



## **Accounting Applications and Taxation – September 2013**

### **Question No 01**

#### **General**

This question was on consolidation accounting. The examiner has tested the knowledge of concepts in the process of preparation of consolidated Statement of Comprehensive Income and important calculations such as goodwill arising on acquisition and calculating Non-controlling Interest. The performance of the students was fairly satisfactory but it is observed that the students could have earned more marks to this question if they had prepared well before the examination and sufficiently did past papers. Lack of understanding of the basic concepts and the less attention on the time management were the major reasons for the students' failure in obtaining satisfactory marks.

#### **Understanding the Question**

Only few students have understood the question fully. Majority lacked the knowledge in accounting treatment in Consolidation Accounting. Although some of the values for adjustments were correctly computed, students did not know where that particular item should be shown in the Financial Statements. Most students did correctly the inter company hire charges adjustment. In elimination of the effect of intercompany sales and purchases, students showed confusion in accounting for the sales return. However many had correctly adjusted the profit on disposal of motor vehicle.

#### **Quality of the answer**

Students should practice a method to analyse a question to understand the question. Some students do the analysis while they read the question. This will help students to properly understand the question and select the correct format to present the answer. For an example, if the question expects students to prepare a Consolidated Statement of Comprehensive Income, they need two columns for subsidiary and parent, another column for adjustments and the last column for the consolidation. Selecting the correct format will assist students to produce a clear and complete answer. This will help the marking examiner also to give allocated marks to each point without any ambiguity.

For this question about 30%-35% of students selected the correct format for the calculation and presentation. These students attempted the question well. The majority had shown consolidated figures without breakdowns or workings. As a result the examiner had to analyse consolidated figures in order to find the correctness of the incorporated figures and give marks. For example where multiple adjustments had to be made on one line item (eg.- other income), students may have done some of the adjustments correctly and others incorrectly making the final figure incorrect. If they had given the break up the examiner could give marks for the correct figures. If not the examiner would not be able to give marks and as a result the students may lose marks. Therefore the methodical arrangement of the answer is very vital.

Fair value adjustment in computing goodwill on consolidation was not understood by many of the students. 20% of the stated capital plus retained earnings had been taken for goodwill.

Only the parent's share of the impairment of goodwill was taken to Consolidated Comprehensive Income Statement. Students should learn well and familiar with the method of calculation of goodwill on consolidation.

Students had wasted time by repeating the same adjustment over and over again. For an example the cost of capital account in “T form” and schedule form. Some students drew up the statement of equity and consolidated retained earning account of the parent company though these statements are not required to be prepared.

To arrive at the NCI, most students had calculated the goodwill impairment incorrectly. Majority had taken  $130 \times 20\% = 26$  in arriving at Regent’s profit and then 20% out of that. Hence in effect the impairment portion of NCI loss accounted was 20% of 20%.

Dividend paid to minority shareholders (Rs. 400,000) was not accounted by the majority in calculating the NCI as at 31.03.2013.

### **Answer Relevant to the question**

Majority of the students have not understood the Consolidation Concepts. The theoretical knowledge with the relevant guidelines in the applicable standards should be learnt with diligence. Most students know how to do the calculation for the adjustment but do not know the accounting treatment.

### **Planning / Building the answer**

Few students had attempted the question with a plan and accordingly built up an answer. They had selected the correct format and presented the answer in an appropriate format. They could avoid double work and managed their time effectively. They had presented relevant workings to the extent the examiner could select correct figures in the final answer and give marks to the correct figures.

The practise in answering questions or doing sums is essential in order to understand the question, select the correct format or the structure of the answer, planning the answer and the workings, and presenting the answer within the allocated time. This will help students to build up skills that are required to perform satisfactorily in any examination. Therefore students are advised to do sufficient past examination papers before sitting the examination.

### **Question No. 02**

#### **Understanding the question**

The Majority had understood the question and attempted well. This question tested the students’ ability and understanding in the preparation and presentation of Financial Statements applying relevant standards and guidelines.

Lack of understanding shown in following areas.

- According to the question the carried forward balance of the Revaluation Reserve account as at 31.03.2012 was Rs. 1.1mn but most of the students have taken it as 1.5mn, the balance appearing in the 31.03.2013 Trial Balance.
- Few students were unable to recognise the correct revaluation surplus though the same was given in the question itself. As a result they presented an incorrect figure in the Comprehensive Statement of Income.
- The finance lease adjustment was done incorrectly by the majority of students. They had not correctly understood the amounts paid as interest and the lease instalments paid for the first three months. As a result the Lease creditor had been reduced only the interest paid.
- In order to eliminate the Rs. 275,000, which is counted twice, some students had added Rs.275,000 to the cost of sales instead deducting that amount from COS.

- The dividend paid to ordinary shareholders should be deducted from retained earnings in the Changes in Equity but some students had deducted this from ordinary share capital.

### **Subject knowledge of the students**

Around 50% of the students exhibited a satisfactory knowledge of the subject. Some were not familiar to the format of the Financial Statements. However a large number of students was aware of the requirements for presentation of Statutory Financial Statements and build up the answers in compliance with new requirements.

### **Position of the answer**

The quality of the answer met with a satisfactory standard. Adjustments for Finance lease, revaluation of plant and revaluation reserve, inventory and the trade receivable were not correctly done or satisfactorily attempted by some students.

Some of the students were confused relating to the statement “Payable in 48 monthly instalments of Rs.125,000 each at the end of the month” and the Trial Balance having 3 instalments when the lease was acquired on 1<sup>st</sup> February 2013.

### **Possible areas where majority made mistakes**

- Some adjustments had been done without workings. This resulted in earning marks on pro-rata basis to the correct part included in the final answer.
- Untidy workings and illegible hand writing.
- Lack of attention to details in writing down correct headings. Some students still use the word Balance Sheet. Some did not write the name of the Company. Some did not indicate the reporting date. This all result in loosing marks.

### **Question No 03**

This question had four parts, a, b, c and d.

Part (a) and (b) were on the Framework for the Preparation and Presentation of Financial Statements. Part (a) was a very simple question for which the students had to write a single sentence on general purpose financial statements. Most of the students had written a reasonable answer for this part. But it was understood that the students had difficulty in presenting the answer satisfactorily due to the lack of language skills.

Part (b) was a direct question but almost all the students got confused on the question due to the less familiarity with the matters discussed in the Framework for the Preparation and Presentation of Financial Statements. It is very essential the students to familiar with this part of the subject where important accounting principles are explained.

Question 3 (c) is also a direct question by which the knowledge of students were tested on the criteria for recognising assets and an expenses. Fair number of students had written correct answers to this question and earned the full marks allocated.

Part 3(d) was a very easy question to almost all the students. Reasonable number of students had given correct answers. Few were confused on additions and disposal of PPE due to less time allocation for understanding the question. May be because of lack of time as a result the time spent for first two questions. Students are advised to first read the full question paper and select the easiest question to answer first and others thereafter.

## **Tax Part**

### (1) **What was good in answers?**

#### (a) Understanding the question

- Q.No. 04 A good no. of candidates understood the requirement to compute the income tax liability of a non-citizen resident individual. They correctly identified the statutory, assessable and taxable income in conformity with the various provisions of the Inland Revenue Act and its amendmnets.
- Q.No.05 Almost all the candidates understood the requirements to compute the divisible profits, the tax liability of a partnership in accordance with the applicable provisions of the Inland revenue Act. Further the distribution of the divisible profits among the partners were also well understood.
- Q.No.06 Majority of the candidates understood the requirement relating to the payment of income tax under the self-assessment scheme.
- Q.No.07 Majority of the candidates understood the requirement to compute the Value Added Tax (VAT) liability of a company engaged in a business of supplying taxable and exempt supplies.

#### (b) Position (quality) of the answers

- Q.No. 04 The 25 marks question was well answered by a good no. of candidates displaying sound knowledge of the provisions of Inland Revenue Act and its amendments as applicable for the year of assessment 2012/2013.
- Q.No.05 The performance of majority of the candidates in answering the 10 marks question was excellent and displayed sound knowledge of the provisions of the Inland Revenue Act relating to the taxation of a partnership.
- Q.No.06 A majority of the candidates displayed a sound knowledge of the provisions of the Inland Revenue Act relating to the due dates for the payment of quarterly taxes under the self assessment scheme and the minimum amount of tax to be paid in order to avoid a penalty.

#### (c) Subject knowledge of the student

- Q.No. 04 Majority of the candidates demonstrated sound knowledge of the principles of computing total statutory income, assessable income, taxable income and identifying tax credit available.
- Q.No.05 Quite satisfactory. Majority of the candidates displayed sound knowledge of provisions of the IR Act applicable to taxation of partnerships. Computation of divisible profits, distribution of divisible profits among the partners were excellent.
- Q.No.06 Majority of the candidates displayed sound knowledge of the scheme of paying income tax on self-assessment basis.

(ii) **What was bad in the answers?**

(a) Understanding the question

Q.No.04 A good no. of candidates over looked the fact that Mr. Goal isa non-citizen of Sri Lanka and applied the provisions appicable to resident individuals. Hence, they did not claim the exemptions under s.13(22) in repsect of income outside Sri Lanka. Further, some candidates treated him as a non resident although he was continuously employed in Sri Lanka since 2010.

Q.No.06 A few candidates submitted answers relating to assessments and appeals indicating clearly that they either did not understand the question or did not read the question properly.

(b) Answer relevnat to the quesiton

Q.No.06 A few candidates wrote irrelevant answers.

E.g. (i) Mentioning dates of payment of tax to claim discounts.  
(ii) Mentioning quarter ended dates instead of due dates for payment of tax.

(c) Subject knowledge of the students

Q.No.04 Quite a few candidates identified the provisions relating to exempting dividend income from a company declared out of profits exempt under s.16 (c) and exemption under s.13 (22) available to non-citizen of Sri Lanka.

(2) **Common difficulties faced by students**

(a) A common shortcoming was not writing enough on producing reference notes to demonstrate to the examiner the depth of the knowledge.

(b) Though candidates have required a certain level of knoweldge and understanding of the provisons of the Inland Revenue Act, a good no. of candidates appear to be haivng difficulty in applying such provisions.

E.g. treatment of spouse's income, exemption of vehicle allowance, employment tax-free allowance, value of rent free housing provided by employers, etc.

(c) Illegible handwriting, poor communication skills and badly laid out answer will have lost makrs for many candidates.

(3) **Possible areas where majority made mistakes**

Q.No.04. (a) Inadequate knoweldge of provisions of IR Act and its amendments

E.g. (i) gain from share option scheme – good no. of candidates mentioned that it is exempt while some treated the cost as employment benefit.

- (ii) A good no. of candidates claimed concessionary tax rate of 10% in respect of the profit from buying & selling demonstrating poor knowledge of s.59B.
- (iii) Claim for tax credits – some deducted PAYE tax and self assessment tax payment in arriving at taxable income or from taxable income. This is a serious error of principle
- (iv) Generally, candidates experienced difficulty in identifying different sources of employment income.  
E.g.
  - cost of air tickets.
  - value of share option
  - housing benefit
  - vehicle allowances where monthly allowance exceeds Rs. 50,000.
  - employment tax free allowance.
- (v) Fixed asset disposal – qualifying replacement adjustment done even though there was disposal loss.

- (b) A few candidates prepared the income tax computation without identifying statutory/assessable/taxable income.
- (c) Unnecessary assumptions when the question gives the necessary information.  
E.g. Foreign travel – some candidates assumed that the travel was not for business purposes whereas the question clearly states that it is for the purpose of buying sarees.

Q.No.06

- (a) Not reading the question properly.  
E.g. The question requires to mention the due dates for the payment of income tax under the self-assessment scheme. However, some candidates mentioned quarter ending dates while a few others mentioned dates to qualify for discounts available for early payment of income tax.

## **Fundamentals of Management Accounting and Business Finance – September 2013**

### **Question No. 01**

#### **(1) What was good in answers?**

Understanding the question:	Most have understood calculations of the WACC and valuation of shares using PE ratio.
Position (quality) of the answer:	Those who have properly understood the question have positioned the answers fairly well.
Answers relevant to the question:	Most of the candidates have provided relevant answers for the calculation of WACC, computation of net assets and advantages.
Planning (building) the answer:	Some candidates have properly planned the answers.

#### **(2) What was bad in answers?**

Understanding the question:	Most of the candidates have not understood the part A - (a), part b (i) $K_d$ , part (c) (i) & (ii). Some have applied wrong basis to calculate $K_e$ . Some have calculated Net Assets correctly but failed to compute no. of shares.
Position (quality) of the answer:	Part A - (a) a ;pt pf candidates have repeated the CEO's and CFO's comments and started answering thereby wasting time. Some have given lengthy but irrelevant comments. To calculate $K_d$ some have taken bond issue price at year 4 and face value at year 0 rather than the other way round.
Answers relevant to the question:	Part (a) of A, most of the answers were irrelevant. Part (c) (ii) many have made irrelevant assumptions. E.g. no loan capital, no. non-current assets etc.
Subject knowledge of the student:	Subject knowledge of dividend growth model, cost of debt, valuation of shares using net assets basis is not up to the required level.
Planning (building) the answer:	Most of the answers were not properly planned.

#### **(3) Common difficulties faced by the students**

- (i) Calculating the  $K_e$  using Div. growth model.
- (ii) Selecting the best source to finance a project.
- (iii) Calculation of tax adjusted yield to maturity of bonds.

## **Question No. 02**

### **(1) What was good in the answer**

Understanding the question:	Most of the candidates had understood the question properly.
Position (quality) of the answer:	Fair
Answer relevant to the question:	Part (b) answers were relevant to the question.
Subject knowledge of the student:	Subject knowledge of the candidates was average. Some candidates knew the theory but could not apply it correctly in the calculations. But some candidates were not good in subject knowledge, e.g. depreciation/apportioned cost were considered as relevant cost.
Planning (building) the answer:	Fair.

### **(2) What was bad in answers?**

Understanding of the question	Part (a) of the question was not properly understood by most of the candidates. They had given the differences between financial and management accounting whereas question was to explain different cost recognition in financial accounting and for decision making.
Position (quality) of the answer:	Quality of the answers was poor, most of the candidates had done only the calculations, whereas more marks were allocated for reasons for inclusion/exclusion of cost elements as relevant or irrelevant cost for the calculation of net benefit.
Answer relevant to the question:	Most of the answers for part (a) was not relevant. Most of the candidates had written difference between financial and management accounting.
Subject knowledge of students:	Poor.
Planning (building) the answer:	This is the weak area of the candidates. Candidates had the knowledge but had failed to build the answer. Specifically explanations for relevant /irrelevant costs were not given in answer.

### **(3) Common difficulties faced by the students**

The question not properly read and understood before attempting.  
Not writing reasons for inclusion/exclusion of costs to the calculation. Candidates had done only the calculations, whereas marks were allocated for reasons.



(4) **Possible areas where majority made mistakes**

Candidates need to be trained to read the question very carefully and understand the question before start answering.

**Question No. 03**

(1) **What was good on answers?**

Understanding the question:	First part of the question was well understood by the candidates
Position (quality) of the answer:	Quality is fair.
Answer relevant to the question:	Yes.
Subject knowledge of the student:	Fair.
Planning (building) the answer:	Fair.

(2) **What was bad in answer?**

Understanding the question:	Other than 1 <sup>st</sup> part of the question (elasticity of the demand), other parts were not understood by candidates properly. Knowledge on price skimming and penetration is poor.
Position (quality) of the answer	Quality of the answers is poor. 60% of the candidates have not attempted the question and the answers submitted by those who attempted were of poor quality.
Answers relevant to the question:	Many had described price skimming for penetration policy and vice versa. Many had explained just the relationship between price and demand for price elasticity of demand.
Subject knowledge of the student:	Subject knowledge of the candidates is poor.
Planning (building) the answer:	Poor, it is apparent that candidates had started answering the question, without properly planning their answer.

(3) **Common difficulties faced by the candidates**

Question was not understood by candidates, e.g. overhead expenses are relevant for 800 units but most have taken it as relevant for 600 units.

(4) **Possible areas where majority made mistakes**

- (i) Attempting the question before properly understanding.
- (ii) Poor planning of the answer.

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

(1) **What was good in answer**

Understanding the question:	More than 70% of candidates had attempted this question. Candidates had studied the theory of this topic.
Position (quality) of the answer:	Acceptable.
Answers relevant the question:	Yes..
Subject knowledge of the student	Knowledge seems to be reasonable.
Planning (building) the answer	Fair

**What was bad in answers**

Understanding the question	Poor understanding of the question resulting in candidates giving irrelevant answers.
Position (quality) of the answer	Poor, in general due to failure in understanding the question.
Answer relevant to the question:	Answer relevant but incorrectly computed, e.g. OAR rates when required to be calculated based on DL hrs of 12,500, but actual calculation was based on production volume of 250,000 or on actual DL hrs 12,100.
Subject knowledge of the student:	Poor application of the theoretical knowledge.
Planning (building) the answer:	Fair

(3) **Common difficulties faced by the students**

Application of the high-low technique.

(4) **Possible areas where majority made mistakes**

Failure to understand (1) high and low techniques, (2) apply the cost function, computation of OAR.

#### **Question No. 05**

(1) **What was good in answers**

Understanding the question:	Most of the candidates have understood the requirements of the question. However unnecessary additional calculations were also done. For an example, part (a) asks for production budget in units for October and November only. However, most of the candidates have calculated the production budget for December 2013 as well.
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Another example could be calculating the material purchase budget in both quantity and in value as value is not required in part (b) (students have multiplied by Rs. 100 for oil and Rs. 200 for chemical A)

Position (quality) of the answer: Question involves mainly calculations (and not qualitative information) based on the requirement, most of the candidates have performed necessary calculation. All alternative methods which lead to the correct answer were awarded full marks.

Answer relevant to the question: Overall answers were provided focusing the exact requirement. However it was observed for an example, almost all candidates did not attempt doing/calculating the over absorption of factory overheads which is worth 1 mark in section (c).

Subject knowledge of the student: Majority of student's subject knowledge pertaining to the question was satisfactory. For an example correct method was used to calculate the gross profit of Rs. 7 mn was evident in most of the candidates and taking the opening/closing stocks correctly in section (a) and (b)

Planning (building) the answer: Candidates were able to plan and build the answer in a methodical way (example calculating the cost per can segregating the correct months etc.

(2) **What was bad in answers**

Understanding the question: In section (a) certain candidates have omitted the opening finished good stock for October (therefore answer being 12,400 instead of 10,400).

Position (quality) of the answer: Numerous basic mathematical errors were also observed for certain candidates (e.g. adding/subtracting closing/opening stocks), misplacing a decimal point resulting in an unrealistic answer. Few candidates were not able to give a product split in certain cost items in part (c) and part (d).

Answer relevant to the question. Few candidates did not really understand what was required under part (c) "income statement" and part (d) "cash budget" and confusing both parts and certain figures (such as sales Rs. 35 million, material purchase Rs. 25 mn) being duplicated.

Subject knowledge of the student Subject knowledge of the candidates was satisfactory to certain extent.

Planning (building) the answer: In few instances workings made by candidates (e.g. calculating cost for can in section (c)) was not properly

referred to the main answer, however marks were avoided.

(3) **Common difficulties faced by the students**

Certain no. of candidates faced difficulty in answering part (c) and (d) due to lot of time being wasted on part (a) and (b) by doing unnecessary calculations (e.g. calculations for December month)

(4) **Possible areas where majority made mistakes**

Almost all the candidates were unable to calculate the over absorption of factory overheads in section (c). In addition taking the opening stock correctly for sections (a) and (b) for October month.

**Question No. 06**

(1) **What was good in answers**

Understanding the question: Majority of candidates have understood only part (b) 'operating cost' of the question.

Position (quality) of the answer: Part (c) has been done by a reasonable number of candidates with workings.

Subject knowledge of the student: Subject knowledge regarding preparing a cost sheet with profit and loss account is good.

Planning knowledge of the student: Subject knowledge regarding preparing a cost sheet with profit and loss account is good.

Planning (building) the answer: Was of moderate level.

(2) **What was band in answers**

Understanding the question: Under part (a) majority of candidates have not understood meaning of period cost.

Answer relevant to the question: Since the question is more relevant to calculations, do not see any major deviations with regard to this.

Subject knowledge of the student: As mentioned above, majority of candidates were not aware about period cost.

(3) **Common difficulties faced by the student**

Calculating salary (+benefits) lost due to utilisation of 20 sick leaves.

(4) **Possible areas where majority made mistakes**

30 days privilege leave with full pay. Here majority of students has considered number of working days as 300 instead 270.

### **Question No. 07**

#### **(1) What was good in answers**

Understanding the question:

Many candidates understood the requirements of the question and calculated normal and abnormal losses made during August, prepared a statement of equivalent units for the month of August, calculated cost per equivalent unit under each component and prepared the normal and abnormal loss accounts.

Position (quality) of the answer:

The question was well answered. Majority of the candidates calculated the normal loss correctly. Many candidates prepared the statement of equivalent units correctly and calculated cost per equivalent unit under each component correctly, prepared normal and abnormal loss accounts correctly and were correct in their calculation of abnormal loss.

Answer relevant to the question:

Many candidates answers were relevant to the question. Many candidates calculated normal losses and abnormal losses as required by part (b) (i) and prepared a statement of equivalent units for August, calculated cost per equivalent unit under each component and prepared normal and abnormal loss accounts as required by (b) (iii) & b (iv).

Subject knowledge of the student:

Subject knowledge of majority of the students were good. About 53% of the candidates scored 60% and above of the marks allocated for the question and around 40% of the candidates scored 70% or more of the marks allocated to the question.

Planning (building) the answer:

The answer was well planned by many of the candidates.

#### **(2) What was bad in answers?**

Understanding the question:

In part b (ii), where the candidates were required to calculate the quantity of the output in August, completed out of the units introduced from process I during the same month. Many candidates had either answered incorrectly or not answered the question. However, many of them had correctly calculated the quantity started and finished as 9100 in the statement of equivalent units. As a result there is a doubt whether the candidates had correctly understood the question.

Position (quality) of the answer

In part (a), some candidates had briefly described process costing and job costing, although the part carries 3 marks. Further, many candidates hadn't made a comparison, giving a description of process costing and job costing instead. Some candidates failed to give examples as required.

Answer relevant to the question: Many candidates hadn't compared process costing and job costing with examples, describing process costing and job costing instead.

Subject knowledge of the student: A few candidates hadn't a clear idea of process costing and job costing, didn't include the process 1 output as a cost component in the statement of equivalent units, included N/L in calculating total equivalent units and failed to deduct scrap sales of normal loss from the cost of the process 1 output.

Some candidates had deducted closing stock and abnormal loss in arriving at total equivalent units for each component.

In part b(iv), the normal loss transfer from process II a/c was not valued at scrap value by some candidates. Instead they had used the total cost of the cost per equivalent unit of the four components to value normal loss. Some candidates had valued abnormal losses at Rs. 1,000 per unit and transferred the full amount to process P & L account without considering the scrap sale value of abnormal loss.

Planning (building) the answer A few candidates failed to calculate cost per equivalent unit for the four cost components and were unable to prepare the abnormal loss account as a result.

**(3) Common difficulties faced by the students**

The knowledge of a few students was not adequate. (please refer to subject knowledge of the student in what was bad in answers) Some failed to read the question carefully and answer according to the requirements, e.g. Instead of a comparison many candidates described process costing and job costing.

**(4) Possible areas where majority made mistakes**

Please refer to subject knowledge of the student in what was bad in the answers.

**Audit and Assurance – September 2013**

**Question No. 01**

Majority of the candidates have properly understood the questions in Part (b), (c) (d) (ii) and (f) and were able to produce good answers. However, a large number of candidates though correctly understood questions in Part (a), (d)(i) and (e), their answers were not satisfactory as they do not have sufficient knowledge on the subject matter.

The following are some of the common weaknesses observed.

Part (a) Some candidates (about 30%) did not properly understand this part of the question and wrote irrelevant answers such as follows.

- Opinion is expressed in an agreed upon procedure engagement.
- Report is addressed to shareholders.
- Providing definition of agreed upon procedure engagement, and reasonable assurance engagement without identifying the differences.
- Limited assurance is expressed in agreed upon procedure engagement.
- Negative opinion is provided in agreed upon procedure engagement.
- Report on factual findings was omitted by many.

Part (b) Some candidates say about 25% did not properly understand this part and instead of writing factors to be considered in determining reliability of evidence wrote about factors affecting the auditor's judgment about sufficiency of audit evidence such as audit evidence is persuasive rather than conclusive, assessment of nature and level of inherent risk, nature of accounting and internal control system, auditor's knowledge on the business, experience gained during the previous audit etc.

Also some wrote about integrity of management, last year's audit opinion, whether financial statements are prepared in accordance with generally accepted accounting frame-work etc. which were not relevant to question.

Part (c) Some candidates did not properly understand this part of the question. Instead of writing the components of assurance engagement risks wrote irrelevant matters such as components of internal controls, inherent limitations of internal controls, fraud risks, etc. displaying their lack of knowledge on the subject.

Part (d) (ii) Most of the candidates mentioned general audit procedure for verification of debtors under normal circumstances whereas the question requires to state audit procedures to address the fraud risk relating to debtors when this area is considered to be prone to fraud risks. Thus, they have not paid any attention to the analytical review aspects. Procedures such as comparison with prior period, review and comparison of key ratios or other performance indicators were omitted by many candidates.

Part (e) Some candidates concerned and concentrated on accepting a new audit rather than an existing audit. They went on to explain legal, ethical and practical matters to be considered when undertaking a new audit client including provisions in the Companies Act and communicating with the previous auditor.

Some wrote preconditions for an audit such as whether the financial reporting framework to be applied to the preparation of financial statement is accepted and agreement of the management that it acknowledge and it understands its responsibilities which are not relevant. This indicate lack of knowledge or incorrect understanding of the question.

Part (f) Some candidates did not appear to have properly understand the question and focused their attention to the full audit report. They mentioned entity's name, scope of audit, basis for opinion, management responsibility, compliance with SLAuS etc. which are not required.

Many candidates overlooked to refer to the compliance with SLAS.

### **Question No. 02**

Almost all the candidates understood what is expected by the question except in Part (f). About 20% of the candidates who understood the question have scored 16 marks or more of the 24 marks allotted to the question. The quality of the answers to part (a) (b) (i) and (c) were quite good and obtained full marks. The candidates who gave correct answers had good knowledge of the subject matter.

However, degree of subject knowledge of each part of the question varied from part (a) to (f) as stated below.

Some of the correct answers were very clear and in point form whenever necessary and showed that they have planned the answer well.

Some candidates do not possess sufficient, knowledge on the subject matter and produced irrelevant or incomplete answers.

For example for part (a), to obtain a good audit report, to reduce audit risks, to prepare for audit and its implementation, to conduct the audit efficiently and effectively etc. were cited as objectives of internalcontrols.

Part (b) A large number of candidates successfully identified the weaknesses of internal control and obtained full marks. However, they were less confident in recommending improvements to eliminate weaknesses identified. Average marks for this part were in the region of 6-7 marks.

Part (d) Some candidates mixed up Overall Audit Strategy with Audit Planning and have given benefits of audit planning. The following irrelevant answers were noted.

- Obtaining an understanding of entity,
- To determine materiality.
- To effect cost saving.
- Easy to plan audit procedures.

Most of the answers are not upto expectations.

Considerable number of candidates do not appear to have planned the answer. Part (a) of the question requires to state Part (b) (i) to identify, Part (c), (d) and (e) to list and Part (f) to state except (b) (ii) which requires for recommendations. But even for (c) (d) and (e) they went on and on describing and writing notes that were not required. They appear to have had no regard to the examiner's expectation in action verbs.



### **Question No. 03**

Part (a) and part (b) of the question were well understood by a majority of candidates

Fair fraction of candidates offered their answers logically to the point. The quality of answers were generally satisfactory in about 30%-40% of the answers,

Part (a) of the question was seemed to be badly understood by a considerable number of candidates.

Many answers were screened by unnecessary explanations. Although the question is specific on the Code of Ethics, some candidates cited provisions in the Companies Act.

Following are some of the other weaknesses/errors observed.

- The principle of Ethics which is breached in part (b) is confidentiality.
- Although threats were identified by many its impact was not properly explained. They just mentioned it is a threat to audit, threat to audit firm, threat to Mr. Jack.
- Very few could identify the threat in Part (a) as advocacy threat.
- For Part (a) quite large number of candidates assumed that Mr. Jack was an employee of Up Hill PLC.
- Some others went on to explain the steps that can be taken to mitigate the threat that may arise which was not expected.
- Since a large majority of candidates could not earn more than 3 to 4 marks it is evident that knowledge on the code of ethics was poor.
- Planning was obviously poor in that some have repeated in the answers what was given in the question.

### **Question No. 04**

Most of the candidates who attempted this question have properly understood it and produced fairly good answers, except for part (d) and (e). Majority of them (about 75%) have obtained full marks for Parts (a), (b), (c) and (f).

Quality of the answers produced by the majority of the candidates for part (d) and (e) were very poor and not relevant.

Only a few candidates were able to define what is sampling risk and to identify two factors that influence the sample size for test of controls correctly. This displayed their lack of knowledge on audit sampling.

#### **Common weaknesses observed.**

For Part (b) some candidates instead of writing audit procedures for obtaining evidence wrote factors that determine the reliability of audit evidence.

For Part (f) candidates were required to identify the auditor who should issue group audit opinion just for 1 mark. A large number of candidates have written unnecessary details without earning any mark and wasting their time.

Part (c) Almost all the candidates have attempted this part and majority of their answers were fairly good and scored full marks.

Some candidates however, did not appear to have properly read and comprehend the question as they have written audit procedures for verification of trade receivable instead of trade payables.

Also a good number of candidates found it to be difficult to list audit procedures under respective assertions. As such they could not earn full marks.

### **Question No. 05**

Majority of the candidates were able to understand the question other than part (d) of the question.

Quality of the answers for Part (a) (b) and (c) were extremely good and earned full marks.

Many candidates, however, confused part (d) with capability of the expert and given irrelevant answers.

Part (c) considerable number of candidates displayed their lack of knowledge on internal control and its practical application in a given situation.

When answering Part (a) large number of candidates failed to give all three activities of the internal audit function.

For part (c) some candidates commented on true and fair view instead of external confirmations while some others described the procedure for obtaining confirmation from debtors and creditors.

Some candidates have misunderstood the question in part (c) and given audit procedures instead of control measures.

### **Question No. 06**

A vast majority of candidates have understood the question despite the fact that many scored marks below 50% of the total 15 marks.

Question requirements namely Part (a), (b), (d) and (e) were well answered by a majority of candidates. Those who were familiar and thorough with the SLAuS tested have scored high marks.

Although most of the candidates have properly understood they could not give full answers to earn full marks. They could not give the required number of points for the answer.

Significant majority of candidates have either not attempted or badly answered for part (b) (ii). Irrelevant points were present in answers to part (b) (ii) is mainly because of non-application of relevant provisions of the SLAuS.

The following common irrelevant answers were observed.

- Obtaining external confirmations.
- Reviewing interim financial statements.
- Obtaining legal advice.
- Seeking assistance from experts.

A large number of candidates clearly did not read or understand the terms “additional audit procedures” in Part (c). Instead of additional procedures many of them referred to events or conditions that may cast doubt about the going concern assumption. The following are some of the irrelevant answers given by them.

- Significant operating losses.
- Adverse financial ratios.

- Shortages of important supplies.
- Changes in laws or regulations.
- Inability to pay creditors.
- Loss of key management etc.

As regards planning many found no problems in this question because it is straightforward and answers are readily available in the relevant SLAuS/Study Text.

### **Question No. 07**

Only about 30% of the candidates have attempted this question perhaps due to the availability of choice. Performance of those who attempted too was generally poor scoring average marks less than 7 marks out of 15 marks, although the topic tested was straight from the study text/SLAuS.

Out of four parts, many candidates have properly understood part (b) and (d) and answered satisfactorily.

Common weakness observed was inadequacy of knowledge on the relevant SLAuS. Thus, high proportion of candidates have answered using their general knowledge about the subject matter which are not consistent with the provision in the Auditing Standards.

Part (c), only a handful of candidates obtained more than 2 marks as most of them have written general points applicable for quality assurance in the nature of guessing without due regard to the provisions in SLAuS 220 – Quality Control. Even though most candidates have understood the question in part (b) many of them could not answer as provided for in the SLAuS on going concern.

Large number of candidates have not clear idea about when and how emphasis of mater paragraph is include and its effect on the report. Some suggested to modify the audit report without any attention to the fact that disclosure of the matter or not in the financial statements. This displayed their unfamiliarity with the SLAuS 570 – Going Concerns.

In most of the cases answers to part (a) and (c) are not relevant. For example for part (a) most of them have given examples for event or conditions that many cast doubt about going concern assumption.

Lack of knowledge of the subject matter, lack of clarity in answering the question and, inability to present the answers in accordance with the action verbs are the common difficulties faced by many candidates.