W" instead of an "Associate of W". Few erred in apportionment of profits between pre-acquisition and post-acquisition which resulted in wrong computation of goodwill, minority interest and consolidated reserves for the purpose of consolidated balance sheet of W. The answers exhibited inadequate knowledge of AS 21 'Consolidated Financial Statements' and AS 23 'Accounting for investment in Associates in Consolidated Financial Statements'.

Question 4. Some of the candidates did not compute the correct amount of purchase consideration and the correct number of shares issued by Bat Ltd. to Cat Ltd. and consequently, could not prepare balance sheet after merger.

Question 5. Many candidates could not arrive at the correct amount of future maintainable profit and weighted average annual profit and therefore, they erred in valuation of goodwill.

Question 6.(a) Majority of the candidates could not determine the value of brand under potential earning model.

(b) Few candidates were not able to calculate the correct amount of depreciation and replacement reserve under replacement cost basis.

PAPER – 2 : STRATEGIC FINANCIAL MANAGEMENT

Question 1.(a) The following common errors were noted in the answer of candidates.

(i) Most of the candidates could not calculate NPV for best and worst case scenarios.

(ii) Some candidates could not understand the concept of probable NPV.

(b) Most of the candidate except a few have exhibited lack of knowledge of put and call options.

(c) Being a theoretical question most of candidates wrote general things about financial management and those who written specific answer gave only few points correctly.

Question 2.(a) Majority of candidates calculated NPV but could not calculate Equivalent Annual Cost (EAC) using Capital Recovery Factor leading to erroneous decisions.

(b) A common mistake found in their answer was not taking adjusted value of fixed income securities.

(c) Candidates used the names of stock exchanges i.e. BSE and NSE instead of their indices i.e. Sensex and Nifty respectively.

Question 3.(a) Some of the students could calculate WACC, EPS and market capitalization correctly but could not calculate EVA.

(b) In this question of Purchasing Power Parity (PPP) theory, candidates have exhibited lack of basic knowledge of PPP formulae.

(c) In this theoretical question on functions of investment bank, candidates exhibited an unsystematic approach in answering the question and lack of knowledge of the concept.

Question 4.(a) In this question of merger and acquisition most of the candidates could get few steps right i.e. net consideration payable, number of shares issued etc.

(b) In this theoretical question on the concept of Exchange Traded Fund (ETF) the answer of the question was filled up with unnecessary and irrelevant details. Some candidates even confused it with 'Foreign Exchange'.

Question5.(a) Majority of candidates exhibited lack of conceptual knowledge of Forward Interest Rates.

(b) In this question the calculation of FRA rate and arbitrage opportunity available were not properly understood by most of candidates.

(c) Even though it was a very common theoretical question on Debt Securitization candidates filled up their answers with unnecessary details.

PAPER – 3 : ADVANCED AUDITING AND PROFESSIONAL ETHICS

Question 1.(a) Most of the candidates shifted the emphasis towards Schedule VI in their answers instead of provisions of Accounting Standard 22 "Accounting for Taxes on Income".

Question 2.(b) Majority of the candidates misunderstood the question as relating to advertisement, circulation etc rather than certification issued and consequently, gave wrong answers.

Question 3.(b) Most of the candidates were not able to answer about the risk factor and errors in the light of SA 530. Hence the answer was not correct.

Question 4.(a) Few candidates failed to present the issues relating to interbank transactions adjustments consequently could not answer satisfactorily.

(b) Some candidates were not able to required answer; as they treated the claims not acknowledged as debts as NPA advances/ usual contingent liabilities on bank guarantees.

Question 5.(b) Majority of the candidates failed to describe the control objectives.

(c) Most of the candidates could not understand the requirement of the question and gave vague answer.

(d) Few candidates laid emphasis on quantification of liability rather than required presentation as per provisions of section 62 of the Companies Act, 1956 in their answers.

Question 6.(b) Many candidates considered Mark to market either as per AS 11 or AS 13 rather than Stock Market Margin.

(c) Few candidates could not explain the steps required for presentation of Tax Audit under VAT.

PAPER – 4 : CORPORATE AND ALLIED LAWS

Question 1.(a) The question was with reference to the appointment of a person as an additional director in a casual vacancy. Some of the candidates confused the question and mixed up the provisions of section 260 dealing with additional director and section 262 dealing with the filling of a casual vacancy.

Question 2. In the first part of the question few students confused with the terminologies 'inspection' (dealt in section 209) as 'investigation' (dealt in section 235) of the Companies Act, 1956. In the second part of the question, relating to declaration of dividends out of reserves, the conditions as prescribed in the Companies (Declaration of Dividend out of Reserves) Rules, 1975 were not stated clearly by many of the candidates.

Question 3. The first part of the question deals with the extension of financial year and annual accounts and balance sheet of a holding and subsidiary company, the answers were generalized without referring to the provisions of sections 210 and 213 of the Companies Act, 1956. In the second part of the question, dealing with the steps to be taken by the ROC to get the name of the company (defunct) struck off from the Register of Companies, candidates were not aware of Section 560 of the Companies Act, 1956. Further, the essential step that is realization of all assets and payment of all liabilities and to prepare a 'nil' balance sheet was not known to many candidates.

SUMMARY OF EXAMINERS' COMMENTS

Question 4. In the first part of the question relating to the Boards' decision charging duty assignment to Chief Accountant in ensuring compliance of provisions of the Companies Act, 1956 as contained in sections 209 and 211, the resolution was not in proper format.

Question 5. The questions relating to scheme of reconstruction and on winding-up were answered in a general manner without referring to the relevant provisions as contained in the Companies Act, 1956.

Question 6. The performance to both parts of the question in general was 'average'. Imposition of restrictions upon shares and debentures and prohibition of transfer of shares or debentures in certain cases as contained in section 250 of the Companies Act, 1956 was not known to many candidates.

Question 7. (b) Some of the candidates were confused whether guarantee commission to be treated as a remuneration or not.

Question 8. The performance of the candidates while answering the question relating to SEBI Guidelines was highly unsatisfactory. The question was based on SEBI (DIP) Guidelines, 2000 but most of the candidates did not state correctly the provision covered under chapter III for pricing its equity shares.

Question 9. Some of the candidates did not state correctly the penal provisions covered under section 11(3) of the Foreign Exchange Management Act, 1999 for the Authorised Person failing to file certain returns. However the performance of the candidates in part (b) of the question was highly satisfactory.

Question 10. The factors that the Competition Commission of India (CCI) will take into account in determining whether an agreement will have any appreciable adverse effect on competition in the market as prescribed in Section 3 of the Competition Act, 2002 were listed in general.

Question 11. The performance was 'average' in relation to the question on the termination of a director of a bank on then ground of his conduct detrimental to the interests of depositors and appointment of additional director by the RBI as provided in Section 36AA of the Banking Regulation Act, 1949.

Question 12. The rules relating to interpretation of deeds and documents were stated in general.