

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 candidates' lack of analytical ability and indepth knowledge of the subject. Questions requiring application of Accounting Standards and Guidance Notes in real life situations have not been answered well. The candidates are advised to improve their skills and knowledge level to match with the standards expected from them at Final Level. It is also observed that the candidates neglect the theoretical aspects of the subject, they are advised to go through the study material carefully. The candidates should present the answers in organized manner and solutions to practical problems must be given in prescribed formats along with suitable working notes.

Specific Comments

Question 1. Holding Company Accounts: Poor performance was observed by the examiners in this question. The answers of the candidates revealed inadequate knowledge of AS 21 on Consolidated Financial Statements. The adjustments of revaluation of assets and payment of dividend by SD Co. Ltd. were not correctly treated by some candidates. Many among them could not work out the unrealized profit included in the sale of machinery on hire purchase basis and thereby, could not proceed to draw the required consolidated balance sheet.

Question 2. Gross Value Added Statement: This was a practical question requiring candidates to prepare a gross value added statement. Candidates were also required to reconcile the gross value added with profit before taxation. Many candidates were unable to calculate correct amount of excise duty and some of them could not show the treatment of deferred tax. Only a few candidates could give the correct computation of cost of bought in material and services. Overall unsatisfactory performance was observed in this question.

Question 3. Valuation of Shares: By and large, examiners reported poor performance of the candidates in this question. Very few candidates could understand the requirements of the question and were able to find the value of equity shares. The candidates were confused in taking numerator and denominator while working out interest and dividend coverage ratio. Some of them could not work out expected yield on equity shares and consequently failed to proceed in the desired direction.

Question 4. Problems based on Accounting Standards:

(a) AS 20 – Earnings per Share: Except for the candidates, who were not aware of the relevant provisions of AS 20, this part of the question was fairly attempted. However, some candidates erred in calculation of adjustment factor and thereby, failed to compute the basic earnings per share correctly.

(b) AS 19 – Leases: The answers of the candidates showed lack of conceptual understanding of the standard. Most of the candidates were not able to give correct journal entries. Very few examinees ascertained the correct amount of unearned finance income.

(c) AS 22 – Accounting for Taxes on Income: The examiners observed that the candidates lack the understanding of the Accounting Standard and hence, could not indicate the impact of the given items (creation or reversal) in terms of deferred tax asset/ deferred tax liability. Consequently, the candidates could not show the correct balance of deferred tax asset/deferred tax liability.

Question 5.(a) Accounting for Not for Profit Organisations: Satisfactory performance of the candidates was reported in this part of the question. Almost all the candidates had attempted the question, though some of them wrongly deducted 'interest on loan' in statement of changes in loan fund balance.

(b) Accounting for stock option: This question was well attempted by most of the candidates. However, some of the candidates did not seem to have knowledge of the Guidance Note on Accounting for Equity Index and Equity Stock Futures and Options and were not able to show the required accounting treatment in the books of buyer.

Question 6. Short Notes (Theory Question): The performance of the candidates was average in this theory question. Many candidates could not distinguish the treatment of (i) fixed assets and (ii) changes in accounting policies under IAS, US GAAPs and Indian AS. Also few among them were not able to state the disadvantages of setting of Accounting Standards. Other parts of the question were attempted properly by large proportion of the candidates. In general, answers lacked proper presentation, good expression, clarity and precision.

PAPER – 2 : MANAGEMENT ACCOUNTING AND FINANCIAL ANALYSIS

General Comments

- (i) The general performance was well below par. The conceptual knowledge was poor. The approach to solving the problem was still academic in nature. The candidates approach need to be more practical oriented.
- (ii) It seems that students do not generally read current financial affairs/Business magazines and news papers etc.
- (iii) The standard pf English language used by the candidates was poor.
- (iv) Working notes were not given properly and presentation was poor.
- (v) Attempt to the theoretical questions was generally unsystematic and conclusions/opinions relating to practical questions were not properly explained.

Specific comments

Question 1. The performance of majority of the candidates was found to be extremely poor. It appeared that most of the candidates were unable to understand the problem properly. A very small percentage of candidates were able to compute the NPV when $t=0$ on correct lines.

Question 2.(a) A large number of candidates could not calculate even the weighted average cost of capital and profit before interest and tax from leverage ratio. Very few candidates could work out economic value added correctly.

(b) Majority of the candidates were unable to compute effective yields of mutual fund schemes on per annum basis accurately.

(c) It appears that many candidates were not familiar with topic.

(d) Answers were generally satisfactory.

Question 3.(a) Few candidates were able to calculate value of rights properly and were not clear whether there will be any increase in shareholder's wealth.

(b) Candidates were not able to calculate lease rentals properly.

(c) Candidates were not able to explain NAV of mutual fund properly even though this a very common term.

Question 4.(a) Candidates lacked the idea needed to answer this question on Index futures correctly

(b) Majority of the candidates were able to solve the problem correctly in part. In most of the answers it was seen that candidates did not consider the individual tax rate correctly to determine the share price.

(c) This question on foreign exchange was well answered.

(d) Many candidates did not have correct idea about the term 'forfeiting'.

Question5.(a) (i) Candidates were found to be much more comfortable while answering the problem on beta coefficients.

(ii) The theory part of this question was also well answered

(b) Performance of candidates on this problem was also good barring the part relating to calculation of gain/loss for shareholders after acquisition.

(c) Most of the candidates were found to have insufficient knowledge to explain the terms 'intrinsic value' and 'time value' of an option correctly.

Question 6.(a) This question was more or less well answered.

(b) Performance of candidates was found to be really good on this question.

(c) Most of the candidates were found to have little ideas on tax issues relating to foreign collaboration agreement

(d) This part of the question was correctly answered by most of the candidates.

PAPER – 3 : ADVANCED AUDITING

General Comments

1. Lack of adequate knowledge on the part of candidate as far as the Institute's publications, statements and standards are concerned.
2. Candidates wrote answers without first analysing the exact requirement of each question.
3. Lack of command over language.

Specific Comments

Question 1.(a) The difference between contingent liability and provision for a liability which is not contingent any more was not properly understood by many candidates.

(b) Lack of knowledge of applicability of AS 18 by many candidates about the disclosure requirements.

(c) Many candidates could not give proper arguments with reference to AAS 11 as to the significance of management representation.

(d) Many candidates thought that the matter relates to father and son in a Chartered Accountant's firm and went on answering the question in view of code of ethics. Others have dealt at length about Sections 297, 301 and 314 of the Companies Act, 1956 instead of AS 18.

Question 2.(b) Many candidates wrongly stated that Mr. Pardeshi can pay Goodwill to Mrs. Qureshi but can continue the practice in the name of M/s Qureshi and Associates only for one year.

(c) Some candidates were not clear about provisions of AS 22 as to reasons for creating Deferred Tax Asset.

(d) Many candidates were not clear about provisions of AS 16 relating to capitalization of interest.

Question 3. Many candidates explained the concept of initial engagement and duties of auditor properly. However, answer on reporting requirements on audit procedure and approach in drafting audit report was not properly explained.

Question 5. Specific problem relating to implementation of internal control in EDP system was explained properly by majority of candidates but most of them failed to discuss characteristics of "on-line computer system" as well as Tagging and Training properly.

Question 7.(b) Many candidates failed to discuss statutory auditor's responsibilities in respect of disqualification of directors under section 274(1)(g) of the Companies Act, 1956.

PAPER – 4 : CORPORATE LAWS AND SECRETARIAL PRACTICE**General Comments**

From the assessment of the general performance of the candidates, it appears that they have followed a casual approach and without sufficient preparation. Depth of knowledge, clarity in presentation, analytical writing skills were lacking. Relevant sections, case laws and updates in the various Acts wherever necessary were not mentioned in the answers. Since, the level of knowledge required for the subject is expert knowledge, candidates are advised to refer the bare acts, law journals, institutes study material and one or two reference books.

Specific Comments

Question 1. Except on sub-question (c), the performance of the candidates was reasonably good. In question 1 (c), candidates wrote general answer without referring to the provisions of the Section 28 of the Securities (Contracts) Regulation Act, 1956 and Section 73 of the Companies Act, 1956 which stipulates that offer to public for subscription of shares or debentures shall be only after obtaining permission from the stock exchange.

Question 2. The overall performance was not satisfactory. Candidates were not conversant with the provisions of the Foreign Exchange Management Act, 1999. Candidates have also not studied the Competition Act, 2002.

Question 3. Question 3(a) was based on Section 293(1)(d) of the Companies Act, 1956. However, many candidates wrote answer to the question by mixing up the provisions of Section 372A and Section 293(1)(d) of the Companies Act, 1956. Answer to question on SEBI (DIP) Guidelines was unsatisfactory.

Question 4. Candidates wrote reasonably good answers to both sub-parts of the question.

Question 5. Though the quality of the answers were fair, many of the candidates did not state that the permission of Central Government is required for waiver of amount recoverable as per provisions of Section 309(5B) of the Companies Act, 1956. The drafting of the resolution was not upto the mark.

Question 6. The quality of answers to questions on Producer Company were average. In the sub-part (b) of the question candidates failed to mention that there is no provision in the Companies Act, 1956 dealing with resignation of office by a director and also did not mention that resignation by a director is governed by the Articles of Association of the Company.

Question 7. General performance to both the parts of the question was satisfactory.

Question 8. In sub-part (a) of the question, most of the candidates did not state the provisions of Regulation 9 Table A. In answering sub-part (b) of the question dealing, appointment of first auditor and removal of statutory auditor, candidates are required to explain the provisions of section 224(5) in respect of appointment of first auditor. As regards the removal of auditor the procedure laid down in Sections 224(7) and 225(2) & (3) and proviso (a) section 224(5) are to be explained briefly.

Question 9. Only few candidates could solve the problem based on Section 372A of the Companies Act, 1956. Candidates are required to explain only the relevant portion of Section 372A for the purpose of computation of limits up to which the Board of Directors can invest in securities etc. (Section 372A(1) and Explanation (b)).

In second part of the question dealing with the appointment of Small Shareholder's Director, candidates are required to explain in detail the Proviso and Explanation to Section 252(1) of the Companies Act, 1956 and also state that the small shareholders' director shall be elected in accordance with the Companies (Appointment of Small Shareholder's Director) Rules, 2001.