SUMMARY OF EXAMINERS' COMMENTS ON THE PERFORMANCE OF CANDIDATES

PAPER – 1 : ADVANCED ACCOUNTING

General Comments

The performance of the candidates has not been satisfactory. The answers of the candidates showed lack of knowledge and understanding of the subject, specially the accounting standards. 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 are advised to 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.

Specific Comments

Question 1. Valuation of goodwill: The answer to this question was not given satisfactorily by most of the candidates. The adjustments for additional information given in the question was not correctly carried out, thereby the average capital employed, future maintainable profits and goodwill were incorrectly worked out. Few candidates failed to understand the leverage effect.

Question 2. Corporate restructuring: The candidates have performed badly in this question. A large number of candidates considered the total value of shares of Y Ltd. for calculating purchase consideration instead of taking 40% of the share value. They did not take into account the value of investments in Y Ltd. while calculating the intrinsic value of shares of X Ltd. Consequently, the number of shares to be issued and the cash to be paid by X Ltd., goodwill and cash balance of X Ltd. after absorption of Y Ltd. was also calculated incorrectly.10% reduction in the value of fixed assets was also not considered by some of them while computing goodwill.

Question 3. Problems based on practical application of Accounting Standards

(a) AS 11(Revised): Many candidates could not appreciate that the exchange difference at the close of the year should not be adjusted against the raw-materials. Otherwise the question was well answered.

(b) AS 2: This part of the question was well answered by majority of the candidates.

(c) AS 26: Candidates showed lack of knowledge of AS 26 'Accounting for Intangible Assets'. A large number of candidates wrongly opined that the advertisement expenses should be treated as deferred expenses.

(d) AS 4: There was a good attempt by the candidates in this part of the question as compared to other parts. Some candidates were not able to justify their answer with provisions of AS 4.

Question 4.(a) EPS : The candidates have performed unsatisfactorily in this part of the question. The answers of the candidates showed lack of knowledge in this topic.

(b) Determination of maximum bid price: The performance of the candidates, in this part of the question, was below average. The requirement of the question appeared to be not clear to most of the candidates. Barring few, no one could calculate the maximum bid price. Some of them understood maximum bid price as to mean the highest salary that could be offered.

(c) Calculation of EVA: The candidates exhibited poor knowledge on this topic. Except few, no candidate was able to give correct answer for this part of the question. Most of the candidates calculated the cost of equity capital but they failed to arrive at the debt cost after tax. Consequently, the calculation of EVA was wrong.

Question 5. (a)Computation of diluted earnings: This part of the question was satisfactorily answered by most of the candidates. However, some of them added interest on debentures instead of deducting it from net profit while calculating diluted earnings.

(b) Average capital employed: Most of the candidates calculated the capital employed on 31st March, 2006 correctly. But the calculation of average capital employed was wrong due to incorrect calculation of profit earned during the year. Many of them appeared to be ignorant that half of the profit earned during the year should be adjusted in the capital employed.

Question 6. Holding Company Accounts: Average performance of the candidates was reported by the examiners in this question. Candidates failed to calculate correctly the pre and post acquisition reserve, profit earned after acquisition, pre and post acquisition dividend, revaluation loss and excess depreciation charged. As a result, the computation of minority interest and capital reserve was also wrong. Some candidates erred in the treatment of mutual indebtedness. Most of the candidates did not present the consolidated balance sheet in the prescribed format.

PAPER – 2 : MANAGEMENT ACCOUNTING AND FINANCIAL ANALYSIS

General Comments

The overall performance of candidates was below average. Students lacked adequate preparation. Particularly they were not conversant with theoretical knowledge.

The performance of the candidates in both theory and practical questions was not up to the desired standard. Candidates seem to lack conceptual clarity, analytical ability and communication skills. Candidates did not follow logical and systematic approach for solving the questions. Question nos. were either not written or not written legibly. Answer to each question has not been commenced on a fresh page. Answer to different parts of one question has been written in different places along with answers to other questions.

Specific Comments

Question 1 (a) Many of the examinees were not able to complete the answer to this part of the question correctly. Most of them experienced difficulty in understanding the technicality in the question. Their answers exhibited lack of knowledge in respect of Analysis of Risk and uncertainty in Capital Budgeting. The overall performance of the examinees has been quite dismal.

(b) This part of the question was attempted by many candidates. Their answers however, exhibited lack of knowledge of Re-financing in some cases. The overall performance was of average level.

Question 2 (a) The performance of the candidates was not satisfactory. Most of them generally calculated correctly market price per share at the end of period but failed to calculate value of the firm. Their answers exhibited lack of knowledge in respect of M.M. approach.

(b) Many candidates could not answer to this part of the question correctly. It appears that they lacked conceptual clarity in Mutual Fund, NAV and its return etc. The overall performance was very poor.

(c)&(d) These theory parts have been attempted fairly by majority. Most of them performed reasonably well.

Question 3 (a) Many examinees were not able to complete the answer to this part of the question correctly. They lacked knowledge in respect of Hedging - forward Contract Currency future etc. The overall performance of the examinees has been quite dismal.

(b) Most of the candidates could not properly answer to this part of the question. Their answers exhibited lack of knowledge of arbitrage possibility/Gain and Loss of Arbitrager. Some of the candidates have solved the problem correctly. However, the overall performance was not upto the mark.

(c) Only a few candidates answered to this part of the question correctly. Most of the candidates made errors in calculation of Risk adjusted dollar rate/Forward rate of exchange for different years. The overall performance was very poor.

Question 4 (a) Many candidates could not answer to this part of the question correctly. It appears that they lacked conceptual knowledge in respect of valuation of call option by application of Black and Scholes model. The performance of them has been quite dismal.

(b) Except few cases, answers were not appropriately organized. Most of answers exhibited lack of knowledge in respect of net exposure of foreign currency.

(c) Most of the candidates who attempted this part of the question have not been able to understand the question and failed to make out what is required in the question. They lacked conceptual knowledge of Portfolio Management.. Their performance was very poor.

Question 5 (a) Most of the candidates could not properly answer to this part of question. Their answers exhibited lack of knowledge in respect of valuation of business on the basis of average of NPV and Aggregate D.C. flows. Some of the candidates answered to this question correctly. However, overall performance was not up to the mark.

(b) This part of the question was well attempted by majority. Their performance was satisfactory.

(c) This theory part of the question has been attempted fairly by majority. Most of them performed reasonably well.

Question 6 (a) Most of the candidates could not properly answer to this part of question. Various kinds of systematic and unsystematic risk were not highlighted fully by most of the candidates due to lack of proper conceptual knowledge.

(b) Except (iii) of this part of the question. Most of the candidates answered to the question correctly. Their performance was satisfactory.

(c) By and large answers were upto the mark and the candidates were aware of the concepts

(d) The answers of this part of the question were generally not appropriately organized. Most of answers lacked the qualities of presentation. Some of them were writing unnecessary and irrelevant details. The overall performance was poor.

PAPER – 3 :- ADVANCED AUDITING

General Comment

Performance of the Candidates, in general, was satisfactory. However in Q.3(b), 4, 5(a), 7(a)(i) and 8(b), their answers lacked the understanding of the question, its requirement and knowledge of the topics and relevant statute.

Specific Comments

Question1.(a) Generally well attempted by almost all the candidates.

(b) Poor Performance. Candidates in general attempted this part on imagination as if it relates to benefit of company worker or company can't give donation to a political party. Answer lacked the requirement and knowledge of Sec. 293-A.

(c) By and large satisfactory. However only few candidates have written about alternative treatment as deferred income.

(d) Average Performance. Most of the candidates failed to highlight the recourse available to the auditor in terms of AAS 4.

Question .2(a) Well answered and correct judgement of the case. Candidates in general provided good idea of the factors to be evaluated for analyzing the undercutting of fee.

(b) Average Performance. Most of the candidates just mentioned that misstatement should be disclosed separately but failed to highlight the materiality concept.

(c) Generally well answered by almost all the candidates.

(d) Well attempted by majority of the candidates.

Question 3. (a) Average Performance. Only few candidates correctly drafted the audit report. Most of the candidate just mentioned the reporting requirement. Few also highlighted the factors leading to disqualification of directors instead of drafting the report.

(b) Poor Performance. Most of the candidates presented the answer as benefit of computer audit programme and discussed about audit tools. Their answer lacked the understanding of the question.

Question 4. (a) Answered by few candidates with average performance. Most of the candidate just wrote about pollution by and in industry and ways to prevent it.

(b) Poor Performance. Most of the candidates failed to highlight the salient features of directions u/s 619(3). They gave just general answer on verification and vouching of the items.

Question 5. (a) Good Performance. However, most of the candidates mixed the correct answer with non-proprietary element under CARO, 2003.

(b) Average Performance. Most of the candidates failed to mention the important matter to be included in communication as required in the question and instead just highlighted the auditor's duty to communicate.

Question 6. Not attempted by many candidates. Average performance and those answered failed to cover the important areas to be covered in the scope of concurrent audit.

Question 7.(a) (i) Very poor performance. Almost all the candidate took it as a question on requirement u/s.224 & 225.

(a) (ii) Satisfactory performance. Candidates presented a good idea of both internal and external source of obtaining information.

(b) Average Performance. Most of the candidate answered this as non- compliance with true and fair view of the financial statement and accounting standards.

Question 8.(a) Fairly good answer by most of the candidate.

(b) Poorly answered by most of the candidate and their answer just mentioned the general power of auditor and failed to answer the matter to be enquired u/s. 73(2).

(c) Average performance. Answer lacked knowledge of method of calculating the solvency margin and Sec. 64(2C).

(d) Good performance.

(e) Good performance.

(f) Average performance. Many candidates mixed their answer with concept of internal and management audit.

PAPER – 4 : CORPORATE LAWS AND SECRETARIAL PRACTICE

General Comments

Question 1. The performance in general was 'average'. The following were the observations:

(a) Lack of knowledge of the English language.

(b) Lack of writing / drafting skills

(c) Lack of practical application of the sections and relevant case law wherever necessary

(d) Lack of update of the knowledge in the subject

(e) Adequate time should be devoted by the candidates in preparing for the examination.

Specific Comments

Question 1. In relation to question on Company Law, candidates did not refer to Section 309 of the Companies Act, 1956. Also answers did not reflect that the remuneration paid to Dr. Hamilton was not a managerial remuneration and further the requirement of obtaining opinion of the Central Government in rendering is professional service as a heart surgeon is advisable.

In relation to question on Securities Contracts (Regulations) Act, 1956, candidates did not write the conditions to be fulfilled by the stock exchange before issuing an order for delisting the shares of the company. In relation to the question on demutualisation and corporatisation, the specific powers which can be exercised by SEBI in accordance with Section 4(B)(6) and (8) and restrictions which can be imposed on the shareholders was not properly dealt with.

Question 2. Candidates in general, were not adequately prepared on the questions relating to Foreign Exchange Management Act, 1999.

In relation to questions on Competition Act, 2002 answers were generalised and candidates did not state the relevant provisions of the said Act (i.e., Section 15). Some of the candidates wrongly stated that shares before allotment were covered by the term 'goods'.

Question 3. Most of the candidates were not aware of the provisions in the SEBI Act, 1992 and the relevant SEBI (DIP) Guidelines 2000 dealing with price band in a book-building process. The question on the interpretation between Section 292 and 372A of the Companies Act, 1956 were not clearly and correctly brought out.

Question 4. Students lacked the drafting skills in respect of a resolution to be passed for removal of MD. The obligation on specified companies to appoint a Whole Time Company Secretary in accordance with Section 383A of the Companies Act, 1956 and penal consequences were not properly written.

Question 5. Section 297 read with Section 299 and 300 of the Companies Act were not stated by many candidates. Cases in which the interested director shall disclose his contract, the requirement of obtaining clear permission of the Central Government and exemptions under Section 297 were not stated. The meaning of the term 'Misfeasance' was not written correctly by most of the candidates and the scope of proceedings for such acts for misfeasance under Section 543 of the Companies Act was not known to many.

Question 6. The permissible remuneration limits under Section 314 applicable to a director or his relative for holding an office or place of profit and the procedure to be followed were not written by some of the candidates. Further, most of the candidates were not aware that the said section 314 is not applicable to a Managing Director.

Question 7. The problem in relation to the question of oppression as dealt under Section 397 of the Companies Act, 1956 was not properly applied in solving the problem. Drafting resolution for appointment of a Managing Director was not upto the mark.

Question 8. The question pertain to the claim of dissenting shareholders challenging the exchange ratio and the value of shares of two companies proposed to be amalgamated. Candidates did not state the grounds on which their claim is based (i.e., in accordance with

Section 391, 394 and 394A) of the Companies Act, 1956.

Inter corporate loans and investments under section 372A of the Companies Act, 1956 was not properly understood and problem was not solved by many of the candidates.

Question 9. Some of the candidates were not aware of the increased limits in relation sitting fees as per Section 310 of the Companies Act, 1956 read with Rule 10B

The legal position in respect of the obligation on the Indian holding company to attach the balance sheet and other documents of the foreign subsidiary company were not stated properly. Again the provisions of Section 224 (2) of the Companies Act regarding the duty of the statutory auditors is verifying the correctness of the particulars in the Board reports in respect of certain employees was not written clearly.