



THE INSTITUTE OF  
CHARTERED ACCOUNTANTS  
OF SRI LANKA

## **CAB I EXAMINATION – SEPTEMBER 2012**

### **Financial Accounting**

#### **Paper –A**

Performance was good except for a handful who were apparently resorted to guessing the answer. Candidates should fill up the answer in ink and not in pencil.

#### **Paper - B**

##### **Question No. 01**

The performance was satisfactory with most candidates getting over 50% of the marks. Some have got the profit on sale of motor vehicles incorrectly.

The depreciation a motor vehicles was calculated wrongly. Distribution of free supplies' had been debited to the closing stock instead of setting off against cost of sales.

Some candidates are in the habit of giving some figures in thousands while some figures in exact amounts. So that the accounts didnot show correct total balances.

##### **Question No. 02**

The candidates scored high marks as the question was easy. Many candidates had not worked the revaluation account. Bad debts and depreciation provision were not correctly calculated in some answers.

##### **Question No. 03**

The majority had not answered part B which tested theoretical knowledge.It appeared that even the candidates who answered were weak inanswering theory parts.

Adjustment (d) had not been done correctly by many.

Many have not prepared suspense account properly.

#### **Question No. 04**

Majority of the candidates scored high marks.

Part (b) which was the theory part had not been answered by many of the candidates. Also they do not understand what is meant by prime entry books

### **Business Mathematics and Statistics**

#### **Part - A**

- Answers were satisfactory. In respect of the Part A of the question paper more than 70% of the candidates have provided correct answers for the questions 2,3,7,8,9, and 20.
- In respect of questions 5,15 and 16, correct answers have been provided by less than 20% of the candidates only.

#### **Part - B**

#### **Question No. 01**

Part (a) Many candidates have not attempted this question. Some of the candidates who attempted have not selected the correct formula, (and have used the reducing balance), whilst others had made mistakes in the application of the formula.

(b) Most of the candidates who have attempted this question seemed to have understood it correctly. However, they have answered in several ways; some have calculated the annual savings and have discounted such annual savings; while some others have calculated annual costs for the new and existing systems, discounting those separately for finding the difference (savings).

(c) Most of the candidates have failed to provide the correct answer to this part of the question, and Most of the computations were incorrect.

### **Question No. 02**

Majority of the candidates had not attempted this question, may be they could not have properly understood the statement that “fixed costs follow a linear relationship with the number of passengers”.

It may also be that the candidates have no sufficient knowledge in constructing the ‘cost function’ and the ‘revenue function’. However, most of the candidates who have attempted this question have successfully made the graphical representation of the two functions.

### **Answer No. 03**

This question has been attempted by most of the candidates.

#### **Part a**

In answering the part ‘a’ of the question, it is noted that the candidates have failed to realize that the class intervals are not equal, and hence have not been able to secure full marks.

#### **Parts (b) and (c)**

In respect the parts ‘b’ and ‘c’ of the question, many candidates have secured good marks. But they seem to have not considered the note provided at the end of the part ‘b’ of question and have made mistakes in identifying the 20% of the minimum distance travelled, as required in the part ‘c’ of the question.

Therefore they have not been able to secure the full marks to these two parts of the question.

### **Question No. 04**

#### **Parts (a) and b(i)**

More than 75% of the candidates have attempted the part (a) and [b(i)] of the question No. 4, and have secured more than 60% marks.

They also have answered the part b(ii) of question No. 4 successfully. However, few candidates seem to have made mistakes in reading the normal distribution table

.

Likewise, few candidates seem to have failed to properly understand the part [b(iii)] of this question.

### **Question No. 05**

- (a) Many candidates have failed to describe the term 'power of test'.
- (b)
  - (i) Some candidates seem to have not been able to identify the proper test (i.e., whether one tailed test or two tailed test) that should be applied.
  - (ii) Some candidates have not correctly calculated the standard error of mean.
  - (iii) Due to the reasons given above [i.e., with regard to parts b(i) and b (ii) ] they have not been able to answer this part correctly.

### **Question No. 06**

#### **Part a**

Some of the candidates seem that they have not understood the question correctly. They also have been unable to calculate the mean number of iron particles in 3ml and  $\frac{1}{2}$  ml.

**Part b** Good number of candidates have correctly answered to part b(i) of the question.

However, majority had been unable to answered the part b (ii), probably due to the reason that they have found difficulty in identifying the position where  $x > 1.5$ , as the Poisson distribution concerns discrete variables.

They seem to have no proper idea about the terms such as 'more than average', and 'exactly 4' with regards to part b(iii), and have multiplied  $p(0)$  by 2.

### **Question No. 07**

- (a) Majority of candidates have provided correct answers. Only, very few could not identify the axis correctly.
- (b) Majority of candidates have drawn the line of best fit correctly. Some have forgotten to provide the ordinate at the point corresponding to 6 hrs.

- (c) Some of the candidates have made mistakes in taking down the formula from the statistical table, whilst some have failed to identify the number of variables (n). Calculation mistakes were also observed in some answer scripts.
- (d) Only a very few candidates have been able to provide the correct answer.

**Question No. 08**

Only a few candidates have selected this question.

Part (a) Out of the few who have attempted, many have made mistakes in calculation price index for the year 1980. Due to this reason they have been unable to answer the part a (ii) of the question.

Part (b) Out of the few who have attempted the question number 8 many have not answered this part. It is observed that they may have not properly understood the seasonal indices.

## Management and Business Economics

### **Section A.**

Section A which consisted of 20 Multiple Choice Questions(MCQ) carried 40%marks .Average performance of the students was 24%.Question No 4,12,14 and 15 have not been correctly answered by most of the students.

### **Section B**

Some have understood the question and their answers were excellent, subject knowledge of them was very good and planning the answer was acceptable. What was bad in answers and common difficulties faced by the students are given below part-wise of each question. Those who have done mistakes mentioned below are advised to read and understand the question before start writing answers. Attempting past-papers, review of suggested answers and the examination supervisor's comments will immensely be helpful for students to prepare for the examination in addition to the study materials being gone through carefully. Average performance of the candidates was good and the common mistakes committed by students are shown below. Section A which consisted 20% multiple choice questions carried 40% marks. Average performance was 24%. Q. nos 4,12,14& 15 were not answered correctly by most of the students.

### **Section B-Part I**

#### **Allocated Marks (AM)Average Performance (AP)**

#### **Q. no. 1 – Economic systems and decline of savings – AM-12, AP -6**

1 (a)- Allocated marks (AM)– 3, Average performance-(AP) 2

- A. A few mentioned both free economies and free enterprise economies as two economic systems. **B** Some have not understood the basis of categorization of economic systems, in that they were of the view that all developed countries have free economic systems. **C** Some students identified traditional economic system as one type of economic systems.

**1 (b) – AM-3, AP-1**

- A. A few of the students mentioned that Sri Lanka has been a socialist country and now heading towards capitalist system. **B** Some mentioned possible advantages of capitalist system which is not expected by the examiner.

**1 (c) – AM-3, AP-½**

- A. Most of the students were unable to point out that positive economics deals with statements of facts and Normative Economics deals with situations of “what ought to be”. A few students have confused the two terms in explaining them. **B** Some students were of the wrong view regarding the two economics. Traditional ways of administration can be seen in Normative Economics while the other applies new methodologies according to them.

**1 (d) – AM-3, AP-2**

- A. Some misunderstood the question and kept on writing the causes for reduction of savings.  
B. Some stated that high inflation will be a result of decline in savings. Nevertheless they have not elaborated as to how inflation rises.

**Q. no. 2- Demand & Supply equations, Income effect & substitution effect – AM 12, AP 7**

**2 (a) (i) – AM-1, AP-1**

- A. A few made calculation errors in arriving at equilibrium price or/and quantity. i.e. Some have ignored minus marks of the question. **B** Almost all the students arrived at the solution correctly.

**2 (a) (ii) – AM-1, AP-1**

- A. Only a few made mistakes. The rest prepared the schedule correctly. Basic calculations and arithmetic were not correctly attended by the few.

**2 (a) (iii) – AM-2, AP-1**

- A. Some have not drawn the curves on a graph paper. **B** Some of those who did draw the curves on a graph paper made certain mistakes. i.e. Starting point of the axes where quantity demanded and supplied were zero had not been arrived at by some correctly and accurately.

**2 (a) (iv) – AM-3, AP-1**

- A. Some have not arrived at equilibrium price and quantity after subsidy was granted. **B** This calculation is a pre-requisite in order to arrive at consumer surplus and producer surplus. **C** Some have not adjusted effect or impact of the subsidy in arriving at producers surplus.

**2 (b) – AM-3, AP-2**

- A.** Some were of the view that change in nominal income results in income effect.  
**B.** Some students have not been specific regarding the price change whether it is a reduction or increase in explaining the income effect and substitution effect. Nevertheless a few had generated the answers accurately.

**2 (c) – AM-2, AP-1**

- A.** Some were of the wrong view that economic profit is arrived at after deducting both direct and indirect loss from the total revenue which earned no marks. **B** Some stated that accounting profit is derived by deducting only direct cost from the total revenue. **C** Most of the students stated that both accounting and opportunity cost are to be deducted in order to arrive at economic profit from total revenue.

**Q. no. 3- Monetary policies & GDP – AM-12, AP-8**

**3 (a)– AM-3, AP-2**

- A.** Some just mentioned that the Central bank is to manage the fluctuations of the rupee value both internally and externally. **B** Some were unable to mention at least what the external price that is to be managed by the Central Bank, i.e. “exchange rate”

**3 (b) – AM-2, AP-1**

- A. Most of the students stated more than two monetary Policy Instruments. A few had mentioned incorrect answers like fiscal policies, taxation policies etc. B Some mentioned repurchase & reverse repurchase rates rather than “Policy Interest Rates”. C Some indicated interest rates as one instrument instead of ‘Policy Interest Rates’.

**3 (c) – AM-3, AP-2**

- A. Some of the students explained operation of one policy instruments correctly B Some have not given adequate explanations. Eg. Statutory Reserve Requirement is an amount that is to be kept by Commercial Banks before giving loans according to some students. They have ignored the fact SSR is a percentage of deposits that Commercial banks are requested to keep as cash deposit with the Central Bank. C Some have not indicated the relative importance of a particular policy instruments. Eg. SSR was widely used in the past but not at present.

**3 (d) – AM-4, AP-3**

- A. Some have just mentioned the formula “ $GDP_{mp} = GDP_{fc} + \text{Net Indirect Taxes}$ ” to explain the two terms which earned only a few marks. B Examiner expected from the students as to how GDPs are calculated. Nevertheless some have not described the components or the way of calculation of each type of GDPs. i.e. GDP factor cost and GDP market price.

**Q. No. 4- Inflation and GDP Deflator – AM-12, AP-8**

**4 (a) – AM-2, AP-2**

- A. Some have not related the definition of inflation to a time period. B Some ignored the fact that inflation relates to “general price level”. They just mentioned “Rise in price level”. C A few mentioned inflation is rise in the value of money.

**4 (b) – AM-1, AP-1/2**

- A. Some have just mentioned “Consumer Price Index” rather than “Colombo Consumer Price Index”. B A few mentioned “Laspiers Price Index” which earned no marks. C A few indicated GDP rate. D Some indicated “Colombo Consumer New Price Index”. This earned marks.

**4 (c) – AM-4, AP-3**

- A. Demand pull inflation means rise in the general price level due to increase in demand according to some students. They should have stated aggregate demand outweighs the aggregate supply in a situation of demand pull inflation. **B** Some just mentioned that increase in cost results in rise in general prices under cost push inflation without cost being elaborated.

**4 (d) – AM-2, AP-1**

- A. A few had not attempted this part of the question. **B** Some interpreted GDP deflator as a “fall of rate of GDP”. **C** According to some students real GDP became numerator in the GDP deflator formula rather denominator.

**4 (e) – AM-3, AP-1½**

- A. Most of the students did not mention the reasons for the increase in the aggregate supply. i.e. improved weather conditions, improved productivity, enhanced technology, higher investments etc. **B** Some did not specify policy measures taken by the Central Bank to implement prudent liquidity management. They should have mentioned effective implementation of monetary policy measures.

**Q. No. 5- Balance of Payments AM-12, AP-7**

**5 (a) – AM-2, AP-1½**

- A. Some were unable to define BOP properly, in that the record (BOP) was not related to a specified time period. **B** Some were of the wrong view that BOP is a situation where no shortage or excess exists. **C** Some were inclined to the view that BOP is in relation to current account and capital account without the BOP definition being presented.

**5 (b) – AM-2, AP-1½**

- A. Some forgot to mention financial A/c as a component of the BOP. **B** Some students have given a list of words like imports, exports, foreign loans, inflation which earned no marks. **C** Some wrongly held the view that GDP, GNP and gross domestic expenditure are components of Balance of Payments.

**5 (c) – AM-3, AP-1½**

- A. Most of the students stated increase in imports as one reason for the situation and decrease in the exports as the other reason. They have ignored the fact that the situation under reference has arisen due to higher rate of increase of imports compared to that of exports. **B** Some attributed the

situation to the prolonged ethnic conflict of the country without being elaborated as to how it related to the situation.

**5 (d) – AM-2, AP-1**

- A. Some have generalized the answer, in that they mentioned that one root cause was the outflow of foreign exchange without being specific which was not the expectation of the examiner. Eg: heavy demand for consumer items. **B** Some just mentioned that increase in tariff and excises duly caused the situation without being elaborated.

**5 (e) – AM-3, AP-1½**

- A. Some did not mention the main remedial measures taken i.e. Devalue the Sri Lankan rupee and thereafter allow to float. **B** Suspension of certain imports has been a remedial measure according to some students even though it was very rare occasions.

**Section B Part II**

Only one question was to be answered by the students. Most of the students have chosen question no. 6. Below mentioned common mistakes were committed by the students.

**Q. no. 6- Management Process – AM-12, AP -6**

**6 (a) – AM-3, AP-1½**

- A. Some have mentioned only planning, implementing and controlling of any task or project as “Management process”. They ignored to mention the resources used and the fact that achieving the objectives/goals is a part and parcel of the management process.

**6 (b) – AM-3, AP-1½**

- A. Some just mentioned that the statement was valid and no elaboration. **B** Some stated that direction is there in the plan so that effective control can be exercised which earned only a few marks.

**6 (c) – AM-2, AP-1**

- A. Some came out with unnecessary details in their answers. i.e. prerequisites/conditions for successful delegation have been mentioned under this part of the questions by some students.

**6 (d) – AM-4, AP-2**

- A. Some have ignored important points like correctly identification of the right tasks to be delegated, correct identification the right person etc. **B** Some mentioned points like “authority, accountability, responsibility” etc. without being briefly elaborated in relation to the question.

**Q. no. 7- Communication & Motivation –AM-12, AP-5**

**7 (a) – AM-3, AP-1½**

- A. A few managed to provide an acceptable definition of “the communication” i.e. process of sharing information, thoughts and feelings between people through speaking, writing or body language. **B** Most of the students stated that effective communication means receiving the message by the recipient as intended by the sender which earned only a few marks.

**7 (b) – AM-3, AP-1½**

- A. A few has stated correctly that effective communication creates mutual understanding environment between the manager and employees. **B** Some repeatedly stated the effective communication is a must to perform the duties of the employees. They elaborated little as to why that is important.

**7 (c) – AM-3, AP-1**

- A. Only a few mentioned the repercussions if esteem needs are not considered. Repercussions of bad/lesser performance of the employees. **B** Some have described in detail the esteem needs which earned only a few marks.

### **7 (d) – AM-3, AP-1**

- A. Most of the students have given more than two hygiene factors. **B** Some were unable to mention the fact that in the absence of provision of a fair amount of hygiene factors will lead to dissatisfaction.

### **Question No 6**

This question consisted of four parts: a, b, c and d- Part (a) had been set to determine the candidates' ability to explain the "management process" and the main stages of the process (b) part tested the knowledge on planning and its bounded relationship to control function. (c) part tested the knowledge on delegation of power and (d) part tested the knowledge on pre-requisites for successful delegation of power. Except part (b) all other parts tested candidates' remembering ability. Candidates' performance level in general was not so satisfactory especially parts (b) and (d). On the average most candidates scored 4 out of 12 marks. A very few scored marks over 8.

### **Examiners' observed the following weaknesses**

1. Instead of process of management most candidates had written functions of management.
2. Planning implementing and controlling activities had not been mentioned.
3. Any institution needs to achieve set goals/objectives. This involves use of human, financial and material resources. This fact had not been mentioned by most candidates.
4. The relationship between proper planning and effective control was well understood by most of the candidates, but they lack clear understanding to examine the functions vividly. Some had described control function only.
5. With regard to delegation of power most candidates failed to state that delegation is assignment of authority and responsibility by a manager to a subordinate and the person who delegated work will always remain accountable for the outcome of the delegated work.
6. Most candidates failed to state pre-requisites for successful delegation. Some stated one relevant point and repeated the same point in several other forms.

### **Question No. 07**

Parts (a) and (b) of the question had been set to test the knowledge of candidates on effective communication and its significance for managers to perform their jobs effectively and efficiently. Parts (c) and (d) focused on motivation (c) was on esteem needs of human beings as a motivating factor and (d) was on maintenance factors. Whole question seemed to be easy compared to question No. 06. However most of the candidates did not attempt this question. Those who attempted got marks over 6 out of 12 marks. Examiners noted the following weaknesses in certain answer scripts.

Some candidates failed to mention :

1. The hygiene or maintenance factors.
2. Maintenance factors are not really motivating factors.
3. Effective communication creates mutual understanding between managers and employees.
4. Intention of effective communication is to transmit certain content and make them understand in the way it was intended. Most candidates did not understand this concept.
5. Effective communication gives a sense of direction to the workers. Many candidates mentioned that effective communication is needed but failed to explain its importance to management.

### **Suggestions to improve**

1. Write legibly and avoid writing unnecessary lengthy answers.
2. Improve writing skills and specially grammar.
3. Attempt past question papers paying special attention to balancing the time and allocated marks.
4. Read few standard text books on Management without limiting to student's guide.
5. Read and understand the question before writing.
6. Sketch the answer in a rough sheet before writing the answer in the booklet.
7. Avoid repeating question in the answer booklet.

## **Business English I**

### **General comments**

Business English I Examination paper is of the right standard but the proficiency level of candidates was inadequate to meet the challenge.

### **Question Nos. 01 to 20 (Vocabulary)**

These 20 multiple choice questions aim at testing candidates' knowledge of vocabulary pertaining to accounting, auditing, finance and business.

Majority of candidates failed to score full marks as wrong options were selected to fill in the blanks in the sentences given. It was noted that they could not understand the meanings of the sentences and the words given as options.

The following errors were frequently made using :

- confirm for comply
- extended for extreme
- rangers for mergers

Candidates' performance was not satisfactory.

### **Question Nos. 21 to 35 (Grammar)**

These 15 questions aimed at assessing the candidates' knowledge of grammar.

Here again candidates displayed an inadequate knowledge of grammar-verb forms tenses etc.

Performance was not satisfactory. Only a very few candidates scored more than 10 out of 15 for this section.

Candidates have not mastered the use of 'be' verbs (is, are etc.) and the tenses.

**Question Nos. 36 to 40 (The dialogue)**

Most candidates could not comprehend the meaning of the following phrases.

Driving a hard bargain, the talk of the town.

Only the good candidates scored full marks for this test.

**Question Nos. 41 to 65 (The letter and memo)**

The performance is satisfactory. Candidates seemed to be aware of the format and content of business letters and memos and majority had done well.

**Question Nos. 66 to 75 (Comprehension)**

Performance was not satisfactory. Items 74 and 75 were too challenging for most candidates. Candidates' reading skills are not up to the standard.

**Question No. 76 to 85 (Pie chart)**

Most of the candidates performed well. Interpreting tabulated information seemed to be a less challenging task than reading and comprehending the passage given for comprehension.