

SUMMARY OF EXAMINERS' COMMENTS ON THE PERFORMANCE OF CANDIDATES

PAPER – 5 : COST MANAGEMENT

General Comments

The performance of the candidates in both theory and practical questions needs improvement. It has been observed by the examiners that quite a few students tend to lose marks in spite of knowing the answers because of poor presentation. Students are advised to understand the application of the various theoretical concepts for successfully applying them while solving numerical questions.

Specific Comments

Question 1.(a) This was a theory part requiring candidates to explain the meaning and limitations of back flushing in a JIT system. Many students confused 'back flushing' with 'just in time'. A few students, who got the meaning of 'back flushing' right, were unable to explain the problems associated with the concept.

(b) This was theory part requiring students to explain 'skimming price strategy'. A few candidates confused 'skimming pricing' with 'penetrative pricing'.

(c) This was a practical question part. Students were required to use the knowledge of concepts related to Decision making and Marginal costing. A clear concept of Capacity and its effective utilization was needed to answer this question. The following types of mistakes were committed by a majority of candidates;

Were unable to compute correctly the available capacity for executing the export order.

Many candidates were unable to arrive at the alternative use of spare capacity.

Question 2. (a) This theory part required candidates to explain advantages and limitations of Zero Based Budgeting. Examiners have noted that though many of the candidates appeared to possess the basic knowledge, they were unable to express the same in the paper. Otherwise the question was satisfactorily attempted.

(b) This theory part required candidates to explain the concept of 'benchmarking code of conduct'. Many of the candidates were able to explain 'benchmarking', however, most of them failed to give the right answer for the code of conduct.

(c) This theory question part required candidates to explain the main features of ERP. The question was answered reasonably well by most of the candidates.

(d) This was a practical question part requiring students to prepare various functional budgets from the information given in the question. The students while answering this question part committed the following types of mistakes;

The figure of production was incorrectly computed in many cases.

Quite a few candidates were unable to draw correctly the material usage budget.

Some candidates failed to compute the units of material to be purchased and the cost their off.

Few candidates failed to compute correctly the total labour hours and total wages.

Question 3.(a) This was a practical question part requiring candidates to have a sound knowledge of concepts related to the traditional and activity based costing. While answering

the question the following types of mistakes were committed by the examinees;

Wrong calculation of machine hour rate.

Cost/units of driver not correctly computed.

Many candidates were unable to compute correctly the difference in Product costs using the two different types of cost accounting techniques.

(b) This practical question part required examinees to formulate and solve a linear programming problem in order to determine a product mix on a weekly basis. Most of the candidates were able to formulate the problem correctly. However, many failed thereafter and got the wrong solution.

Question 4.(a) This was a theory part requiring candidates to have a sound knowledge of relevant cost and its use in decision-making. Most of the candidates have answered this part well.

(b) This was a practical question part requiring candidates to calculate capacity, activity and efficiency ratios and also establish their relationship. Some of the candidates made the following types of mistakes;

Wrong computation of standard hours produced and actual hours worked.

Use of wrong formula while computing various ratios.

(c) This practical question part required candidates to calculate the transportation cost per ton-km from the given information. A few candidates computed incorrectly the variable and the fixed costs for distance X and Y. Otherwise; this question part was satisfactorily answered.

Question 5.(a) This practical question part was from the area of transfer pricing. Candidates were required to compute the profitability of the given profit centres and the company as a whole in different capacity utilisation scenarios. They were also required to comment upon the company's transfer pricing policies. Most of the candidates were able to attempt this question part correctly; however many were not able to offer their comments satisfactorily.

(b) This practical question part required candidates to determine the critical path from a given network. Candidates were also required to find the probability that the project will be completed in the scheduled completion time. The following types of mistakes have been noticed by the examiners;

Some candidates did not compute earliest finish, latest finish and slack correctly.

A few candidates wrongly computed the probability of the given project being completed on schedule.

Question 6.(a) This theory question part required candidates to write about the characteristics and benefits of product life cycle along with its meaning. It has been observed that quite a few candidates discussed the concept of product life cycle from the marketing point of view rather than the cost accounting/management viewpoint.

(b) This practical question part was done well by most of the candidates.

(c) This practical question part was from the area of Simulation. Most of the candidates were not able to reach the correct inventory cost under the two alternatives.

PAPER – 6: MANAGEMENT INFORMATION AND CONTROL SYSTEMS**General Comments**

The overall performance of the candidates was satisfactory. In majority of the cases, the answers given by candidates lacked quality, content and precision. The examiners were of the view that candidates should go through the study material thoroughly to have a complete understanding of the concepts.

Specific Comments

Question 1. (a) Being a compulsory question, every candidate attempted it. Definitions of conventional audit trail and on-line systems were presented well by most of the candidates. However, majority of them could not cite proper reasons to justify why conventional audit trail is difficult in on-line systems.

(b) A large percentage of candidates exhibited poor knowledge of Section 2 of the Information Technology Act, 2000.

Question 2. (a) Answers given by majority of the candidates relating to Production planning control system, were incomplete and inadequate.

Question 3. (a) Very few candidates could correctly define the terms “2-tier and 3-tier architecture”.

(b) Control techniques to ensure security were not presented well by the candidates. Majority of them lacked conceptual clarity.

(c) A large number of candidates wrote vague and general answers to describe risks that should be considered during transition from the mainframe to client/server.

Question 4. (c) Most of the candidates failed to discuss various functions served by system evaluation.

Question 5. (a) Majority of the examiners could not give proper reasons and key points to describe expectations, fears and ground realities that a corporate management faces during the post implementation phase of ERP.

(c) Very few candidates could draw systems flowchart for an online, real-time sales order processing correctly. Majority of the candidates could not distinguish between systems flowchart and program flowchart.

Question 6. (b) A large percentage of the candidates failed to present an example of an Information security policy statement. Performance to this part of the question was very poor.

Question 7. In majority of the cases, candidates failed to present comprehensive short notes covering all important aspects concerning the respective topics.

PAPER – 7 : DIRECT TAXES**General Comments**

The students have not studied the provisions of the Income-tax Act and Wealth-tax Act thoroughly. As a result, their answers were vague and general. They were not familiar with the recent amendments. Many students have not given proper notes and assumptions in support of their answers. The presentation of answers was also very poor in many cases.

Most students do not start the answer to each question on a fresh page. Further, some students attempt to answer different parts of the same question at random instead of answering them one after the other consecutively. The handwriting of some of the students is very poor and not legible.

Specific Comments

Question 1.

- (i) Most of the students have confused gratuity paid voluntarily on death of an executive on business trip with compensation paid on voluntary retirement and they have wrongly treated 1/5th of the expenditure as allowable during the year. Some students have also linked it with payment out of gratuity fund.
- (ii) Many students have not been able to state the reasons for deduction or addition of various items of income or expense, which was specifically required in the question. Some of the instances for which explanations were not given are:
 - (a) Disallowance of non-realisation of advance given to wholly owned subsidiary.
 - (b) Allowability of arrears of interest paid during the year.
- (iii) Most of the students have wrongly treated legal charges in connection with alteration of Articles and for issue of bonus shares as preliminary expenses to be amortised under section 35D.
- (iv) The students have wrongly disallowed 20% of expenditure on purchase of scrap material although such payment was made on the Independence day (public holiday) which is covered in Rule 6DD (k)

Question 2. (a) Some students have wrongly made the computation by applying the provisions of section 78, which are applicable for carry forward and set off of losses in case of change in the constitution of firm. Further, some students have made a mistake in the order of set off of brought forward loss and unabsorbed depreciation.

(b) Some of the students were unable to apply the provisions of section 80HHD correctly and made mistakes in computing the amount received in foreign exchange from foreign tourists, profits of the business and total business receipts. Further, many students were not aware of the correct percentage of deduction under section 80HHD for A.Y.2004-05 i.e. 15%.

Question 3. (a) Many students were not aware of the fact that a loss from a source, the income of which is exempt cannot be set off against income from taxable source as per the decision of Madras High Court in *JCIT vs. Thyagarajan.S.S. (1981) 129 ITR 115*.

(b) Most of the students have not brought out in their answer that advance of money cannot be regarded as transfer of asset, since it is a transaction of loan which pre-supposes repayment.

Question 4. (a). Although the conclusion given by most students were correct, the reasons given by them were not satisfactory. Some of the reasons, given by the students are as follows:

- (i) Assessing Officer can re-open the assessment (The question clearly states that assessment had become barred by time);

(ii) The assessee can prefer further appeal (The question clearly states that the court order had become final since neither party had preferred appeal against it).

(b) Though the students have correctly answered that the Commissioner can issue notice under section 263, they were unable to give specific reasons. Most students have failed to explain that "record" includes all the records available at the time of examination by the commissioner though such records may not have been available at the time of regular assessment.

(c) Majority of students have correctly stated that interest is payable on refund granted to assessee after processing the return under section 143(1). But many students were unable to state the correct rate of interest i.e. $\frac{1}{2}\%$. Also, some of the students made the mistake of calculating interest on Rs.2500 instead of Rs.45000. Further, some students were not aware that the part of the month should be taken as full month for the purpose of period of interest

(d) Most of the students are unaware of the fact that the period of limitation for issue of notice for making assessment in respect of search cases is not specified in the Act. Further, many students have stated that both assessment and appeals pending on the date of search shall abate whereas as per the Act, the appeals will not abate.

Question 5. (a) Most of the students were not clear about the concept of mutual concerns. The answers were generally vague.

(b) Many students have wrongly taken expenditure incurred on scientific research for three years before the commencement of business as Rs.2 lakhs, whereas the question clearly states that it is Rs.2 lakhs annually, therefore amounting in total to Rs.6 lakhs i.e. (Rs.2 lakhs $\times$ 3 years).

(c) Most of the students were not aware of the fact that the Finance Act 2003 specifically provides for capitalisation of interest on borrowings for acquiring an asset (for extension of existing business or profession) till the asset is first put to use. They have answered on the basis of general accounting principles especially on the basis of Accounting Standard-16.

Question 6. (a) The students were unable to bring out the following points in their answers:

1. Transfer of immovable property by mere book entries is not valid. Gift of an immovable property by a firm requires registration of the document. No capital gains is attracted in the hands of the firm.
2. Immoveable property allotted to the partner at the time of dissolution of the firm does not require registration of the document. However, it attracts capital gains.

(b) Most of the students have simply stated that the redemption of preference shares amounts to "transfer" without giving proper reasons.

Question 7. (a) Many students have correctly referred to the case IPCA laboratories Ltd. However, some students could not clearly explain the reasons given by the Apex Court in arriving at the decision and hence, their answers were incomplete and not satisfactory.

(b) Majority of the students have not understood clearly the concept of Associated Enterprise, Comparable Uncontrolled Price Method and adjustment on account of difference in

transactions. Therefore, they have not been able to arrive at the correct increase in the total income of IND Ltd.

Question 8. (a) 1. Many students have not been able to distinguish between cash balance and bank balance and have wrongly stated that the bank balance recorded in the books is not an asset whereas the bank balance itself is not a asset.

2. The students are unaware of the fact that guest house is taxable irrespective of its location. They have confused it with farmhouse situated beyond 25 kms from the limits of municipality which is not taxable.

3. Most of the students were not clear that one house or a part of the house owned by an individual or HUF only is exempt under section 5(vi) and no such exemption is available in respect of any house owned by a company.

(b) Majority of students were unaware of the provisions of section 18 of the Wealth Tax Act relating to circumstances under which an assessee will be deemed to have concealed the particulars of his net wealth or furnished inaccurate particulars thereof.

PAPER – 8 : INDIRECT TAXES

General comments

Overall performance was not up to the mark. Students did not devote proper time for reading the question paper and thus wrote what was not asked for. The answers were vague, lengthy and not up to the point. It was observed that the students wrote very long answers for the initial questions and answered the last few questions in great haste. It is advised that the students should answer all questions in a balanced and planned manner. Students are advised to improve their presentation skills and follow an analytical approach while answering the questions. They should also consider the maximum marks allotted to each question while writing its answer.

Specific comments

Question 1. (a) Majority of the students did not follow this question. The significance of inputs and capital goods removed *as such* was not known to most of the students. Question clearly stated that Cenvat credit has been availed and the provisions for removal had been asked. However, the students discussed in detail about the availment of credit without referring to the provisions regarding removal of inputs and capital goods as such.

(c) This question was also not understood by most of the students. Majority of them were not clear about the SSI exemption notifications especially regarding 'determination of value' and 'clearances of excisable goods without payment of duty'.

Question 2. (a) This question was based on recent case laws. Students who had studied the same were able to answer it correctly.

(b) Only a part of the question was answered correctly. Section 5A was not fully discussed.

Question 3. (b) Students were not aware of the procedure for Export under bond to Nepal where payment is in freely convertible currency.

(c) Most of the students were not aware of the contents of the Form ER-1, 2 and 3.

Question 4. (b) Short notes on 'Duty payment under protest' and 'Refund claim' were not clear and up to the point.

Question 5. (b) Students were not aware of the provisions of section 35C.

(c) Provisions of special audit under section 14A of Central Excise Act, 1944 were asked in the question. However, students wrote about general audit.

(d) Provisions of Rule 17 of Central Excise Rules, 2002 regarding removal of goods by 100% EOU for Domestic Tariff Area were not known to majority of the students.

Question 6. (a) Students explained the terms in a general way without referring to the provisions of the Customs Act, 1962.

(b) Majority of the students were not clear about the assessment under Rule 8.

(c) Students wrote very lengthy and vague answers to this question. They did not answer in points.

(d) Most of the students did not mention about electronic filing of bill of entry.

Question 7. (a) Only one line answer was required in this question with quoting of correct section. However, students wrote very long answers based upon guess work and general idea.

(b) Provisions of section 20 regarding re-importation of goods was not known to a fairly large number of students.

(c) Valuation of goods for export does not involve Valuation Rules. However, most of the students discussed the Rules in detail.

(d) Most of the students failed to write about SEZ correctly.

Question 8. (b) Students were not conversant with the matters relating to which no appeal shall lie before the Appellate Tribunal.

(c) It was observed that most of the students did not study the provisions of penalties as very few of them were able to answer this question correctly.

(d) Manner of filing drawback claim was asked in this question but majority of the students explained about drawback provisions.