

SUMMARY OF EXAMINERS' COMMENTS ON THE PERFORMANCE OF THE CANDIDATES

PAPER – 1 : ACCOUNTING

General Comments

As contemplated by the examiners, spelling mistakes and poor usage of grammar was the common problem among the candidates. Also, most of the answers lacked proper presentation, good expression, clarity and precision. It is observed that the candidates generally neglect basic accounting concepts. They should lay stress on theoretical aspects of each and every topic. Many candidates failed to support their calculations with proper working notes. Candidates are suggested to strictly follow the instructions given in the question paper. Short length questions with reasoning, intricately test the candidates' understanding of the topics covered under the study material. Therefore, candidates are advised to work hard on such questions. It is also suggested that the candidates should go through the study material thoroughly.

Specific Comments

Question 1. In part (a) of the question, many candidates added liquidation expenses for the purpose of calculating purchase consideration. In part (b), most of the candidates showed lack of conceptual understanding relating to adjustment for 'Goods sold on approval basis' for the purpose of calculation of loss of stock and its insurance claim. Some candidates treated 'Goods sold on approval basis' as sales and some added it with closing stock destroyed by fire. In part (d), few candidates were not able to present the investment account in a proper manner.

Question 2. Share of goodwill distributed among new and old partners was wrongly calculated by few candidates. Revaluation account was inversely prepared by several candidates. Many candidates directly reduced $\frac{1}{3}^{\text{rd}}$ from old share of Amit and $\frac{1}{4}^{\text{th}}$ from old share of Sumit to arrive at new profit sharing ratio instead of reducing their $\frac{1}{3}^{\text{rd}}$ and $\frac{1}{4}^{\text{th}}$ share respectively.

Question 3. Most of the candidates erred in the calculation of purchase consideration. Majority of the candidates added the reimbursement of liquidation expenses to purchase consideration.

Question 4. Not many candidates were able to correctly compute the amount of income tax paid during the year. Some candidates considered ₹ 2,50,000 as cash-in-flow from equity shares instead of ₹ 1,50,000.

Question 6. Many candidates prepared cash and bank account jointly, thereby making mistake in calculation of cash defalcated by the cashier. Some failed to understand that the cash defalcated by the cashier is a loss to the entity and therefore erred in the calculation of correct net profit.

Question 7. In part (a) of the question, few candidates erred in the calculation of number of days from the base date. Some candidates took 30th June as base date but while calculating

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the average due date, they have adopted the formula of average due date on the basis of base date as the starting date. In part (c), most of the candidates could not give the necessary journal entries for adjustment of goodwill on retirement and admission of a partner. In part (e), items not to be posted in the 'Debtors Total Account' were not supported with proper reasoning. Some candidates wrongly entered 'bad debts recovered and Bills receivable endorsed' into Total Debtors Account.

PAPER – 2 : BUSINESS LAWS, ETHICS AND COMMUNICATION

General Comments

1. The performance in general was satisfactory.
2. Considering the level of knowledge that is expected from the candidates in this paper i.e. working knowledge, candidates are required to write answers based on provisions of the law, wherever necessary and in this connection, they are advised to read the study material.
3. Candidates are further advised to read the subject with a practical orientation and writing answers based on general view should be avoided.

Specific Comments

Question 1.(a) Instead of writing answer on the determination of compensation on the breach of contract, candidates described different types of breach of contract and provisions as contained in Section 73 of the Indian Contract Act, 1872 were not known to many.

(b) & (c) The performance to the multiple objective questions was found excellent.

(d) On the law and procedure relating to registration of a non-profit organisation as a company under the Companies Act, 1956, answers were general in nature and provisions of section 25 were not mentioned.

Question 2.(a) The problem based on provisions as contained in the Payment of Bonus Act, 1965 was well answered by many candidates, though they could refer the relevant case law and section in the said Act.

(b) In stating the elements which create discrimination in employment in the business organisations, answers were in general and the performance was average.

Question 3.(a) While the candidates correctly mentioned the amount of gratuity payable to employees in a seasonal as well as other establishments, under the payment of Gratuity Act, 1972, the basis on which it is calculated were not correctly written. Amendment in the ceiling regarding maximum gratuity payable was correctly mentioned by many candidates.

(b) Tips for improving inter-personal skills in a business organisation were not specific and it is evident that candidates did not read the study material.

Question 4. The performance to the question in general was average. Candidates did not explain the purposes for which the Securities Premium Account can be used. On the second

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part of the question relating to ethics, it seems that candidates are having some difficulty in answers, either due to less attention being paid or in understanding the subject.

Question 5. The performance of the candidates in general to the various sub-parts of the question was satisfactory.

Question 6. The procedure for converting a private company into a public company under the provisions of the Companies Act, 1956 were not listed out in order and they were general in nature. In respect of questions relating to guidelines for managing ethics, need for whistle-blowing in the work place and characteristics of group personality, very few candidates could write correct answers and many of them even did not attempted it.

Question 7. On the composition and functions of the Central Board of Trustees under E.P.F & M.P. Act, 1952, very few could write correct answers. On the documents to be filed with ROC at the time of registration of a company under the Companies Act, 1956, many of them were not aware of documents other than Memorandum and Articles of Association. Based on performance to this question and other related questions related to company law portion, candidates have to equip their working knowledge in the subject.

The performance to the second alternative choice question on company law and ethics was average.

The answers to the third alternative choice questions based on ethics was not upto the mark.

The fourth alternative choice questions relating to communication were written in general.

PAPER – 3 : COST ACCOUNTING AND FINANCIAL MANAGEMENT

General Comments

Overall performance of the candidates was average. Performance revealed a lack of knowledge of concepts in the areas of Cost Accounting and Financial Management as expected of a professional student of Accountancy course. The candidates need to understand the subjects conceptually and also fine tune their presentation skills. Further, some candidates attempted different parts of the same question at random instead of answering them consecutively.

Specific Comments

Question 1.(a) This question related to computation of operating and financial leverage for two plans. Majority of the candidates performed well except a few of them, who failed to show the calculations separately for the two plans under the given situations.

(b) Problem based on calculation of remuneration of the workers under Halsey and Rowen plans. Since many candidates could not arrive at the time saved correctly, therefore, were not able to calculate the correct remuneration.

(c) This question requires preparation of stores ledger. Since it is also a compulsory question almost all the candidates tried to prepare the ledger accounts but many candidates

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could not prepare it since they were confused with the methods to be adopted though the date is clearly mentioned in the problem. Most of the candidates ignored the format while preparing the store ledger.

(d) Short note on factoring and its advantages was discussed by many candidates on correct lines. However, a small percentage of the candidates explained the concept of present value tables or factors of working capital management instead.

Question 2.(a) Problem on machine hour rate was not attempted well by many candidates since they could not calculate the effective working hours. Apportionment was made by almost all the candidates.

(b) The question required the candidates to advise the management regarding adoption of new credit policy. Majority of the candidates have well attempted the question and have advised correctly. However, few of them have wrongly calculated investment in receivables on the basis of total sales instead of total cost.

Question 3. A large percentage of the candidates have attempted this problem on Preparation of estimated working capital statement but only a few could attempt it on correct lines. Only a few of the candidates have calculated the cash cost of sales correctly and majority have computed debtors on the basis of sales.

Question 4. Majority of the candidates prepared the Cash Flow Statement on correct lines but failed to present it in the proper format. However, a few candidates could not work out cash flow from operating activities correctly and only a few have computed the cash and cash equivalent at the beginning as well as at the end of the year. Further, the candidates have not presented their answers supported by proper working notes in preparation of cash flow statement.

Question 5.(a) This problem was on cost ledger. No candidate was able to calculate the profit under both costing and financial methods. Almost all the candidates have just opened the head of relevant accounts but the figures given are irrelevant.

(b) Majority of the candidates were not able to discuss debt securitisation well and gave answers based on security for a debt or loan.

Question 6. (a) This question on Computation of earnings per share was well attempted by many candidates. Majority of the candidates computed indifference points between different proposals on correct lines. However, few of the candidates faltered in computation of total shares.

(b) This theory question on cost unit and cost centers are generally discussed without correct definition and proper points.

Question 7.(a) Packing expenses and Fringe benefits were generally explained by the candidates but without indicating the requirement of treatment.

(b) A large percentage of the candidates explained Operating Profit ratio and Operating leverage instead of Operating ratio.

(c) Many candidates explained the meaning without giving the causes of labour turnover.

- (d) Majority of the candidates explained correctly William J. Baumal versus Miller Orr cash management model.
- (e) Process of estimating profit/loss on incomplete contracts was given correctly by many candidates.

PAPER - 4 : TAXATION

Specific Comments

Question 1.(a) The question is based on computation of capital gain in case of transfer of shares by an individual to his spouse without consideration, income earned thereon and subsequent sale of shares at concessional price by the spouse to her friend. A number of adjustments were asked on computation of long term capital gain, short term capital gain, clubbing of income and provisions of section 56(2)(vii). Students were found to be lacking on provisions of section 56 as well as on applicability of clubbing provisions in relation to accretion to the assets transferred to spouse. Some students have wrongly treated profit on sale of bonus shares as long term capital gains. Students have not written about the non-taxability of the difference of ₹ 40,000 (₹ 2,10,000 – ₹ 1,70,000) in the fair market value and actual sale consideration of shares in the hands of Mrs. Hema on account of the difference not exceeding ₹ 50,000.

(b) Only few have answered this question correctly. Majority of the students have wrongly taken the total profits derived from the Unit S i.e. ₹ 13 lacs as fully exempt on account of the unit being in SEZ, instead calculating the profits in relation to export turnover of Unit S.

(c) In many cases, students calculated 'value of taxable service' but omitted to calculate 'service tax payable'. They also ignored the fact that since the firm had rendered taxable service of ₹ 20.2 lakh in the previous financial year, it is not a small service provider. Further, many students have wrongly considered the amount collected from companies for pre-recruitment screening as well as for recruitment of permanent and temporary staff as inclusive of service tax. Also, many of them have wrongly taken service tax liability as nil in case of advance received.

(d) Only a very few students were able to compute the net VAT liability correctly. While some of them did not consider the VAT credit on closing stock of raw materials, others allowed the whole credit on capital goods in one year. Some students also did not consider the credit on capital goods at all. Further, students also failed to give reasons for excluding other items provided in the question which were not relevant for computation of input credit.

Question 2.(a)(i) The question is on taxability of payment made outside India to a non-resident for the consultancy services related to a project in India. The question is to be answered based on the amendment made by the Finance Act, 2010 in section 9 of the Income-tax Act, 1961. Since the question did not specify chargeability under the Income-tax Act, 1961, some students have answered the same on the basis of service tax provisions related to import of services

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(ii) The most common mistake committed by students was that they had applied weighted deduction @200% under section 35(2AB) (applicable to companies) for in-house research and development expenditure instead of 100% under section 35(1) (applicable for individual).

(b) Though the question clearly provided that service tax is collected separately on coaching fees of ₹ 14,50,000 collected from students, many students wrongly assumed it to be inclusive of service tax and made the calculations accordingly. Also, few of them wrongly considered the value of free coaching to be liable to service tax. A large number of students failed to charge service tax on the advance received during the quarter ended 30.06.2010 which was returned subsequently.

(c) While the first part of the question was answered correctly by a large number of students, only a handful of them were able to answer the second part relating to services being included in the VAT net.

Question 3.(a) The common mistakes committed by students while answering this question are:-

(i) Most of the students have wrongly taken the entire interest of ₹ 1,50,000 on capital received from Oscar Musicals & Co. whereas the same must be restricted to ₹ 1,20,000 which is the maximum interest allowable in the hands of the firm.

(ii) Many students have considered net interest of ₹ 13,500 on fixed deposit as income instead of gross interest of ₹ 15,000.

(iii) Several students have taken the entire income tax refund of ₹ 34,500 received for AY 2009-10 as income under the head "Income from Other Sources" instead of considering only the interest of ₹ 2,300.

(iv) Many students have not applied the correct rate of depreciation in case of Computer.

(v) Only few students have correctly worked out the WDV of Motor Car.

(b)(i) It has been observed that majority of the students have simply answered as 'I agree' without giving suitable explanations for such agreement.

Question 4.(a)

(i) Most of the students were not clear regarding the provisions of set off of losses.

(ii) Many students have wrongly set off loss of ₹ 32,000 from card games against income of ₹ 45,000 from betting.

(iii) Some students have wrongly set off long term capital loss from sale of listed shares in a recognized stock exchange against long term capital gain from sale of urban land. They were not aware that loss from an exempt source cannot be set off against gains from a taxable source.

(iv) Few students have wrongly exempted long term capital gain from sale of urban land.

(v) Some of the students have wrongly set off loss from specified business covered under section 35AD against income from speculation business.

(b) This question was based on the general understanding to administer service tax laws and to name such rules issued by the Central Government. Students did not write the name of the rules correctly and secured partial marks for general understanding.

(c) Many students answered the first part correctly. However, they failed to explain as to how input tax credit helps in achieving the essence of VAT and instead wrote long answers explaining the advantages of input tax credit.

Question 5.(a)

1. Some students have wrongly considered ₹ 1,05,000 as the cost of the house property, instead of adopting the fair market value of ₹ 1,50,000 on 01.04.1981, which is higher.
2. Many students have wrongly deducted the amount of ₹ 25,000 forfeited by Mr. Rakesh to arrive at the cost to be considered for indexation.

(b) Some students wrongly answered this question on the basis of income-tax provisions. Few of them also wrongly mentioned the time limit of intimating the details of service tax paid in advance to jurisdictional Superintendent of Central Excise as 30 days from the date of adjustment of the service tax in the subsequent period instead of 15 days from the date of advance payment.

Question 6.(a) Most students have failed to calculate the allocation of depreciation between private limited company and LLP correctly. In case of depreciation on Patents and Machinery the number of days of usage for the LLP has been calculated as 3 months instead of 31 days and for the private limited company as 275 days instead of 214 days (for depreciation on patents). Almost all the candidates have provided depreciation for building without considering that deduction under section 35AD has already been allowed in an earlier year.

(b) Students were required to calculate the value of taxable cargo handling services in this question. Many students simply ignored item no. (i) & (iv) without mentioning that these are covered under cargo handling services and hence no adjustment is needed from total collections of ₹ 32,00 lakh.

(c)- Students wrote long essay types answer for this question instead of mentioning the specific areas in relation to VAT audit where a Chartered Accountant could play a vital role.

Question 7.(a)(1) Majority of candidates have answered this question incorrectly. A lot of guess work has gone in answering this question.

(a)(3) This question is to test the applicability of TDS provisions and allowability of payments/expenditures made by a resident individual to residents and non-residents. The question was answered by a very few candidates due to lack of knowledge and their answers were very general. Candidates were not aware of the fact that since the assessee was not subject to tax audit in the immediately preceding financial year hence, the question of disallowance of interest and commission payment in item nos (i) & (iv), respectively, does not arise. They were also not aware that salary is not an item figuring in Section 40(a)(ia) for disallowance.

(b) Many students wrongly mentioned the due dates for payment of service tax instead of writing the due dates for filing of service tax returns which was required by the question.