

Advanced Financial Reporting – June 2013

General overview

The question paper consisted of eight (08) questions. The candidates were required to answer all questions. Selected books and publications were allowed reference inside the examination hall. List of Action Verbs for Strategic Level - I & II was given to the candidates for the first time .

The eight (08) questions in the paper checked the students knowledge and ability to apply Sri Lanka Financial Reporting Standards (SLFRS and LKAS) and corporate governance. Questions covered frequently used SLFRSs and LKASs, in preparation and presentation of Financial Statements.

This paper is the only paper in the syllabus that checks the knowledge composition of the conceptual framework for the recognition, presentation and disclosure of elements of Financial Statements. This is a very vital paper in the process of becoming a Chartered Accountant.

Standard of this question paper was similar to that of the previous examinations of the CASL.-However, as a whole, the performance of the students in the examination was very poor. It appeared though the lecturers/teachers had misjudged the *pitch*- the playing field (testing ground) for examiners and candidates. They failed to visualize that this particular paper on accounting standards were to be administered in the period of transition to SLFRS. Candidates had tried too hard, like some struggling understudy, who is anxious to cram everything into one performance. Nevertheless it had worked for some candidates.

This may be due to various reasons such as lesser time devoted to reading and difficulty of understanding a bulk of recommended text books etc. , lack of proficiency in the English language, limited facilities available (opportunities for discussion as CASL does not conduct lectures) and lack of guidance in analysing, understanding and presenting the answers clearly and concisely with relevant technical words, in order to present a complete answer.

Question No. 01

Ten (10) sub questions were given under this and the candidates were required to explain the implications of given events and transactions on the Financial Statements if they were to be prepared based on LKAS and SLFRS. This is a very good question that was formulated to check the knowledge on applying LKASs and SLFRSs and to recognise, present and disclose those events and transactions in the Financial Statements.

Therefore the question was allocated 30 marks and it was the first question, almost all the students had attempted the question but spent their time without any gaining. They had to sacrifice one or two other questions because of this reason.

Answers were very poor and well below the accepted levels. The answers clearly showed that the students were not adequately prepared for this question. Only few candidates could gain 10 marks or more out of 30 marks allocated.

Fair number of students had answered well for parts (b) and (j), which checked the implications of Treasury Bills of Government of Sri Lanka and Borrowing costs.

Question No. 02

This question has two parts, (a) and (b). Each part had been allocated 5 marks.

The question (a) was on SLFRS 2, Share- Based Payments. This part of the question has given a practical case, only of two lines in length, with respect to an option offered by the management of a particular company to its employees.

Part I of the question has asked to state the” Grant Date” of the option. This question is a direct question and expected mere writing of a date, which is given in the case itself. Most of the students had given the correct answer.

Part II of the question had asked the students to explain with reasons when theCompany should start accruing employee benefit. The expected answer has two parts, exact time and reasons . Only few could give the answer to “when” and the correct explanation had not been given by almost all.

Part (b) of the question had two parts, I and II, which was based on a practical case of three lines of text. Fair number of students attempted this part of the question successfully and obtained reasonable marks.

Question No. 03

This question has two parts, (a) and (b). Each part had been allocated 5 marks. It was based on the SLFRS 24 - Related Party disclosures.

Part (a) required candidates to advice the management the disclosure requirements on the_relationship between parent and subsidiaries. Fair number of students had attempted to this part of the question and could earn some marks. However if the students referred to the Standard more carefully full markes allocated could have been obtained by producing a rich answer. The students need to be familiar with relevent Standards in order to select the correct sections for reference in an Open Book Examination.

Part (b) was on a housing benefit provided to a key management person. The case given in relation to this part of the question included details of the property given to its employee with the value of property 40 years ago, depreciation policy adoppted, the current market value of the property and its current market rental per month.

Most of the candidates had misunderstood and considered this part of the question as requiring the entries for presentation of Property, Plant and Equipment under the revaluation model, instead as a disclosure of housing benefit provided to a key management person. Few had given the correct answers and earned marks.

Question No. 04

This question has four parts, (a),(b), (c) and (d). Total marks allocated was 10. This question was based on SLFRS 23 – Borrowing Costs.

Almost all the candidates had attempted this question but only few were able to earn reasonable marks.

Those who were familiar with the relevant Standard had understood the question and could earn reasonable marks for this question. But that cannot be considered as a level of satisfactory marks for a question on a very familiar and repetedly tested Standard.

Question No. 05

This was a direct question on SLFRS 36 – Impairment of Assets. A single paragraph described the prevailing conditions affecting the business and candidates were required (a) to prepare a “suitable paper” that describes indicators of impairment and (b) to explain the hierarchy to follow in determining the impairment value.

Most of the students could not understand the format of the answer expected by the examiner. The examiner expected to check the students awareness on External and Internal indicators and their ability to relate them to a practical situation given in the case.

Few students could earn the full marks presenting the answer on two column table, one for indicators and the other for the related items in the case. Some seemed to know the answer correctly but failed to present in a logical format. Reasonable marks were awarded for those answers. Most candidates had written essay type long answers wasting their limited time without any gain.

Students need to plan the answer and use the correct format when answering questions.

The answer to the second part of the question could have been extracted from the Standard directly but only few seemed familiar with the Standard and extracted the answer from it. They could earn the full marks. Students who were not familiar with the relevant paragraphs in the Standard failed to do so and as a result they lost marks.

Students need to be familiar with Standards in order to get the maximum benefit of an Open Book examination.

Question No. 06

This question was framed on LKAS 28.

Section (a) of the question has tested the knowledge of students on determining whether a particular company is an associate company of another. A three lined case had been given to explain the scenario. Fairly a good number of students had attempted the question but few could earn full marks. Since the students were not conversant with the relevant sections of the Standard, they were unable to give the exact answer and hence lost marks.

Section (b) expected an explanation about equity method of accounting for investments in associates. Fairly a good number had attempted this part of the question but few had written a correct and a meaningful answer. Still others knew the answer but could not present it meaningfully. This may be due to the less experience in presenting answers in English. Students should enhance their skill on writing good English.

Question No. 07

Part (a) of the question tested SLFRS for SMEs. Fair number of students had attempted this question well. However the students failed to score for this question and earn a reasonable marks. The answer expected by the examiner is not a lengthy one but short and precise. However students had written lengthy and irrelevant answers. Lengthy answers consume more time, damage the preciseness and highlight language deficiencies. Therefore it is very important to write short precise answers, to earn full marks, consuming only the allocated time for the question. In order to build up this skill students need to write answers to past papers and compare their own answers with examiner’s answers.

Part (b) of the question was on SLFR 8 – Operating Segments. Fairly a good number of students had attempted this question and almost all of them earned reasonable marks.

Question No. 08

Some of the requirements of Code of Best Practice on Corporate Governance was tested in part (a) for this question. This was a direct question that had been tested in recent examinations also. Almost all the students had earned reasonable marks for this question.'

Two marks (02) were allocated to the part (b) of the question. Except for few, others could not get marks for this part. The question itself is some what tricky but the same scenario has been explained in the Study Text.

Business Strategy and Knowledge Management – June 2013

Question No. 01

Part (a)

1. It is straightaway from the study materials.
2. There are some candidates who obtained allocated marks fully for the part (a)
3. There are lot of unrelated matters discussed by the candidates by wasting allocated time without gaining single mark.
4. Some of the matters are listed below;
 - Listed the facts given in the question itself.
 - Sound cash flow of the “Dunhill Tasna”.
 - Continuous surveys carried out focusing the satisfied employees at work.
 - Continuous improvements towards process and cost efficiency.
 - Constant continuous produce improvements and innovation.
 - Consider the product development and quality.
 - Acquiring financial sick businesses that have business potential.
 - List the “SWOT Analysis” of the “Dunhill Tasor”
 - Discussed only the ‘Dunhill’s business accounting approaches given in the question itself.
 - Discussed following points also.
 - Portfolio Analysis
 - Critical Successes factors (CSFs)
 - Micro and Macro Factors
 - Vision and missions of the “Dunhill Tasno”
 - Even though the examiner expects four (4) problems relating to business acquisitions of “Dunhill Tanso” only one aspects like employee dissatisfaction, cultural mismatches, union issues and matters relating to employees are discussed in detail.
 - Matters relating to profit sharing
 - Since this is a family owned company, candidates are discussed fears an loosing of control power of the company by doing the acquisitions of more and more companies.

Part (b)

1. The examiner expects following 3 main points from the candidates as alternative approaches that were available to Dunhill for restructuring.
 - Down sizing
 - Down slopping
 - Leveraged buyout (LBO)

And two marks is allocated for each point, since no candidates have successfully discussed above three approaches, the allocated 6 marks were not earned by all the candidates.

2. Four marks have been allocated for the short term and long term outcomes, since candidates have not identified the outcomes properly, they loosed the allocated 4 marks

By describing following irrelevant points, candidates wasted their time and not earned single mark for the same.

- For a 12 marks question candidates have discussed only one point such as down sising (only the 'word') and discussed in detail diversification and integration including related diversification, unrelated diversification, vertical integration (backward and forward) and horizontal integration.
- Discussed in detail, should not centralized the power with CEO and director finance, appoint Marketing & Finance Committee, recruit a consultant for restructuring program established an internal investment and Audit Committee.
- Increased the export business from 15%
- Concern the cost reduction and cost control.
- Drawn organization structures with department and list the outcome.
 - E.g. Corporate Parenting Analysis.
 - Hybrid structure
 - "M" structure
 - Matrix structure
 - Simple structure
 - Functional organizational structure
 - Proposed organizational structure.
- Discussed Business Process Re-engineering (BPR) and Enterprises Resources Planning (ERP)
- BCG matrix discussed in detail and drawn.
- Decentralised approaches drawn a diagram and discussed.
- Discussed in detail current structure, current strategy and current system.
- Invest in latest technology.
- Learn the current business process by appointing a director finance.
- Discussed delegate approach, team approach.
- Obtained tax benefits.
- Stability strategy.
- Product development, market development, corporate penetration strategy, portfolio analysis identify critical success factors (CSF) in each Strategic Business Units (SBUs)

Question No. 02

1. Part (a) of the question was not attempted properly all most all candidates.
2. The answer relevant to the part (c) was written under part (a). Therefore the candidates loose the marks for the both parts.
3. Some candidates written the part (c) answer discussed in detail under part (a) and when answering for the part (c) just drawn a diagram only.
4. Comparison of product quality and different country styles of Toyota and Sony products.
5. Some of the irrelevant answers are listed below;
 - Multi domestic strategy & globalization strategy.
 - Lowering the international barriers.
 - Enter into the agreement with foreign countries.

- Multi national company, franchises, e-commerce, licensee, direct export strategy, international strategy, exporting, joint venture, direct investment, foreign direct investment, portfolio investment.

Question No. 03

1. Most of the candidates have not understood the parts (a), (b) & (c)
2. Some of the irrelevant answers written by the candidates under the part (a) are given below;
 - Discussed the organization structure such as Hybrid, simple “m” matrix, professional bureaucratic, professional, division form, some of the structures are drawn and explained.
 - Organization mission, goals, objective, top management physiology, social responsibility.
 - Economic factors, interest rate, inflation government monitoring policy, fiscal policy.
 - Socio cultural, environmental factors, culture, age.
3. As expected in suggestion answer, candidates could not attend part (a) of the question.
4. Although the positive and negative impact for the motivation of the employees are discussed but the candidates did not highlight the steps to build up motivation which is expected by the examiner.
5. Candidates who presented steps to create motivation have discussed only financial rewards and they did not discuss non-financial steps.
6. Instead of guidelines for incentive system for successful strategy execution most of candidates stated how to compensate top management, managers of different departments.
7. Candidates were written only to achieve growth of company 20%
8. Discussed about ROI.

Question No. 04

- (a) Majority of candidates given IT systems without considering case study. Most of them did not give reasons for it. Most of candidates given types of information systems. Some of candidates given some applications as IT system, e.g. intranet & extranet which are completely out of the answer. But some of candidates identified very correct answers in this point.
- (b) Majority of candidates well understood this part given components of knowledge based system (KBS) as per the study pack definition. Only few of candidates diagram related to the KBS. Most of candidates obtained 4 – 5 marks out of 8 marks. Most of them did not give potential users correctly.
- (c) Answers in part (c) are not in expected level. Most of candidates may not understand this part.
- (d) Due to misunderstanding about part (c) which is related to part (d), most of answers given are wrong. They did not understand the advantages of a specialized KBS.

Question No. 05

- (a) Majority of the candidates have understood this part well. It shows that their knowledge on “Expert System” is good.. Most of them given correct diagram. But explanation for “how ES can be used” is not given properly.
- (b) Only few candidates given correct answers. Most of them has not understood correctly.

Question No. 06

- (a) Majority of candidates given correct answers for this question. Some of them given their answers with diagram. .
- (b) Most of candidates very clearly given phases of knowledge, discovery process. Only few candidates given phases of academic model and / or CRISP model. Most of candidates obtained more than 10 marks out of 15.

Advanced Audit and Assurance – June 2013

Question No. 01

Almost all the candidates have attempted this questions and about 40% of them have answered fairly well and obtained 50% or more marks out of 32 marks. Those who have understood the question properly have produced good answers and obtained high marks for part (a) to (f). It is evident that they have sound knowledge on the subject matters tested.

Majority of the candidates who have attempted obtained only 30% to 40% of the total marks allotted.

One of the common deficiency noted with the answers was that many candidates have provided long descriptive answers some of which are either irrelevant or not required resulting in apparent running short of time in answering the other questions fully. Most of them displayed their lack of knowledge on first time adoption SLFRF and transition to SLFRS. Thus, the quality of the answers produced by about 60% of the candidates were not upto expected level.

Part (a) & (b)

A good number of candidates were able to identify and explain the significant matters pertaining to the reconciliation of assets and liabilities as at the date of the balance sheet but they failed to state the specific audit focus for each of the matters identified. This has resulted in earning low marks for part (b).

Some have identified the significant matters correctly and audit focus without giving reasons for them to be considered important.

Following are some of the other common errors observed;

- Some have written about the first time adoption of SLFRS in general and stated that if the company does not have expertise to obtain the services of auditors' expert.
- Some candidates have erroneously identified inventory and trade receivable as significant.
- Some candidates erroneously identified other non-current assets available for sales under SLFR 5 instead of identifying as investment under LKAS 39.
- Some others have identified cut off issues, inventory count observation, remittance of 1 million US Dollars and payroll function as significant matters.
- Some candidates have written about classification of financial assets under LKAS 39 in general and did not refer to the investments valuation in the question.
- Many candidates do not know how to carry out cut off procedures systematically. They merely state to check the invoices, GRNS, purchases sales at the year end.
- Large proportion of candidates have not planned their answers but merely written whatever comes to their mind without any sequence.
- Many candidates have given audit procedures in relation to inventory count observation without referring to third party storages. This clearly indicates that they have not read the question properly and understood what the examiner expects.

- As regards remitting USD 1 million the examiner has expected to test knowledge on consideration of laws and regulations in an audit (SLAuS 250) with reference to evaluation of possible effect on financial statements due to a non-compliance with any law or regulation.

However many candidates have not taken up this in that perspective and come up with different answers such as the following.

- Company being a BOI and is exempted from exchange control regulations.
- Covering approval can be obtained.
- Checking marketing plan and marketing agreement with foreign party.
- Obtaining management representation.

As regards part (f) dealing with the use of payroll service provider only few candidates answered this part in accordance with SLAuS 402. Using a service organization. As such most candidates failed to mention about type 1 and type 2 reports of the service auditor for the purpose of tests of controls.

Question No. 02

Almost all the candidates have attempted this question and majority of them have performed generally well on part (a) (b) and (d) of the question. They were able to confidently identify the underlying principles the scenario given. However, many of them secured only 50% or less marks since they did not address the question requirements fully, i.e. discuss, conclusion or suggested further action.

Subject knowledge of the areas tested seem to be good for many though they failed to apply it to the scenarios given, e.g. Part (a) professional skepticism, fraud and management override of controls were highlighted due to CFO's assertion regarding advances given to KMP. But the issue of RPT and principles relevant such as non-availability of evidence, scope limitation, disclosure requirement etc. were omitted.

Large number of candidates failed to keep in mind the substance of the question which require them to notify the partner in charge on;

- (a) Significance of their findings.
- (b) The conclusion reached and
- (c) Professional judgment made in reaching the conclusion. When deviated from that they invariably go out of point, e.g. many failed to identify in:
 - Part (a) reliability of internal control and existence of compensating controls.
 - Part (c) unpredictability of income and unreliability of control.
 - Part (d) difference discovered through audit procedures, and internal audit findings and therefore necessity to perform other audit procedures.

Overall quality of the answers relatively poor given the fact that they failed to provide adequate number of points for the examiner to award marks. Most answers given were based on general subject matter applicable to the scenario without giving attention to the fact that they only conveying their findings to the partner in charge.

Conclusions like modifying the report for disagreement, and competence skill and qualification of internal auditor who verified the stock are all irrelevant points.

Question No. 03

Most of the candidates have attempted this question. Overall performance is far from satisfactory in that about 60% of them have obtained only 6 marks or less out of 15 marks.

High proportion of candidates do not appear to have understood what is exactly required by the question i.e. refer to the accounting standards and regulations and to provide disclosure requirements therein.

Those who have earned 5 marks or more have mentioned what is contained in LKAS 24 related party disclosures.

Very few candidates have referred to other relevant accounting standards and regulations, such as the following;

- LKAS 19 – Employee benefits
- SLFRS – 2 share based payments
- Companies Act No. 7 of 2007

Large number of candidates described the content of Code of Best Practice on Good Governance in detail specially remuneration committee, its composition and duties etc. which are not relevant.

Hardly any candidates know about the requirement under section 168 of the Companies Act to disclose the remuneration and other benefit of the directors in the annual report.

Fair number of candidates however, have correctly mentioned the categories of compensation benefits of KMP which are required to be presented in the notes to the financial statements under para 16 of LKAS – 24.

Question No. 04

Most of the candidates who have attempted this question had generally understood the question and answered satisfactorily. However, there were many candidates who failed to mention required number of points to earn adequate marks.

Average marks earned were in the region of 7 – 12 marks.

Part (A)

A good number of candidates have understood the question and quite correctly envisaged that amount due from the related company is doubtful due to the situation of arrears in the related company. Subject knowledge of most of the candidates in this area were satisfactory. They know how to modify an audit report and the types of modification.

Following are some of the weaknesses observed with regard to understanding the question, quality of the answers, subject knowledge and relevance of answers to the question etc.

- Some answers were of low quality in that they said, Senon (Pvt.) Ltd directors do not like to give information to the auditor in general.
- Retention money receivable amounting to Rs. 1 million is not material and it may be recovered in the next financial year.
- Some lacked the knowledge require and expected at this level. They were painting about going concern issue of the company without knowing that having an accumulated loss itself is not a criterion for going concern issue.
- Some candidates did not plan the answers properly. In part (a) they discussed about integrity of directors in detail which relevant to part (b).
- Some did not know how should analyse the given scenario. They were confused with going concern issue and director's integrity as reasons for modified opinion.
- Some others discussed about different types of modification in general rather than relevant to the issues given in the question.
- Some candidates have simply said yes, but did not given reasons in support of the confusion.

- A good number of candidates failed to identify correctly the circumstances under which opinion should be qualified.

For example, with regard to the balance receivable from a related party, they said it could not be verified due to non-operation of the company and non-availability of the financial statements for two years. Which result in scope limitation leading to a qualification under scope limitation.

Some have suggested to modify the report by adding on an emphasis of matter paragraph which displayed their lack of knowledge on the relevant SLAuS.

Part (b)

Although this part requires to comments on the conduct of directors and to explain why the integrity of the directors should be considered when deciding whether to continue as auditor, some candidates failed to make any comments.

They only concerned about the integrity aspect of the directors.

Question No. 05

Most of the candidates have understood the question wise and identified the issues in relation to the Code of Ethics. Majority of them have earned more than 50% of the marks allotted. The quality of answers seems to have improved remarkably with the open book format when compared to recent past examinations

Weaker candidates tended to score badly because of their answers which lacked details. Some candidates did not answer all the issues for they have not either understood or were ignorant.

Following points were omitted by them.

- Deliberately overstating the profit in order to pressure their business.
- Directors putting their own interest before that of the company.
- Directors are not acting in a way most likely to promote the success of the company for the benefit of its members as a whole.

Some candidates though identified ethical issues and the type of threat correctly they failed to say what safeguards that could be put in place to mitigate threat so they could not earned full marks.

Some candidates have explained Code of Ethics in general but not specific to the issues in the question.

Some candidates had misunderstood the question as matters relating to acceptance of new audit client while yet others discussed about enhancement of fees arising due to acceptance of multiple assignments without identifying any threats.

**Strategic Financial Management – June 2013****Question No. 01****1. What was good in answer?****Understanding the question**

Candidates understood the question satisfactorily.

Position (quality) of the answer

All most every candidate answered part (a) well.

Answer relevant to the question

Answers to part (a) were well beyond the expectations.

Subject knowledge of the candidates

Candidates had good knowledge about the subject matter.

Planning (building) the answer

Answers were well presented

2. What was bad in answers?**Understanding the question**

- (i) The paper has 5 questions with 20 marks each. The question one, had lot of background information. As a result, most of the candidates considered this as case study and analyzed in detail taking a lot of time.
- (ii) Candidates were confused over Paragraph number 2 in page 3. It stated “cash flows after acquisition would be Rs. 37,500,000 for year 1 and 2; Rs. 41,000,000 for year 3 Rs 43,500,000

Examiner meant this as year 1 & 2 Rs. 37,500,000 each and for year 3 Rs. 41,000,000. But some students considered this as Rs 37,500,000 for year 1, Rs 41,000,000 for year 2 & Rs. 43,500,000 for year 3.

Position (quality) of the answer

Part (a) Answers were beyond the examiner’s expectation. All most every student analyzed the given information in detail and valued the company based on Intrinsic/ Economic value as well as book value. Some have considered EPS and valued based on PE as well.

Part (b) (i) Students were unable to explain the importance of company specific characteristics, in relation to a highly levered transaction. Most candidates wrote about advantages and disadvantages of such a transaction.

- (ii) Unable to explain the pros and cons associated with the issue of convertible debentures to finance the acquisition price.

Part (c) Only very few candidates calculated the share price after acquisition.

Part (d) Only very few candidates used share price arrived in part (c) to calculate share swap ratio.

Part (e) Most of the candidates considered the share price of Rs 45/- instead of Rs 42.50 to calculate post acquisition EPS.

Answer relevant to the question

Part (a) Yes. Answers were relevant to the question

Part (b) Most answers were irrelevant.

Part (c) Only very few candidates calculated the share price after acquisition.

Part (d) & (e) Most of the answers were not relevant.

Subject knowledge of the candidates

Theoretical knowledge over company valuation seems to be good.

Planning the answer

Despite the question one carrying same marks as other questions (i.e. 20 marks each for five questions), candidates have spent a lot of time analyzing the background information.

3. Common difficulties faced by the candidates

Candidates seemed to be confused because of the length of the question and length of information.

Possible areas where majority made mistakes

- (i) Unable to identify the examiner's requirements
- (ii) Unable to identify earnings after amalgamation.

Question No.02

1. What was good in answer?

Understanding the question

Except part (c) candidates understood the question reasonably well. About 99% answered this question.

Position (quality) of the answer

- Part (a) was well answered by most of the candidates.
- Except part (i), all other parts of (b), were answered well.

Answer relevant to the question

Except part (b) (i) all other answers were relevant to the question

Subject knowledge of the candidates

Good

Planning (building) the answer

Part (b) was well planned

2. What was bad in answers?

Understanding the question

Part (c) of the question was not understood by most of the candidates. Most of them wrote about the factors which affect the coupon rate of debentures rather than price of debentures.

Position (quality) of the answer

Part (a) of the question has two sections. Some answered only 1st section. Very few candidates correctly answered (i) of part (b)

Answer relevant to the question

Candidates were unable to distinguish number of debenture holders from the number of the debenture issued. Most considered pro-rata allocation of debentures as the answer. Answer to part (b) (v) included many irrelevant additional calculations

Subject knowledge of the candidates

Approximately 80% of candidates did not know how to calculate a price of a debenture. Most ignored semi annual interest payment. Part (iv) of (b)

Planning the answer

In part (a) many candidates explained in detail the effect of cutting interest rates but poorly explained the reasons to issue debentures rather than borrowing from bank. Some did not address immediate possible effects but addressed long term economical impact.

3. Common difficulties faced by the candidates

- i) Part (a) was not answered correctly.
- ii) In part (b) (i), candidates were unable to distinguish number of debenture holders from the number of debentures issued.
- iii) In part (b) (iv) large number of candidates failed to calculate a price of a debenture. Most ignored semi annual interest payment. Many failed to identify/calculate correct discounting factor.
- iv) In part (b) (vi), most were unable to calculate effective cost of borrowing that needs to be charged against income.
- v) Unable to show sufficient points for part (a) and part (c)

4. Possible areas where majority made mistakes

- i) Very few candidates were able to identify the number of debenture holders.
- ii) Some did not know the number of weeks for a year. Some assumed this as 65.
- iii) Part (a) of the question required to discuss two aspects. Some noted only one part.
- iv) Misunderstood the part (a) of the question

Question No. 03

1. What was good in answer?

Understanding the question

The question is based on the theoretical area of new financial management concepts as well as numerical ability of the students. Most of the candidates showed a fair knowledge over the area tested.

Position/ Quality of the answer

About 98% of the candidates attempted the question and earned average 10 to 12 marks out of 20. Only few candidates earned less than 5 marks.

Answer relevant to the question

Overall performances of the candidates were satisfactory. Part (b)(i) was answered well.

Subject knowledge of the candidates

Majority showed sound knowledge in calculating MVA & EVA. Some have applied various alternative methods as well.

Planning (building) the answer

Some candidates selected this question as their first question to attempt. The answers for part (a) and part (b) (i) are satisfactory.

2. What was bad in answers?

Understanding the question

Most of the candidates were not able to answer the part (b) (ii) and (iii) appropriately and showed their inadequate knowledge about the area tested.

Part (b) (ii) Intellectual Capital concept and part (iii) were not properly answered. Instead they wrote lengthy notes about MVA and financial performance.

Position/quality of the answer

Most of the students showed an average knowledge about the subject area tested and earned only 10 to 12 marks out of 20 marks.

Part (a) Value Based Management

About 50% of the candidates had a good understanding about the concept of Value Based Management and the role of the CFO in the changing world.

Part (b) (i)

Most of the candidates were able to calculate the MVA accurately.

Most of the candidates were unable to point the effect of MVA and The EVA to the share price.

Part (b) (ii)

About 50% of the candidates have not understood what Intellectual capital is.

Part (b) (iii)

Most of the candidates were unable to describe the relationship between the EVA and the performance of the employees of the organization.

In overall all most all the candidates showed a fair knowledge about the subject tested.

Answer relevant to the question

Most of the candidates did not describe Intellectual capital accurately but illustrated the concepts of MVA and the financial performance of the company. Some candidates gave lengthy information irrelevant to the question which showed their inability to build up the answer with correct data.

Subject knowledge of the candidates

Candidates subject knowledge over EVA calculation, Intellectual capital and EVA as a component of boosting employee performance of an organization seems to be inadequate. Some used wrong formulas to calculate MVA and EVA.

Planning the answer

Some candidates did not appropriately interpret the concepts in the new business world and as a result wrote lengthy notes.

Eg: part (b)(iii) –Instead of explaining the relation of EVA on boosting the employee performance, some wrote notes about EVA only.

3. Common difficulties faced by the candidates

- Some were unable to calculate the WACC correctly. They have taken book value of equity instead of market value while some have calculated in both ways.
- Inadequate knowledge on the concepts such as intellectual capital, EVA, MVA and VBM etc.

4. Possible areas where majority made mistakes

- Mistakes were made due to the inadequate knowledge.
- Some candidates made mathematical mistakes in their calculations.

Question No. 04

1. What was good in answer?

Understanding the question

Almost all candidates attempted this question. Candidates understood the question reasonably well and answered accordingly.

Position (quality) of the answer

There were some good answers for part (a) and part (b) (i)

Answer relevant to the question

Some answers were relevant to the question

Subject knowledge of the candidates

Subject knowledge is satisfactory in relation to part (b) (i)

Planning (building) the answer

Part (b) (i) was planned well

2. What was bad in answers?

Understanding the question

Except very few, majority of the candidates did not understand the part (b) (ii) of the question.

Position (quality) of the answer

Part (b) (ii) and part (c) did not answer properly

Answer relevant to the question

Majority of the answers were not relevant to the question.

Subject knowledge of the candidates

Subject knowledge is not up to the expected level.

Planning the answer

Very poor. Majority of the answers were not related to the question

3. Common difficulties faced by the candidates

- a) Many candidates seemed to have run out of time, as they attempted the question as the 4th or the 5th question in order of their answer.
- b) Candidates demonstrated their unpreparedness to this type of a question.
- c) Lack of preparation. Answer to the (c) (ii) is in study pack. But majority were unable to answer.

5. Possible areas where majority made mistakes

- a) Many did not earn the full marks in explaining the importance of Asset Allocation and Capital Rationing.
- b) Around 5% of the candidates ranked the investments using NPV, instead of PI.
- c) Many candidates misunderstood (b) (ii) part as the ways to increase the fund availability, and gave solutions such as share issues, sale of assets, bank loans etc.
- d) The candidates have not developed the objective function to maximize the NPV of the projects.
- e) At least 80% of the candidates could not earn the full marks in explaining the limitations of LP model.
- f) Many candidates mentioned that LP does not consider the time value of money, which was wrong.
- g) Some did not understand the year 2013 as year 0, for discounting purpose.

Question No. 05**1. What was good in answer?****Understanding the question**

Candidates understood the question generally well except part (d) (ii) which they did not attempt.

Position (quality) of the answer

There were some good answers for part (a) and part (b) (i)

Answer relevant to the question

Most of the candidates who understood the question gave relevant answers.

Subject knowledge of the candidates

Fairly good

Planning (building) the answer

Satisfactory

2. What was bad in answer?**Understanding the question**

The majority candidates did not understand the part (d) (ii) of the question.

Position (quality) of the answer

Not up to the standard. Mathematical mistakes were common. Candidates mixed up part (b) and part (d) (i) when answering.

Answer relevant to the question

Majority of the answers for part (a) and part (c) were not relevant to the question.

Subject knowledge of the candidates

Subject knowledge is not up to the expected level.

Planning the answer

Very poor

3. Common difficulties faced by the candidates

- d) Many candidates seemed to have run out of time as this is the last question they answered.
- e) Unawareness of financial term like “Pari-Pasu”, “negative pledge”, “hair cut”, basis point”
- f) Unable to ascertain the disposal value of the assets
- g) Did not understand the Debt to EBITDA and debt service ratio calculation
- h) Calculation of annuity factor of a semi-annual cash flows.

4. Possible areas where majority made mistakes

- a) Some candidates have given lengthy answers even though it is totally irrelevant
- b) The reference numbers to the question was not given correctly.
- c) There were serious mathematical mistakes in calculating EBIT
- d) Some candidates mixed up the part (b) and part (d) (i) when answering
- e) Very few candidates understood the fact that there is a relationship between debt service and asset disposal in part (d) (ii) even though it is mentioned in the question.