

Financial Reporting Framework – 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 to take 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 the Company 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 of the 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 need to 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. Even though others knew the answer they 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 a reasonable no. of students failed to score for this question and earn 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 adequate 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.

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Question No. 01

Understanding the questions

Part (a) and part (b) were well understood by the candidates. Many candidates had calculated the profit and ROCE and explained why the manager of CC division disagreed with the incentive scheme providing good answers to part (a). In part (b) too, candidates had understood the requirement of the question and calculated the additional number of units required to be sold in the external market for the manager of CC division to be benefited by the ROCE related incentive scheme.

Position (quality) of the answer

Candidates answers to part (a) were good, a fair number of students calculating the profit and ROCE correctly and explaining why the CC division's manager disagreed with the ROCE based incentive scheme. In part (d) (ii), a fair number of candidates had calculated the transfer price of A and ROCE correctly.

Answers relevant to the question

Many candidates' answers in part (a), (b) and (c) were relevant to the question. Some had also submitted relevant answers to parts (d) (ii) and (d) (iii). Candidates had used the optimal quantity, calculated in (d) (i) when answering (d) (ii). A fair number mentioned of having to make adjustments to remove the excess (artificial) profit when preparing accounts of the co. and that the information on overall performance of the co. would be misleading. Both being relevant issues for part d (iii) of the question.

Subject knowledge of the student

Candidates knowledge in calculating the ROCE explanation on, disadvantage to division CC from the current incentive scheme and the impact on cm division due to additional units sold to external market were good. Calculation of transfer price of A in (d) (ii) and calculation of external sales and internal transfer quantity of c when CM division sells the optimal quantity in (d) (i) and the resultant profit and ROCE were satisfactorily calculated by fair number of candidates.

Planning (building) the answer

Planning the answer was good in part (a). Planning the answer to part (c) from answers to part (b) and answer to part (d) (ii) were also satisfactory.

What was bad in the answers

Understanding the question

In part (d) (i) majority of the candidates considered the CM divisions contribution profit only, ignoring the contribution profit of CC division, when the question required S/P and quantity, that would maximize company profit.

In (d) (ii) quite a number of candidates ignored that answer to (d) (ii) has to be based on answer to (d) (i) and the use of dual rate transfer price for A. Instead had used the same quantity and transfer price used in part (a). In parts (a) and (d) (i) & (ii), quite a few candidates had ignored that VPC /unit includes purchase cost of A. In part (c) many candidates calculated the new sales quantity and profit without mentioning the impact to CM division from additional sales to external market by division CC.

Position (quality) of the answer

In part (d) (i) majority of candidates considered CM division's profit only, to calculate the company profit maximizing S/P and sales quantity of CM division, ignoring CC division's results, when evaluating the four options. Out of the few candidates who considered CC' division's results., some considered internal transfer sales in arriving at CC division's results. In (d) (ii) some candidates had taken the answer to (d) (i) as sales quantity of CM division but failed to consider the resultant change in internal transfers and external sales of CC division candidates had used the internal transfer and external sales quantities that were relevant to part (a). About half the candidates used the transfer price of A. In part (a) as the transfer price of A in part (d) as well. In part (a) some candidates had omitted the contribution from internal transfers to CM division, in arriving at the profit of CC division.

In (d) (iii) many candidates had given answers such as complicated and time consuming etc. without elaborating.

In part (b), many candidates had used contribution/unit from sales to external market instead of additional contribution/unit from selling to external market in calculating the additional sales of A required to be sold externally for the manager of the CC division to be benefited from the ROCE based incentive scheme.

Answer relevant to the question

In (d) (i) although the question requires the S/P and sales quantity of CM division which would maximize co. profits, majority of the candidates omitted CC division contribution and results when selecting the best option. In (d) (ii) although the question requires that the answer has to be based on the answer to (d) (i), some candidates ignored this requirement.

Subject knowledge of the student

When calculating the profit of CC division, quite a number of candidates omitted the contribution from internal transfers. Further, majority of candidates failed to realize that when considering the option 1 of CM division's S/P and sales quantity which would maximize the Co's profit, CC division's results have to be considered and internal transfers have to be ignored.

Common difficulties faced by the candidates

Candidates don't seem to be planning the answers adequately and failing to take into consideration all the facts relevant to the question, think adequately as well as read the question carefully and identifying the requirements of the question.

For e.g. majority of candidates failed to identify that the profit maximization option from the company's point of view also includes CC division's profit, as the options given in the question were in relation to CM division. Further, in calculating the additional sales of external sales of A required to benefit from the ROCE based incentive scheme, many candidates failed to identify that there is an impact on internal transfers from a change in external sales, thus considering the contribution/ unit from external sales to

calculate the additional external sales required instead of the additional contribution/unit from external sales. In (d) (ii) after using the answer in (d) (i) as sales quantity of CM division.

Some candidates didn't realise that CC's internal transfer and external sales would change accordingly. Candidates failure to read the question properly is evidenced by the failure of some candidates to use the answer in (d) (i) for calculating the answer in (d) (ii) and ignoring the fact that VPC/unit includes purchase cost of A.

Possible areas where majority made mistakes

When selecting the best option of S/P and sales quantity of CM division that would maximize company profits. Majority failed to consider CC division's results in arriving at the division's best option when determining the vc/unit to external market, many hadn't removed the transfer price of two units of A and take the VC of two units of A. Some made the adjustment for one unit only. Many candidates had multiplied FPC/unit with sales quantity of 20,000 instead of budgeted production capacity of 30,000 in arriving at fixed production cost.

Further, in the case of candidates who had calculated the profit of each of the four options, many candidates had different FPC for each of the four options, the FPC/unit being multiplied by the sales quantities. Candidates must remember that fixed costs wouldn't vary with the change in sales quantity, and remain the same regardless of the change in quantities given in the question.

Question No. 02

Understanding the question

Most of the candidates had attempted this question and have understood the question

Position (quality) of the answer

Satisfactory.

Answers relevant to the question

Yes.

Subject knowledge of the student

Satisfactory knowledge in marginal costing principles.

Planning (building) the answer

Well planned and properly structured.

What was bad in the answers

Understanding the question

Some candidates' understanding of the question was poor. Some had misunderstood the cost of direct material and that of the main raw material. Part (c) was misunderstood by a significant number of candidates.

Position (quality) of the answer

Answers to parts (c) and (d) were of poor quality.

Answer relevant to the question

Irrelevant answers for part (c) such as break even analysis were submitted. Part (d) answers were not related to operating leverage, candidates computed net profit ratio, profit on sale etc. due to lack of knowledge

Subject knowledge of the students

A number of candidates computed varying FC at different price levels.

Planning (building) the answer

Not much needed, however candidates had tried to use test books structure.

Common difficulties faced by the students

E.g. (i) Loss of 5% of total input incorrectly taken as a total input requirement of $1.05x$ instead of $x/0.95$
(ii) productivity reduction of 12% incorrectly considered as 12% increase in tax consumed (instead of $x/0.88$)

Possible areas where majority made mistakes

Lack of basic knowledge regarding FC behaviour in operating leverage.

Question No. 03**Understanding the question**

Most of the candidates had understood the question, i.e. linear programming using simplex methodology.

Position (quality) of the answer

Most of the candidates had answered the part (a) LP model and (b) initial tableau using simplex method. But only few had answered correctly to part (c) as required by the question. However, basic interpretation, i.e. optimum output shadow price, contribution were given correctly by most candidates.

Answer relevant to the question

Yes, by most candidates

Subject knowledge of the student

Overall subject knowledge of the students acceptable as they are sufficiently competent on the basics.

Planning (building) the answer

Planning the answer is easy as all the information is directly given and requirements are clearly stated in the question.

What was bad in the answers

Understanding the question

Few candidates had incorrectly taken only the selling price (instead of contribution) to the objective function and failed to explain term 'slack variable'.

Position (quality) of the answer

Even though few candidates had answered well to part (c) and (d) also, in general interpretation and sensitivity analysis were of poor quality.

Answers relevant to the question

Figures in final tableau was incorrectly interpreted.

Subject knowledge of student

Even though the basic interpretation of the final tableau was adequate, candidates were not sufficiently equipped or provide a full interpretation as required in parts (c) & (d).

Planning (building) the answer

Poor, due to many not attempting a full interpretations and, skipping the part (d) of the question.

Common difficulties faced by the students

- i. Failure to calculate contribution (to deduct both material and manufacturing cost)
- ii. Interpretation, e.g. effect of producing Z, availability of additional (A) & (B).
- iii. Answers for part (d) - effect identified only as contribution effect on other variables not considered..
 - Shadow price was compared with new price (not with incremental cost)

Question No. 04

Understanding the question

Majority of the candidates who attempted question had understood the question and had given proper payoff table in their answers.

Position (quality) of the answer

Fair

Answer relevant to the question

Yes.

Subject knowledge of the student

Fair. .

Planning (building) the answer

Fair

What was bad in answers

Understanding the question

Majority of the candidates had not attempted the question. Those who attempted the question were not up to the expected level of knowledge. They just draw up the payoff table, but failed to interpret the values and determine the required solutions.

Position (quality) of the answer

Overall answers were not up to the satisfactory level. Majority of the students did not interpret the values properly. Also understanding of the min/max regret rule is poor and majority had given inappropriate answers. The answers given for the perfect information were incorrect.

Subject knowledge of the student

Poor.

Planning (building) the answer

Not up to the expected level. Majority of the students did not plan properly and had not attempted a substantial part of the question.

Common difficulties faced by the student

Lack of theoretical knowledge on pay off table, and inability to draw up a pay off table interpreting all outcomes and strategies.

Possible areas where majority made mistakes

1. Min/max. regret rules
2. Calculating expected pay off
3. Calculating perfect information.

Question No. 05

Understanding the Question

Some candidates had properly understood the question.

Position (quality) of the answer

Fair.

Answer relevant to the question

Fair.

Subject knowledge of the student

Fair

Planning (building) the answer

Some of candidates had properly planned the question and answered accordingly.

What was bad in the answers

Understanding the question

Most of the candidates had not properly understood the question. More than 95% of candidates hadn't answer of the part (b) on probability of indifferences.

Position (quality) of the answer

Except for few candidates, majority of the answers were of poor quality.

Answer relevant to the question

Most of candidates had attempted to draw the diagram on their own way without fully understanding the sequences of the papers.

Subject knowledge of the student

It was appeared that most of candidates had fair knowledge of decision tree concept, but were unable to properly build up an acceptable answer (poor planning)

Common difficulty faced by the students

- Some of the candidates had failed to draw up a complete tree diagram incorporating all the possibilities.
- Part (b) of the question had not fully understood.
- Majority of candidates had not evaluated the paths.

Question No. 06

(a) Four categories under which environmental costs are classified

What was good in the answers?

Understanding, quality, subject knowledge and relevancy

This is the first time environmental costing was tested. Found good answers covering following points and showing their awareness and sound knowledge about new concepts

With regard to part 'a' examiner expects that the student's answer will cover three areas, such as,

- List of four categories – environmental prevention cost, environmental appraisal cost, internal failure cost and external failure costs
- Summarized description of each category
- Example for each

What was bad in the answers?

Poor subject knowledge;

Some had provided totally irrelevant answer.
They had discussed,

Material cost, labour cost direct/ indirect cost, Fixed/ incremental costs, primary overhead and production overhead as categories of environmental costs.

These are the elements of cost in general but here examiner has tested **environmental cost** in particular. Hence the answer should **specifically cover** the points relating to the environmental cost. These answers indicate poor subject knowledge on environmental cost.

Some has given wrong examples for environmental prevention approved internal failure and external failure cost.

Poor understanding

Discuss about business environment

Even though, the question does not carry the word ‘business’, some had given elements of business environment such as internal/ external (political, economic, social and technology) as categories of environmental cost and without discussing how cost being generated through PEST. This indicates that they are not aware of environmental costing or simply misunderstood the question for a business environmental question.

Irrelevant answers

Some had described how environment can be polluted giving examples on air, soil, water and sound pollution. However had not explained how costs are generated through these activities therefor failed to score marks.

Found in some answer scripts discussing benchmark, life cycle model with graphs, target costing, Activity Based Costing etc. These bear little or no relationship with the subject area that has been tested.

(b) Life Cycle Costing (LCC)

What was good in the answers?

Understanding, quality, subject knowledge and relevancy

To score full allocated marks the answer should cover pre manufacturing and post manufacturing costs with examples

Weakness in traditional costing method i.e. it considers only manufacturing cost

Some students had presented these points with graphs and examples and scored full marks

What was bad in the answers?

Poor subject knowledge;

Some had suggested LCC considers cost incurred only from production to after sales services. Ignoring the beginning the research designed and development stage and cost incurred at the product abandonment stage

Poor understanding

In the action verbs definitions given with the paper, the word 'explain' has been defined as the reason for or call of. Many students had ignored to provide reason for Life Cycle Costing. The reason is traditional costing ignores certain committed cost such as R & D, Product Design and product abandonment costs in computing product costing and as a result price could be under estimated if pre and post manufacturing cost are significantly high.

Many had failed to mention that cost elements is LCC is includes pre and post manufacturing costs

Irrelevant answers

Some had lengthy discussion on life cycle model including sales/ contribution behavior which is not tested here. Those who mentioned cost elements specific to a particular stage were awarded some marks even though it was clear that they discussed cost in general and not the LCC in particular.

(c) (i) Computation of units cost

What was good in the answers?

Understanding, quality, subject knowledge and relevancy

This is straightforward question. testing student's application knowledge of life cycle costing, activity based costing and ability to identify relevant cost. The few had scored full marks allotted to the part. Their answers covered all tested points and had presented answer fairly well.

Fair number of candidates had correctly computed allocated cost per unit of cost driver

What was bad in the answers?

Poor subject knowledge/ irrelevant/ poor understanding;

Products designing overhead and machine (depreciation) costs are affected over the life cycle. Therefore it should be spread over 5000 units. Many had not recognized this principle. Accordingly, many had assigned entire designing cost to 250 units (budgeted quantity for given six month period) Some had taken total design cost without taking the amount relevant to design of NP.

In arriving depreciation cost per a unit, some had divided incorrectly arrived at it by six months depreciation cost by 250 units.

Some had not considered depreciation as a cost at all. For those who recognized depreciation cost even with wrong computation some marks were awarded for identifying as depreciation relevant cost

Some students had divided overheads into variable and fixed. This is unnecessary and also question has not given enough information to do such classification

Some had done meaningless computations such as,

$$\frac{\text{Total design hours of company (4000)}}{\text{Hrs. used to design NP (200)}} = 20$$

And total company design cost had been divided by above answer (6mn/20) to arrive design cost of NP

Poor understanding

Some had not understood that the given cost drivers and overheads are for the entire company and not only for NP e.g., they had totaled all given costs and had divided by 5000 units.

Some had presented overheads under given headings on yearly basis up to four years. They had misunderstood the question as a project appraisal question.

(c).(ii) Computation of target cost

What was good in the answer?

Understanding, quality, subject knowledge and relevancy

Simple straight forward question; some had applied the profit percentage into selling price correctly and had arrived at the correct answer.

What was bad in the answers?

Poor subject knowledge/ irrelevant/ poor understanding

When the question clearly says given margin is based on cost (25% on cost) some had computed the full cost based on selling price

Some had computed 25% on overhead unit cost arrived at earlier stage and had deducted that incorrect margin from selling price in arriving at target cost.

Common difficulties faced by the student

Poor theoretical knowledge with regard to new techniques, new concepts E.g. Considerable number of candidates had not attempted to answer part 'a' since they are lack in knowledge about environmental costing

Lack in identifying concept going to be tested E.g. Question was on life cycle costing, some had answered life cycle model. Life cycle costing has been derived from life cycle model but here the examiner tested on life cycle costing. Candidates must understand difference between those two correctly

Lack of application

E.g. Students know the life cycle costing. when applying real scenario they face difficulties. E.g. in part C.i – Design cost, depreciation are for whole life cycle but many had omitted that fact forgetting what students learned at earlier stages

E.g. Students should have learnt about computing cost when selling price and margin on cost (%) were given in their mathematical studies.

Strategic Management Process – June 2013

The common mistakes and loopholes committed by the students and their average performance according to the parts of the each question are given below.

Question No. 01

(a) **SWOT Analysis**

Allocated Marks -8, Average Performance 5

- A. Some have identified SWOTs from the given case correctly. Reputation, established brand, market leader as strengths and growing trends in use of mobile phones in rural areas and trend in using more than one connection from different mobile operators, as opportunities.
- B. Some stated that lack of competition as a strength which earned no marks.
- C. Remotely related weaknesses and reasons for weaknesses were identified by some students.
Eg: - No clear job description was provided to Managers, No proper plan to recruit Managers etc.
- D. Some students came up with SWOT without the definition of SWOT being understood correctly. Eg:- De-motivated employees, issues in the Organizational Structures as threats. Market Leadership of the M/s Dialup as an opportunity.

(b) **Bargaining Power of Customers**

Allocated Marks -8, Average Performance 4

- A. Some correctly stated that due to following factors bargaining power of the customers was high.
 - A-1 Competition among rivals
 - A-2 Low Switching Cost to customers
 - A-3 Substitute products at low cost
 - A-4 Regulator monitors prices etc.
- B. Some incorrectly argued that switching cost to customer is very high and therefore bargaining power of the customer is low.
- C. Some stated variables like switching cost, substitutes, quality of services without being explained.

(c) (i) **Existing Organizational Structure**

Allocated Marks -2, Average Performance 1

- A. De-motivated staff, duplication of roles/jobs, employee turnover were some of the justifications for the suggested re-structure, according to some students who earned full marks.
- B. Some justified the decision citing that there are old Managers in the Company who can't cope up with the new trends which is not the main reasons the examiner expected.
- C. Some students have drawn up inappropriate Organizational Structures to justify the proposal which earned no marks.

(c) (ii) **Explaining the Suggestion**

Allocated Marks -4, Average Performance 2

- A. Some correctly identified the need to design an Organizational Structure into a flatter one. In that, Managers/workers are to be empowered, rapid incorporation of Internet technology applications etc.
- B. Some suggested to outsource the "Calling Centre Service" and to remove it from the Organization Structure.
- C. Some were inclined to the view that top Management should be given equal power without sufficient explanations as to which type of equal authority is suggested to top Managers.

(d) – **Objectives of the proposed Strategy**

Allocated Marks -8, Average Performance 4

- A. Some correctly concluded the following as main objectives of the re-structuring strategy.
 - A-1 To address the customer complaints
 - A-2 To eliminate complicated Management Structure
 - A-3 To obtain synergy effect from diversified business
 - A-4 To identify non-value adding functions etc.
- B. Some stated that efficiency, effectiveness, profitability etc. as objectives without any elaboration being provided.
- C. Some stated irrelevant answers like re-structuring programme should be economical etc.

Question No. 02

(a) – **Attributes of Organizational Vision**

Allocated Marks -4, Average Performance 3

- A. Vision is purpose-driven, Futuristic, Inspiring, Motivating and Audacious according to some students who managed to earn full marks.
- B. Some were of the view that vision of a Company will never change.
- C. Some just listed out certain words like "clear, precise, practical, achievable etc" without being connected to the attributes of the Vision.

(b) – **Conflicts/trade-offs among objectives**

Allocated Marks -8, Average Performance 4

- A. Most of the students cited correct examples of conflicting objectives.
Eg:- A Company's objective of achieving high profits and profit growth might have adverse consequences on the cash flow of the business or the quality of the services/products. Nevertheless they have not provided acceptable steps to deal with conflicts.
- B. Some incorrectly understood the steps to deal with conflicts, in that, they stated conflicting objectives are to be evaluated in terms of its strengths, weaknesses, opportunities and threats.
- C. Some have not indicated important steps like, rational evaluation of objectives, bargaining, satisficing and priority setting.

- (c) (i) – **Technological change on an Organization**
Allocated Marks -6, Average Performance 3
- A. Some students came out that technological change has impact on the type of products and services, means and extent of communications, the ways in which production/services are made/provided etc. which earned full marks allocated.
- B. Some have repeated the same point in several ways.
 Eg:- 1. The way in which products are made
 2. Change from manual system to automation
- C. Some stated the cost can be drastically dropped with the introduction of advanced technology, without being elaborated briefly.
- (ii) – **Technological change on work practices**
Allocated Marks -2, Average Performance-1
- A. Some correctly stated that technological change impact on the place of work, i.e. home working is gaining ground and mobilization of employees from “Production” to “Services”.
- B. Some commented impact of technological change on cost, profit, cash flow and customer base rather than the impact on work practices.
- (d) (i) – **Key Success Factors (KSF)**
Allocated Marks -4, Average Performance-2
- A. Some correctly mentioned that Critical Success Factors (CSF) are those product features that are particularly valued by a group of customers.
- B. CSF are factors that lead to success of an Organization according to some students which is not adequate enough to earn marks.
- C. Some have provided inadequate description of CSF to earn adequate marks.
 Eg:- They have not mentioned the fact that CSF are to be used by an Organization to outperform competition.
- (ii) – **KSF for a Supermarket**
Allocated Marks -6, Average Performance-3
- A. Some students have provided correctly CSF as given below who managed to earn full marks.
 A-1 Easy accessible location
 A-2 Store size according to customer base
 A-3 Availability of wide range of items
 A-4 Reliable IT infrastructure
 A-5 Customer convenient –hours of business etc.
- B. Some provided answers like provision of discounts, credit facilities etc. which are common to other businesses as well.
- C. Efficiency, Effectiveness etc. are CSF for a supermarket operation according to some students who earned no marks.

Question No.03

- (a) (i) – **Advantages to a First Mover**
Allocated Marks -6, Average Performance-3
- A. Some have correctly mentioned the advantages for a firm that is a First Mover, especially the advantages out of large scale production.
- B. Some have not earned full marks due to the fact that remotely related points being mentioned Eg:- the First Mover can attract customers by reducing the price.
- C. Some mentioned the First Mover has no substitutes and competitors without the advantages being explained.

- (ii) – **Disadvantage to a First Mover**
Allocated Marks -4, Average Performance-2
- A. Some very correctly stated that First Mover has to bear high risk of launching a new and largely unknown market, risk of market developing cost etc.
 - B. Some just stated that the First Mover has to bear the risk sans the risks being elaborated briefly.
 - C. Some deduced common disadvantages
 Eg:- Environmental changes will affect the “First Mover” for which no marks were given.
- (b) (i) – **Red Ocean Strategy & Blue Ocean Strategy**
Allocated Marks -2, Average Performance- 1 ½
- A. Most of the students correctly mentioned that Red Oceans are industries that are in existence today while Blue Ocean Strategy refers to the creation by a Company of a new uncontested market.
 - B. Some adduced that Red Oceans are trying to expand existing market which earned no marks.
 - C. Red Ocean Strategies are feasibility studies according to some students.
- (b) (ii) – **Distinguishing the two approaches**
Average Marks -8, Average Performance-6
- A. Some correctly indicated that Red Ocean Strategy focuses on existing consumers and existing demand whilst Blue Ocean Strategy focuses on non-customers and creation on new demand.
 - B. Some incorrectly mentioned Blue Ocean Strategy is long term and the Red Ocean Strategy is short term.
 - C. Red Ocean Strategy involves top level Management and Blue Ocean Strategy involves all levels of Management, according to some students.

Question No. 04

- (a) – **Organizational Policies**
Allocated Marks -4, Average Performance-2
- A. Policies set boundaries, constraints and limits on the kinds of administrative actions and guide the implementation instead of disrupting, according to some students who managed to earn full marks.
 - B. Some have cited various types of policies
 Eg:- Transfer price should not be more than 12% of the cost, Sales Dept. is to give only 5% discount , which earned no marks.
 - C. Some just mentioned that without policies, strategies cannot be implemented sans being elaborated.
- (b) **Strategic Business Unit (SBU)**
Allocated Marks -4, Average Performance-3
- A. Most of the students gave acceptable definitions regarding SBU.
 Eg:- SBU is a Profit Centre that focuses on product offering and market segment that is different from another SBU.
 - B. Some just mentioned that SUB is a Profit Centre without the features of SBU being elaborated briefly.
 - C. Some were of the wrong view that big Organizations having different products/services have separate SBUs.

(c) – **Business Process Re-engineering**

Allocated Marks -2, Average Performance-1½

- A. Some have correctly mentioned that Business Process Re-engineering (BPR) involves fundamental rethinking and radical re-designing of a business process which create value for the customer by eliminating barriers that create distance between employees and customers.
- B. Some gave description of BPR partly, in that, they forgot to mention that processes which do not create value for customers are eliminated in the BPR.
- C. Some just described BPR as continuous adoption of modern technology.

Question No. 05

Implementing Steps of BSC

Allocated Marks -12, Average Performance-4

- A. Only a few students stated the actions/ steps that are necessary to implement successfully the BSC.
E.g.:- Setting up a Steering Committee with all cross-functional managers, re-visiting present Vision, Mission & Strategy, identification of KPAs and KPIs etc.
- B. Most of the students described the 4 perspectives of the BSC in detail wasting their valuable time.
- C. Some were unable to indicate very important steps like comparison with KPAs/KPIs as agreed and introducing and implementing new reward system.
- D. A few displayed lack of knowledge over BSC.

**Advanced Taxation and Strategic Tax Planning – June 2013****(1) What was good in answers?**Understanding the question

- Q.No.02 Majority of the candidates understood the requirement to compute the income tax liability of an individual.
- Q.No.03 Majority of the candidates understood the requirement to compute the income tax liability of a charitable institution and the meaning of “charitable purpose.”
- Q.No.04 Majority of the candidates understood the requirement to compute the VAT liability of a company.
- Q.No.05 Majority of the candidates understood the requirement to give reasoning and cite case law to support judgment/conclusive based on facts and statements given.

Position (quality) of the answer

- Q.No.01 (a) Majority of the candidates has computed total statutory/assessable/taxable income in the correct sequence. The methodical approach adopted by a majority of candidates when computing deemed dividend tax was encouraging.
- Q.No.02,03 Computation of income tax liability of an individual and a charitable institution were well answered by a majority of the candidates displaying sound knowledge of the concepts of statutory, assessable and taxable income.
- Q.No.04 Majority of the candidates adopted methodical approach in computing value added tax liability.

Answers relevant to the question

Almost all answers were to the questions.

Subject knowledge of the candidates

- Q.No.01 (a) Majority of candidates displayed sound knowledge of computing statutory/assessable/taxable income and tax liability of a company.
- Q.No.02 Majority of candidates displayed sound knowledge of identifying various sources of income, claiming allowable expenses and reliefs under S.32 & S.34 and computing statutory/assessable/taxable income of a resident individual.

- Q.No.03 A good majority of candidates had a sound knowledge in identifying relief available, exempt/taxable items and tax rate of a charitable institution.
- Q.No.04 A good number of candidates well understood the computation of the VAT liability of the company.
- Q.No.05 Majority of the candidates understood the requirement to identify the relevant case law and to give their own judgments.

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

Understanding the question

- Q.No.01 Considerable number of candidates failed to identify and compute the taxable income of each segment (agriculture, seed and tourism) separately for the purpose of taxing at concessionary rates.

Position (quality) of the answers

- Q.No.01(a) (i) Majority of the candidates were confused in approach computed cumulative as well as single statement for certain segment while some candidates give a single computation for the entire company.

Very few candidates demonstrated sound knowledge of Inland Revenue Act provisions.

- (ii) Capital allowances claimed were not supported by workings showing the cost and rate of depreciation allowance.
- (b) Book depreciation on additions to fixed assets during the year was not supported by working when computing distributable profits.

- Q.No.05 Majority of the candidates simply mentioned a few principles of taxation (e.g. expense incurred in the production of income), mentioned the relevant case law and gave the judgment (e.g. assessor is correct/wrong, allowable/disallowable) Candidates should identify the relevant case, mention the circumstances to the given facts, mention judicial reason and finally give the judgment.

Answer relevant to question

- Q.No.01(a)(ii) The question requires computation of deemed dividend tax (DDT) based on 2012/13 information. However, some candidates either computed DDT for Y/A 2013/14 and mentioned that information was not available to compute DDT for Y/A 2012/13.
- (b) Majority recognized the further investment of Rs. 50 million as expansion merely because the question used the term “expand” without considering the provisions of S.16c.

Subject knowledge of the question

- Q.No.01(a)(i) A good number of candidates lacked knowledge in computing adjusted profits for different sectors enjoying exemptions concessional rates of tax.
- Q.No.06 Only a very few candidates scored marks. A good number of candidates did not attempt the question. This could be due to lack of knowledge of provisions of double tax agreements.

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

Majority of candidates experienced difficulty in answering questions in areas of tax administration, case law and theory. Illegible handwriting poor communication skills not writing enough will have lost marks for many candidates. Besides, failure to devote sufficient study time to these subject areas could have been the reason for a considerable number of candidates not attempting these questions, e.g. Q.No.06 more than 90% of the answers were extremely poor.

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

- (a) Improper reading understanding of the questions. Candidates should endeavor to understand the question properly before answering. This can save valuable exam time.
- (b) Handwriting and communication skill should be improved.
- (c) Law relating to taxation is subject to frequent amendments. Candidates should keep themselves updated.
- (d) Read carefully all the statements and facts given in a question. These are intended to test candidates' knowledge and carry marks. Candidates should demonstrate their knowledge by writing in the body of the answer or by way of a note. The examiner cannot award marks if the candidate's knowledge is not evident in the answer script.

**Commercial Law and Corporate Law – June 2013****(1) What is good in answers**

Q.No. 01 (a) Majority had correctly understood that an exemption clause is included in the receipt i.e. Also a further good number of candidates are familiar with the following areas.

1. Such exemption clauses are introduced by one party to a contract with the intention of trying to escape or include itself from one or more of its liabilities arise under the contract.
2. Generally the exemption clauses are deemed to be communicated to the other party and it is bound by them whether or not it has been read by them.
3. The law allows to a party to the contract to introduces such exemption clauses subject to certain conditions and so on.

(b) Candidates know what domestic and social contracts and how they are different from normally legally binding contracts.

Also they have realized that the intention not to create legal relationship in domestic/social contract is only a presumption and that as like all other presumptions it may be rebuilt by the actual facts and circumstances of a particular case. Two relevant legal cases i.e. “Balfour vs. Balfour” and “Merit vs. Merit” also had been correctly quoted by the majority.

Q.No.02 Large number of candidates has some reasonable knowledge on duties and responsibilities of a partner towards his fellow partners and the partnerships itself.

Q.No.03 (a) Higher percentage of candidates had correctly identified that before any one obtain an insurance policy he/she must prove that he/she has insurable interest in the subject matter of insurance and what is insurable interest is i.e. the insured will benefit from the preservation of the subject matter insured or be adversely affected by its loss. Also they were capable of identifying that one spouse has an insurable interest on the life of other spouse.

(b) Fair percentage of candidates is familiar with the term “Uberimae fidei” in insurance

Q.No.04 Very high percentage of candidates are familiar with main features of a “agency by ratification” and a minor percentage knows the implied warranties in sale of goods contracts as laid down in sale of goods ordinance.

Q.No.05 (a) Almost over 75% of the candidates have failed to answer the question as has been explained under section 219 of the Act regarding the steps that should be followed by a director of the company in a situation like this.

- (b) Secretary's position and company's liability on contracts entered into by the secretary on behalf of the company had been explained in keeping with the facts of land mark judgment given in "Panaroma Development (Guildford)
- Q.No.06 (a) Fair percentage of candidates are aware that a special resolution should be passed to amend the Articles of Association of a company and the company should give notice of such resolution to Registrar of Companies within 10 working days.
- (b) Large number of candidates know that a public notice should be given within 30 working days of incorporation of a company and handful of candidates know that it should be published at least in one issue of the government concepts and is at least in one issue of daily newspapers in Sinhala, Tamil & English and what are the contents that should be included in the notice.
- Q.No.07 (a) Only a very few candidates have understood the part (a) of the question in its real sense. Examiner is expecting from candidates to explain winding up procedure laid down under section 319, 320 and 342,
- (b) A high percentage of candidates know the powers of a liquidator in a winding up of a company by the courts with the sanction either of the courts or by the Committee of inspection. Although section 292 of the Companies Act has laid down about 14 different types of powers, candidates had been requested to state only five (5) such powers.
- Q.No.08 (a) Only a handful of candidates had understood the question as expected by the examiner, and had explained the procedure laid down under section 160 and 161 of the Company Act in changing of an existing auditor of a company.
- (b) Here again only a few had correctly understood the question and had explained some relevant points on "good corporate Governance and its importance for a company"
- Q.No.09 (a) Candidates were unable to understand the question as expected by the examiner.
- (b) A minor percentage had understood the question correctly and explained the duty of receiver in selling the company property but failed to explain the duty in relation to company money.
- Q.No.10 (a) Higher percentage of the candidates had understood the question and realized that they were expected to explain the method that should be followed in reduction of stated capital as laid down in the Act (section 59)
- (b) This part of the question too had been understood by the majority and correctly realized that the examiner had expected them to explain the provisions contain in Companies Act with regard to the manner in which a company can give financial assistance for purchase of its own shares.

(2) **Position (quality) of the answers**

Only very few candidates had furnished their answers with some acceptable quality and the quality answers produced for different questions varies from candidate to candidate. Few examples are furnished below.

- Q.No.01 (a) Some candidates had correctly explained exemption clause included by chair company to hiring of chairs with the purpose of trying to escape or excluded from one or more liabilities arising from hiring the chairs. Also they had explained that those clauses are subjective on some conditions.
- (b) There were answers explaining difference between domestic contracts and trading contracts and parties between who a domestic contract/social contract is entered into and so on. Also they had quoted both relevant case laws i.e. Balfour vs. Balfour (domestic contract) and Meritt vs. Meritt (that a domestic contract allowed was between husband and wife as there was clear intention to create legal relationship).
- Q.No.02 (a) Some had furnished answers correctly explaining the duties and responsibilities of producers towards their fellow partners and partnership.
- Q.No.03 (a) There were some answers explaining that there should be an insurable interest in the subject matter of the insurance and the way by which such interest is created. In life insurance how and who has insurable interest on life of another person. Also they had quoted the relevant case law Griffiths vs. Fleming i.e. insurable interest between husband and wife.
- (b) Fair percentage had explained as to what is uberimam fidei and how it affect the contract of insurance.
- Q.No.04 (a) Good no. of candidates had correctly dealt with main features of agency by ratification and the relevant case laws wherever applicable.
- (b) There were few candidates who had furnished answers correctly discussing both implied warranties as has been dealt in ‘Sale of Goods Ordinance’ (i.e. the buyer shall have and enjoy quite possession of the goods and the goods are free from any charges or encumbrances in favour of any third party not declared or known to the buyer before or at the time when contract is made
- Q.No.05 (a) Some had furnished answers correctly explaining the procedures to be followed by Mr. Sharp as he believes that the company is unable to pay its debts as they falls due as laid down under the Companies Act and the liability of the director had he failed to follow the procedure laid down in section 219 of the Act.
- (b) Fair number of the candidates had explained legal position of a Company Secretary and the liabilities of the company on the contracts entered into by the secretary on behalf of the company. They are familiar with the two famous court case Panaroma Development (Guildford) Ltd. vs. Fidelis Furnishing Fabrics Ltd.
- Q.No.06 (a) Some had correctly explained the procedure laid down under section 15 of the Act. which deals with amending the Articles of Association of a company i.e. passing of a special Resolution, informing the Registrar of Companies within 10 working days with amended details and so on.
- (b) There were others who had correctly dealt with publication of a mandatory public notice under Companies Act at the time of incorporation of a company i.e. the time duration within which it should be published the media through it should be published and contents that should be published by it.

- Q.No.07 (a) A minor percentage of candidates had correctly dealt with the procedure to be followed in a voluntarily winding up of a company when the period fixed for the duration of the company by its Articles expires as laid down under section 319, 320 & 343.
- (b) Large number of candidates had explained the powers given to a liquidator under section 292 of the Companies Act.
- Q.No.08 (a) Only a very few had correctly discussed the procedure to be followed by H & H Co. (Pvt.) Ltd. in changing its current external auditor in keeping with the terms laid down under sections 160 & 161 of the Act.
- (b) There was hardly any candidate who had properly explained as to what is “Good Corporate Governance” and why Good Corporate Governance is so important for a company. However there were some who had furnished half-baked answers which deserve some marks.
- Q.No.09 Handful of candidates had furnished halfway correct answers for both the parts of the question and there were no fully correct perfect answers for the question.
- Q.No.10 (a) A fair percentage of candidates had furnished answers which had dealt with the method to be followed in reduction of stated capital of a company as laid down under sub sections 1,2,3,4 & 5 of section 59 of the Act which deal passing of special resolution, giving public notice on the proposed reduction at least 60 days before the resolution is passed, obtaining the consent of the creditors where ever applicable limitations applicable for reductions, informing of Registrar of Companies and so on.
- (b) There were hardly any answers furnished by the candidates which had correctly dealt with provisions with regard to the manner in which a company can give financial assistance for purchase of its own shares as has been explained under section 70 of the Act but there were some candidates who had explained the relevant provisions to certain extent which deserve some marks.

(3) **Answers relevant to the questions**

- Q.No.01 (a) Very few had furnished relevant answers correctly discussing the exemption clauses, the purpose of introducing such clauses, conditions applicable for such a clauses how they affect a contract and so on.
- (b) Handful of candidates had furnished some relevant answers discussing what are domestic/social contracts whether there is any legal binding as their intention of the parties who enter into a domestic contract, the parties between whom those contracts are entered into and so on. They had correctly quoted the relevant two cases which are good examples for a domestic contract and not a domestic contract even though it was between husband and wife.
- Q.No.02 (a) Only a few had discussed the relevant areas as duties and responsibilities of partners towards the partnership and their fellow partners and the legal effect for violation of such duties and responsibilities under partnership law. They had expressed the view that Mr. Sepala is responsible for breach of his duties/responsibilities towards the partnership as a partner.

- (b) It is only a less than even 2% of the candidates who had furnished same relevant answers correctly explaining that “sharing gross returns along will not create a partnership if any i.e. they had understood the question.
- Q.No.03 Fair percentage of candidates had furnished some relevant answers for both parts of the question.
- Q.No.04 (a) Good number of candidates had furnished relevant answers to part ‘c’ i.e. “the main features of Agency by ratification, covering the relevant areas.
- (d) A fair number of candidates had correctly stated the implied warranties in a sale of Goods Contracts.
- Q.No.05 (a) Some candidates had furnished relevant answers as has been laid down under section 219 of Companies Act and had explained that calling a board meeting to consider whether the board should apply to court to wind up the company and to appoint a liquidator or administrator or whether to continue the business of the company. Further the liability of the director who fails act in accordance with section 219 had been explained.
- (b) A minor percentage had furnished relevant answers explaining secretary’s position before Panaroma Case and development after the court decision. Also they had correctly explained company’s liability as per above court decision.
- Q.No.06 (a) Fair number of candidates had furnished relevant answers correctly explaining the steps that a company has to follow in altering its articles as has been explained in Companies Act.
- (b) Similar no. of candidates had furnished relevant answers to part (b) too, explaining that a public notice should be given within 30 working days of incorporation of a company, etc.
- (c) Only a handful of candidates had furnished some relevant answers to part (a) explaining the procedure laid down under sections 319, 320 and 343 of Companies Act to be followed in voluntarily winding up of a company.
- (b) Higher percentage of candidates had furnished relevant answers to this part correctly explaining the powers conferred on liquidator by section 292 of Companies Act.
- Q.No.08 (a) There were only few candidates had furnished relevant answers by correctly explaining provisions shown under sections 160 & 161 of the Act explaining relevant areas.
- (b) Some candidates had furnished half-baked answers for part (b) by explaining some relevant areas on “Good Corporate Governance”, like as to how Board of Directors should be comprised of, directors responsibility to have proper systems to maintain high level of transparency and so on.
- Q.No.09 (a) Very few had furnished some relevant answers to this part of the question clearly with the relevant points.

Q.No,10 Only handful of candidates are capable of furnishing relevant answers applying the relevant section of the Act for both parts.

Subject knowledge of the candidates

Some candidates have satisfactory knowledge in certain subject areas in commercial/corporate law. It could be observed that different candidates have some knowledge in different subject areas. Few examples for subject areas in which some candidates have satisfactory knowledge are given.

- i. Fair percentage of candidates have fair knowledge in Law of Contract is that if one party has included an exemption clause to a contract the effect on such clause/condition how it have affected for the contract had been correctly discussed.
- ii. A similar percentage of candidates have shown knowledge on what are domestic/social contracts, what are not domestic contracts even though the contract is between two family members. Also to differentiate domestic contracts for commercial/trading contracts, intention to create a legal relationship and so on had been discussed and correct. Case laws for both types of contracts too had been given on examples.
- iii. There was a minor percentage if candidates who had shown some knowledge on duties and responsibilities of a partner to the partnership, right of other partners if one partner had breached of his duties towards partnership and so on had been explained.
- iv. There were good number of candidates who have satisfactory knowledge in insurable interest on whose life i.e. the insured and the subject matter of insurance how this relationship could be applied between two spouses, i.e. husband and wife and so on.
- v. Also there were similar number of candidates who have good knowledge on the term ‘Uberimam Fidei’ how it would apply in a contract of insurance, the effect in the even for failure to disclose any such circumstance, the duty of the parties to disclose those required information and so on.
- vi. There were large number of candidates who had good knowledge on main features of agency by ratification whilst a lesser number had shown some knowledge on implied. Warranties in a sale of goods contract as laid down under section 13 of sale of Goods Ordinance.
- vii. Also there was a fair percentage who had some reasonable knowledge on provisions laid down under section 219 of the Companies Act which deals with duties of a director who believes that the company is unable to pay its debts as they fall due, and consequences of that particular director fails to take immediate actions in terms of the said section.
- viii. An equal number of candidates had disclosed some knowledge on present position of a company secretary, and the company’s liabilities on administration contracts entered by the secretary on behalf of the company. Also they have good knowledge on decision of land mark case Panorama Developments (Guildford) Ltd. vs. Fidelis Furnishers Fabrics Ltd.
- ix. Also there was a good number of candidates who have fair knowledge on section 15 of the Companies Act which deals with the procedure to be followed by a company in altering of its existing Articles of Association and the way it should inform to Registrar of Company on such alterations.
- x. There were similar number of candidates who have some knowledge on publication of a mandatory public notice at the point of incorporation of a company and the details that should be published by the said notice.
- xi. Only handful of candidates have some knowledge on voluntarily winding up of a company when the fixed period for which laid down in articles has expired as laid down under section 319, 320 and 321 of Company Act.
- xii. Very high percentage of candidates have satisfactory knowledge on powers conferred on a liquidator by section 292 of the Act.
- xiii. Only a few candidates have some knowledge on section 160 & 161 of the Act which deals with the procedure to be followed on changing the current Auditor of Limited Liability Company and right of outgoing auditor.

- xiv. reasonable no. of candidates have some knowledge on what is Good Corporate Governance, and why it is so important for a company.
- xv. A few candidates have some knowledge on characteristics of a floating charges while a similar number has some knowledge on duties of a receiver in selling company property and in relation to company money.

Planning (building) answers

Very few candidates had planned their answers in a systematic way. Accordingly some candidates had selected the easiest question and started answering it followed by next easiest question and started answering it followed by next easiest questions and so on. Also 4 to 5 instances could be that a very few had first jotted down the important points for each question and built their answers in an orderly manner which is a good habit followed in answering an examination question paper.

What is bad in answers

Q.No.01 Majority had not properly understood the question correctly, therefore they had not focused their answers on effect on introducing exemption clauses by one party to a contract.

Also there were others who had not understood the part (b) of the question correctly and they had wasted time to explain what is a contract? Different parties to a contract, i.e. the offeror, offeree. Acceptance, consideration and so on.

Q.No.02 A very high percentage i.e. more than 80% of the candidates had not properly understood part (b) of the question. They had misunderstood the question and had tried to explain as to what is a partnership, how it can be created, what are the legal requirements to form a legally valid partnership. Corporate contributions sharing profit/losses and so on.

Q.No.03 Handful of candidates had difficulties in understanding the question correctly. Some had expressed the view that on death of Mrs. Amali the wife does not create a financial loss to Mr. Amal, therefore he cannot claim the policy money and few others had not understood that each spouse has insurable interest on the life of other spouse and they had focused their answers on incorrect directions such as since the death is not a murder (crime) the policy money cannot be claimed and so on. Even there were few who had not understood the term uberrimae Fidei in terms of insurance law.

Q.No.04 Some candidates noted to have not understood the part (d) of the question in its real sense. Therefore majority of them had focused their answers in incorrect directions. Handful of others had not understood even the other 3 parts of the question answered correctly.

Q.No.05 Straightforward question which can be easily understood by an average candidate in Strategic level, but there were few who had not understood it correctly.

Q.No.06 Part (a) of the question is very clear and asks to discuss the steps that should be followed by a company when it wishes to alter its Articles, but large number had explained the procedure that should be followed in incorporating of a new company. Specially publishing of public notice at the time of incorporation etc. Also they had explained the procedure to be followed in passing a special resolution in length which are not relevant to the question.

Since some candidates failed to understand part (b) correctly they had gone and explained the procedure to be followed by a company immediately after its incorporation, the documents those should be sent to registrar for incorporation of a company and so on.

Q.No.07 A fair percentage of candidates had failed to understand that the question is asking to explain the procedure to be followed in voluntarily winding up of a company after expiration of its fixed term as stated in articles and they had tried to explain members/creditors voluntarily winding up of a company after expiration of its fixed term as stated in articles and they had tried to explain members/creditors voluntarily winding up or winding up on a court order and so on. Some others had expressed the view that if the directors make a statutory declaration that the company is unable to pay its debts within 12 months. Steps should be taken to wind up the company. Many others had explained areas like list of duties of the liquidator when a company is under liquidation.

Q.No.08 A fair percentage of candidates have failed to understand part (a) of the question though it is a very straightforward question. The examiner was trying to test the knowledge of candidates on the procedure that is followed in replacing or changing the existing auditors, but many had explained the procedure that should be followed in appointing of the first auditors or filling of a casual vacancy or appointing of an auditor to limited liability company in the normal course of business and so on.

Few others had misinterpreted the corporate governance as government of a country and discussed the duty of a government towards the wellbeing of its citizen.

Q.No.09 (a) Very high percentage of candidates had not understood the question correctly. Therefore, they had furnished the answers with their general knowledge which are not much or not at all relevant to the question. What they have tried is to give verbatim meaning of the term “floating charges”. In answering to part (b) they have not tried to explain the duties of a receiver in general with their general knowledge.

Q.No.10 (a) Some candidates had failed to understand the question and had expressed the view that the reduction of stated capital means redemption of redeemable shares i.e. redeeming of preference shares and so on, but they had not explained the correct procedure for reducing of redeemable shares.

(b) Large number of candidates had expressed the view that if the ordinary course of business of a company as money lending it can give loans for purchase of its own shares or it giving such financial assistance is in good faith and with the purpose providing such facilities with the expectation of that employees would contribute employees share scheme and become shareholders of the company, the company can give financial assistance for purchase of its own shares and so on.

Position (quality) of answers

Q.No.01 Since majority has not understood the question correctly the standard of answers are not up to expectations. Instead of explaining the effect on exemption clauses introduced to a contract they had focused their answers in some other irrelevant directions such as effect on implied conditions and warranties laid down in sale of goods ordinance. There were some others who had dealt with following areas.

(a) Importance of signing the receipt issued by the company to Mr. Roxey to be legally binding documents.

- (b) Failure of Mr. Roxey to read the contents of the receipt is a shortcoming from Roxey's side and so on.

Position of answers furnished to part (b) by some of the candidates is vary. They are not much capable to explain correctly as to what is a domestic social contact, contracts entered into between two family members that could be treated as a domestic contract and a contract between two family members who had the intention of creating a legally binding contract and so on.

Q.No.02 (a) Answers furnished by fair percentage of candidates are not up to expectations. Some candidates even went on explaining that Gunapala is not entitled to claim share of profit from Mr. Sepala who had negotiated a new agreement with IOC for him to continue the same business as sole trader since it is a completely new business and so on.

(b) Answers furnished by more than 80% of the candidates are not in an acceptable standard. Instead of discussing the statement "sharing gross returns will not create a partnership" they had focused their answers on direction of, forming of a partnership restrictions on forming of partnership, liabilities of each partner their duties, rights, share of net profits/losses and so on.

Q.No.03 (i) Position quality of answers furnished by some candidates is not up to expectation.
(ii) Capability to explain correctly, what is insurable interest is very poor.
(iii) Though some had correctly quoted Griffiths vs Flemings the facts of the case had not discussed.
(iv) The term "Uberimae Fidei" had not been defined in terms applicable in insurance law.
(v) The effect of non-disclosure of material facts in an insurance contract had not been explained correctly.
(vi) In discussing facts in contract of insurance the correct and appropriate terms had not been used and so on.

Q.No.04 Quality of answers is very poor except answers for part (c) of the question i.e. main features of agency by ratification. As the candidates are not much familiar with subject areas, they had presented their own presumed answers. Specially for part (a), (b) and (d). Accordingly some areas they have discussed in answering those parts are.

- (a) Converting black money into white money.
(b) Bill of lading in a negotiable instrument. It is used in international trading activities.
(c) Instead of discussing "implied warranties" they had dealt with implied conditions as laid down in Sale of Goods Ordinance.

Q.No.05 Position/quality of the answers furnished by the majority is below the average. They are not much capable of producing proper answers for both the parts. Some candidates had expressed the view that Mr. Sharp should call for a members meeting although he should call for a board meeting to discuss the position, if he believes that the company is unable to pay its debts as they fall due. If he fails to call a meeting Mr. Sharp is personally liable to creditors. Some others had expressed the view that the company kitchen suppliers Ltd is not liable to pay hiring charges since Miss Kusum had used these equipment for her personal use, or she should have obtained prior approval from Board of Directors to have the equipment from third parties and so on.

- Q.No.06 Quality answers produced for both parts by higher percentage of candidates are very poor. They are not capable of writing well acceptable answers for both parts although only a minor percentage had furnished some answers which are relevant to the question to certain extent.
- Q.No.07 The standard of answers furnished by over 75% of the candidates for part (a) of the question is in very poor position. Further some answers furnished by a minor percentage for part (b) are in poor quality. Also it is a fact that some candidates are not competent to furnish the answer to the point though they have some knowledge in the subject area. For e.g. although they are aware that question regarding voluntarily winding up some had explained winding up under court order or winding up under supervision of the court and soon.
- Q.No.08 In answering to part (a) of the question instead of explaining procedure to be followed in changing or replacing the existing auditors of a company they had explained appointing of first auditors to company, authority vested by Registrar of Companies to appoint an auditor to a company in filling a casual vacancy, procedure followed in appointing of an auditor for a company in normal course of business obtaining the consent of the auditor for the appointment for re-appointment and so on had been discussed.
- Q.No.09 Quality on the standard of answers for both parts is very much below the average. They are not much familiar with the areas listed by the question, therefore, had tried to furnish some answers with their general knowledge on floating charges and duties of a receiver which do not deserve marks as they are not relevant to the question.
- Q.No.10 Answers produced by majority are not in an acceptable quality. They are not much competent to furnish some acceptable answers complying with the provisions laid down under section 59 (reduction of stated capital) and section 70 (giving financial assistance for purchase of its own shares) indicating that they are not familiar with the said sections. Under the circumstances they had furnished their own assumed answers for both parts which do not deserve marks as they are not relevant to the question.

Subject knowledge of the candidates

When considered the overall performance the subject knowledge of the candidates is very much below the expectation from the Strategic Level candidates. Some candidates have an average knowledge in Commercial Law whilst few others have similar knowledge in Corporate Law. Few examples are given below;

- i. Examiner had expected to discuss the introducing of exemption clauses by one party to contract with effect of which to the contract but they had discussed the implied conditions/warranties on sale of goods, or of signing of the receipt issued for first charges paid by Mr. Roxy.
- ii. Some others are not much familiar with the 2 important counter decisions relevant to social/trading contracts.
- iii. There were few some others who do not have proper knowledge in rules applicable in operation of a partnership.
- iv. Large number of candidates is not competent understand and decide as to whether the sharing gross returns create a partnership or not.
- v. Knowledge in money laundering and its application in Sri Lanka and Bill of Lading of then is very poor. Also they are not familiar with implied warranties under sale of Goods Ordinance and had dealt with implied conditions.
- vi. A fair percentage is not familiar with section 219 of Companies Act which deals with situation when it appears to a director that the company is unable to pay its debts as they fall due.

- vii. There were some others who do not have satisfactory knowledge in the procedure to be followed in voluntary liquidation of a company as laid down in under sections 319, 320 & 343 of the Act.
- ix. There were many others who do not know the procedure laid down under sections 160 in charging or replacing the current auditor of a company and also they do not familiar with Sale of Goods Ordinance Governance.
- x. Knowledge of the candidates in characteristics of floating charges and/or duties of receiver in relation to selling of company property in relating to company money is very poor.
- xi. Also their knowledge in method followed in reduction of stated capital as well as the manner in which a company can give financial assistance for purchase of its own shares are very poor.

Planning (building) the answers

It could be observed that ability of candidates to planning their answers in relatively poor and do not have any habit of properly planning their answers. What is clear is that they just glance through the questions and start answering them without going through the question till they understand as to what is expected by the examiner. As a result what happen is that they miss the chance even to use the subject knowledge they have in subject areas. For e.g. when the question particularly asks the implied warranties under sale of Goods Ordinance.

Common difficulties faced by candidates

It could be observed that most common difficulties faced by majority of the candidates are:

- i. Unable to understand the question correctly due to poor knowledge in English knowledge.
- ii. Do not have much competency to furnish the correct and relevant answers to questions due to lack of knowledge in subject areas tested by various questions.
- iii. Poor planning abilities due to lack of experience in planning the answers for question under examination conditions
- iv. Not having sufficient knowledge or do not familiar with legal terms, relevant sections of the Companies Act and other relevant statutes such as Sale of Goods Ordinance and do not much familiar with relevant case laws and so on.