

EXAMINERS' COMMENTS ON THE PERFORMANCE OF CANDIDATES

PAPER – 1 : FINANCIAL REPORTING

Question 1.(a) Except for few candidates, majority of them could not calculate the expected return on plan assets.

(c) Most of the candidates could not provide the required answer in accordance with the provisions of the "Guidance Note on Accounting Treatment for Excise Duty".

Question 2. Some candidates could not prepare the correct consolidated balance sheet of Sun Ltd. and its subsidiaries. They erred in apportionment of profits and reserves of Light Ltd. and Moon Ltd. between pre and post acquisition periods. Mistakes were also found in calculation of unrealized profit on equipment and stock; balances of profit and loss account, fixed assets and stock appearing in the consolidated balance sheet. Some of the candidates could not give the proper treatment to cash in transit and proposed dividend.

Question 3. Some candidates wrongly prepared the Balance Sheet of C Ltd. on the basis that amalgamation was in the nature of merger. They showed revaluation reserve, general reserve and profit and loss account in the balance sheet of C Ltd. after amalgamation.

Question 4.(a) Most of the candidates could not calculate the amount of the purchase consideration correctly, mainly, due to mistake in calculating the cash payment. The statement showing fractional shares, equity shares and preference shares exchangeable in A Ltd. could not be correctly prepared by some of the candidates.

(b) Most of the candidates could not arrive at the correct amount of goodwill. Few among them did not deduct claim of ₹ 10,000 while calculating B Ltd's closing capital employed. Some candidates wrongly considered the effect of revaluation of current assets, resulting in negative goodwill, while calculating future maintainable profits.

Question 5. Many candidates erred in computation of net assets for computation of super profit, and net assets available for shareholders (including goodwill). Few candidates failed to deduct bonus claim of ₹ 1,00,000 from current year profit, while calculating average profit. Some among them added 'notional calls' with net assets to make shares of ₹ 6 as fully paid up. They failed to understand that entire disposable profit should be considered for valuation of shares and not only dividend if controlling interest is being sold. Thus most of the candidates could not determine the break-up value and market value of equity and preference shares.

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Question 6.(b) Majority of the candidates could not arrive at the correct net assets value (NAV) of a mutual fund from the information given in the question. The calculation of number of closing units was also not correctly computed by some candidates.

(c) Most of the candidates failed to determine the amount of maximum bid price for the particular executive and the maximum salary that could be offered to him.

Question 7.(a) Some candidates could not, correctly, compute the value of closing inventory and abnormal loss in accordance with provisions of AS 2 'Valuation of Inventories'.

(c) Few candidates stated that surplus amount of ₹ 6 lakhs should be recognized immediately. But they did not state about reducing annual contribution.

(d) Many candidates did not apply the weighted average annual income tax rates for calculating tax expenses for each of the quarters.

(e) Majority of candidates could not calculate the possible value of brand under potential earnings model.

PAPER - 2 : STRATEGIC FINANCIAL MANAGEMENT

Question 1. Sub-questions (a) to (c) generally were not answered well. The answers showed lack of preparations. Answers to Q. No. 1(d) were generally above average.

Question 2. Sub-question (a) required the candidates to understand alternatives and evaluate the better one. The answer were below average. The concept of sale and lease-back and the resultant cash flows were not understood by the candidates. The workings were untidy and were not well organized.

Sub-question (b) required the understanding of a loan swap to gain on interest rates. Only few candidates could attempt this question properly. Answers showed lack of understanding of the gain/ loss that could arise under a swap agreement.

Question 3. Sub-question (a) required calculation of swap ratio on acquisition of a company by another. The performance was below average. Only about 50% of the candidates could answer correctly.

Sub-question (b), many candidates could not deal with the factors of 'Utilities' given in the question in the context of rating between two projects.

Question 4. The two parts of the question (a) and (b) were generally better understood than most other questions. The answers were generally good and fetched marks for those who could answer correctly.

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Question 5. Sub-question (a) threw up an interesting point- that of negative equity value in one situation. Candidates were expected to identify this situation and then proceed on the basis that equity value could not be negative. Most candidates failed this test.

Sub-question (b) on calculation of Economic Value Added found answers to be generally above average.

Question 6. Sub-question (a) required application of Gordon's formula and Walter's formula in the context of dividend and share valuation. While application of Walter's formula was correctly done in many cases, candidates displayed innovations in applying Gordon's formula.

Sub-question (b)(i) on the functions of stock exchange performance was of average level as most of candidates discussed day-to-day activities of Stock Exchange based on their general knowledge not the subject specific.

Sub-question (b)(ii) on the techniques of economic analysis exhibited poor performance as most of the candidates could not understand the requirement of question and filled their answers with unnecessary details.

Question 7. This was a set of theoretical questions. The answers were generally characterized by weak writing skills.

PAPER – 3 : ADVANCED AUDITING AND PROFESSIONAL ETHICS

General Comments

The overall performance of the candidates has been below par. Many of the candidates did not refer to relevant Standard on Auditing (SAs) nor gave due explanation of SAs as they did not know its correct application. A few candidates have written vague and irrelevant answers. Many of the candidates answered the questions in a general manner.

Specific Comments

Question 1.(a) Many candidates were not been able to give the required answer in accordance with the provisions of SA 402 relating to an entity using a service organization.

(b) Majority of the candidates were not able to write the satisfactory answer in accordance with required SA 450. Hence the performance was very poor.

(d) Most of the candidates have written wrong answers mentioning reporting requirements, laying stress on Management Representation in place of required answer in accordance with SA 505 "External Confirmations".

Question 2.(a) Majority of the candidates have failed to point out that as per clause (12) of Part I of 1st Schedule of the Chartered Accountants Act, 1949, a practicing CA will be held

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guilty of misconduct if he allows a person not being a member in practice to sign on his behalf or on behalf of his firm, any balance sheet, profit and loss account, report or financial statements.

Question 3.(b) Some candidates wrongly referred to detailed explanation of AS 15 in place of SA 620.

Question 4.(b) Most of the candidates wrongly referred to sundry creditors/bank overdraft to be disclosed under current liabilities rather than in accordance with Part I of Schedule VI to the Companies Act, 1956.

(c) Majority of the candidates have wrongly referred to all types of controls in a computerized environment. Some of them have wrongly referred to various types of risks.

Question 5.(a) Performance of candidates, in general, has been satisfactory. They could not, however, understand the fact that mere application for rescheduling does not change the default position. Few candidates got confused with the disqualification of directors under section 274(1) (g) of the Companies Act, 1956.

(b) Almost all the candidates have treated the notice for demand of excise duty as a contingent liability, many candidates have given wrong answers stating that the matter is to be reported under CARO, 2003 and that necessary provision is required to be made or given as a foot note as Contingent Liability. Hence performance was unsatisfactory.

(c) The candidates in most of the cases have failed to point out whether the payment made to the director on foreign trip formed an allowance or reimbursement. They also failed to point out that the decision about the advance to the director will depend on the policy of the entity and the agreement signed at the time of appointment. Hence performance was poor.

Question 6.(a) Many, candidates referred to classification/provisioning requirements instead of the criteria for classification of Non- Performing Assets.

(b) Most of the candidates have wrongly mentioned general examples of Contingent Liabilities and its definition.

(c) Majority of the candidates have produced irrelevant answers mentioning a long list of the books of accounts to be maintained.

Question 7.(a) Most of the candidates confused this with Statutory Audit under Companies Act, 1956 rather than Form 3CD requirement under Tax Audit.

(b) Handful of the candidates failed to understand that volatility margin is levied on the net outstanding position of the member in each security based on margin rates. Hence performance was very poor.

(c) Some candidates wrongly referred to reporting requirements under section 227(1A) in place of Propriety Audit.

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(d) A few candidates wrongly referred to various types of Operational/Managerial functions in place of Operational Audit.

(e) Many candidates wrongly referred to the procedural aspect on vouching/verification in place of required answer for frauds through suppliers' ledger.

PAPER – 4 : CORPORATE AND ALLIED LAWS

Specific Comments

Question 1. Sub part (a) of the question was with reference to the Payment of Dividend out of the accumulated profits. Though students answered the question correctly but only a few students referred the provisions of Section 205A (3) of the Companies Act, 1956 properly.

In sub part (b) of the question, performance of students is below average. Students in their answer explained the provisions of Companies Act, 1956 relating to filling of financial statements with the Registrar of Companies instead of explaining the provisions of Section 210(3) (b) relating to violation of laying of accounts at the Annual General Meeting.

In sub part (c) of the question, students were generally not aware of the written permission required by the principal to deal with non member of the exchange under Securities Contracts (Regulation) Act, 1956.

The performance of students in sub part (d) of the question has been highly satisfactory.

Question 2. Sub part (a) of the question was based on the provisions of Sections 292 and 293 of the Companies Act, 1956 but most of the students have answered the question on the basis of section 372A of the said Act.

In sub part (b) of the question, most of the students could not explain the relevant provisions of Companies Act, 1956 related to Contributory as covered under section 428 correctly, perhaps for the reason that they were advised by the Board of Studies to study only the general provisions relating to winding up as covered in paragraph 9.4 of the study material. The question asked does not fall within these provisions as covered under the said Paragraph of the Study Material.

Question 3. Sub part (a) of the question was answered in a general manner without referring the case law.

The performance of the students in sub part (b) of the question was not upto the mark as the provisions of SEBI Act, 1992 relating to Cease and Desist order and appeal to Supreme Court was not explained properly.

Question 4. In sub part (a) of the question, most of the students were unaware of the provisions of Banking Regulation Act, 1949 relating to compensation payable on acquisition of

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Bank by the Central Government under section 36AE and 36AF. The performance of the students was below average.

Most of the students have answered correctly the sub part (b) of the question related to Donation to Recognized Political Party by a company under section 293A of the Companies Act, 1956.

Question 5. In sub part (a) of the question, most of the students were unable to explain Compoundable and Non Compoundable Offences. They have also not mentioned the authorities who can compound the offences. The performance was not satisfactory.

Most of the students have properly explained the provisions of Section 269 of the Companies Act, 1956 relating to appointment of a Managing Director as asked under sub part (b) of the question but drafting of the Board Resolution for the appointment of Mr. Intelligent as the Managing Director of Smart Limited on a salary of ₹ 5 Lakhs per month was not upto the mark.

Question 6. In sub part (a) of the question, most of the students could not explain the relevant provisions of Companies Act, 1956 relating to Compulsory Winding Up as under section 433(e) and 439(5) correctly, perhaps for the reason that they were advised by the Board of Studies to study only the general provisions relating to winding up as covered in paragraph 9.4 of the study material. The question asked does not fall within these provisions as covered under the said Paragraph of the Study Material.

Most of the students have properly explained the provisions of Section 256 of the companies Act, 1956 relating to Rotational Directors and their Retirement.

Question 7. In sub part (a) of the question related to Residential Status under section 2(v) of the Foreign Exchange Management Act, 1999, students found it difficult to answer the question correctly due to lack of information relating to the number of days of stay in India during the relevant financial year 2009-2010.

The performance of the students in sub part (b), (c) and (d) has been highly satisfactory.

Some of the students did not explain properly the provisions of SRFAESI Act, 2002 relating to cancellation of Certificate of Registration granted to a securitization and reconstruction company.