

# **THE INSTITUTE OF CHARTERED ACCOUNTANTS OF SRI LANKA**

## **Financial Accounting - March 2012**

### **PART A**

Multiple choice questions were introduced in this paper several years back. Therefore the candidates should be able to score high marks if they have worked past papers since this types of questions that could be set in this paper is limited.

It was noted that some candidates had written the answers very lightly in pencil which should be discouraged.

It was observed that some candidates absentmindedly had written the question number as the answer instead of choosing one of the 4 given answers. There were only a few candidates who got 20 out of 20 correct. But the number who scored 15 or more was fair.

It was also observed that most candidates did not read the question before answering e.g. ignore the word '**not**' which makes a big difference to the answer.

### **PART B**

#### **Question No 01**

Performance was satisfactory. Most of the candidates could not allocate expenses correctly to the Manufacturing Trading and P & L accounts.

Disposal of a vehicle during the year or exchanging for a new vehicle had been appearing regularly in past papers. But yet candidates could not work out the profit or loss on disposal correctly.

Changing the valuation from LIFO to FIFO had also caused difficulties to several candidates. These items should be first adjusted instead of showing those two items as current liabilities (accruals).

Candidates did not give the workings. Had they done so they could have got some marks for it even though the final figure would have been wrong.

Illegibility of handwriting makes marking very difficult for the examiner.

Candidates should be able to convert figures to a standard system, e.g. if figures were given in thousands in the final accounts, figures in rupees and millions should be taken into thousands when preparing accounts. .

P.P.E details had not been given in the Balance Sheet in a separate note by many. Such details are essential.

### **Question No. 02**

This was a very straightforward question on dissolution of a partnership. About 80% of the candidates had opted to leave this question. Perhaps they were in a difficulty about the theory question in part II. Candidates should know the theory about various committees.

### **Question No. 03**

This question was attempted successfully by many. Here also many candidates did not score marks in part II which was a theory question on accounting software. Most of the candidates answered only part I.

### **Question No. 04**

This question on incomplete records was different from the type of question set earlier.

One had to start from the net profit and work upwards to find the purchases, sales, cash paid to creditors and cash received from debtors.

Less than about 15 candidates in all had got these figures correctly.

Most of the candidates had taken the difference between the opening and closing balances of debtors and creditors as sales and purchases. As marks had been allocated for the statements of affairs etc. the candidates scored some marks though they did not show any knowledge of the preparation of final accounts from the given dates.

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## **Business Mathematics and Statistics - March 2012**

### **Paper A**

This part could be easily answered within the allocated time by average candidates. However the performance was not satisfactory.

### **Paper B**

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

- (a) Tested about basic mathematical knowledge, solving quadratic equations and understanding about geometric progression.
- (b) Tested on cash flow, discount factor, scrap value and net present value. Most candidates have not shown the intermediate steps. Some candidates did not have basic mathematical knowledge about multiplying expressions and solving quadratic equations. Some have not clearly understood the present value, future values and using discount factor. They should have read the question clearly before writing the answer.

In part (c) most of the candidates did not identify the question and had used geometric progression. Some had used formulas in Arithmetic progression instead of geometric progression. Some candidates had calculated values for each year without using formulas.

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

Tested the knowledge about the concepts, cost function, revenue function, fixed cost, variable cost and break- even point.

If candidates knew the theory they could have easily scored full marks. This was a direct question about basic theory.

Generally candidates had given satisfactory answers. Candidates should have been familiar with sketching the graphs correctly, using units and labeling the axis.

Some have clearly understood the cost function, revenue function, and drew the graph correctly. But they did not write those functions though they have been asked to write the functions. So they obtained lessor marks.

In part (c) some candidates had got the answer without using equations.

Some candidates could not solve the equations. They substituted so many values to get the correct value. They would have to improve their ability about solving simple equations.

### **Question No. 03**

In part (a), it was tested the ability of the candidates to take a decision by evaluating the net present value using discount factor.

In part (b) it was asked to construct a histogram to get the modal value and identify the medium.

In part (a) some of the candidates had not correctly used the discount factor for monthly cash flows. Some candidates directly calculated using the given monthly values to get outright purchase without using any discount rate.

Part (b)- when drawing the histogram some candidates had not marked the scale properly on horizontal axis. Some of them had not used a graph sheet. It is advisable to use graph sheets since it would minimize the errors when calculating the modal value.

Some candidates did not know how to construct a histogram correctly. When drawing the histogram for unequal class intervals they did not know frequency should be divided by the number of class intervals. Ex: 120 – 160 range; they did not divide the frequency by 2.

Some candidates had drawn bar charts instead of histograms.

### **Question No. 04**

Analytical skills and calculation skills for data collection were tested by the question.

The knowledge on calculating the mean, standard deviation, data collection, data patterns for given data and using those in practical situations were also examined.

Part (a) Many candidates could not identify the four measures correctly.

Part (b) Some candidates had calculation errors. Some candidates could not understand the last part of the question. They could have easily calculated the probability, but they have used other long methods.

There were lot of irrelevant answers due to wrong approaches and calculation errors such as  $M = A + (\sum\{x\}) / \sum (f)$ . Candidates were unable to pick up guidance given in the paper. Practicing similar specimen and past paper questions should improve the performance. Lack of basic knowledge and wrong approaches made them to get low marks. They have to improve the ability to use the guidance.

### **Question No. 05**

In part (a) the ability to find the arithmetic mean of a given data set and monthly impact of the increased fuel cost due to increased petrol price was tested.

In part (b) the ability to find an unknown standard deviation of normal distribution was tested.

Part (a) was a normal arithmetic question. Answer can be arrived by using simple arithmetic knowledge. However some of the candidates did not understand the meaning of 3 weekends and 25 working days. Some of them calculated for 28 working days and some candidates considered 3 weekends as 6 travelling days. Some candidates misunderstood the question altogether. In part (b) some answers were wrong due to + and – signs in  $z = \frac{x - \mu}{\sigma}$ .

It appears to be that some candidates have not practiced how to use the normal distribution table.

### **Question No. 06**

Part (a) It was tested the ability of expressing the meaning of type 1 error in hypothesis testing.

In part (b) the ability of finding standard error of difference between two means was tested.

About 50% of the candidates have not attempted the question. Very few candidates got full marks for the question. Most of the candidates used wrong formulas in calculating standard error of difference between two means. Some used wrong statistics in calculation too.

Most of the candidates did not know the way of identifying two tailed test and one tailed test.

Some did not know the way of defining  $H_0$ ,  $H_1$ , and critical values.

Some candidates tried to solve the problem using two tailed test even though it was one tailed.

Most of the candidates ignored the – sign in the critical value.

### **Question No. 07**

Tested about coefficient of correlation, idea of correlated variables and coefficient of determination.

Some candidates copied wrong formula for r. Some of them did not know how to calculate relevant values. Question is very simple but many found it difficult.

Some candidates did not calculate the  $x^2$ ,  $y^2$  and  $xy$  correctly

Some did not know the difference between  $\sum xy$  and  $\sum x \cdot \sum y$ .

Some could not understand the difference between negative correlation and the negative sign.

Some of the candidates were not familiar with the usage of the calculator though they used it. They have to practice and improve that.

### **Question No. 08**

Tested on time series and basic understanding about the difference of irregular variations and other normal variations. Ability to remove the seasonal effects from the collected data was also tested.

More than 50% of the candidates had not attempted the question.

Many candidates were unable to clearly explain the meaning of the irregular variation but have given correct examples. Some have not given all the steps of the answer. There were so many arithmetical mistakes in the grid. Final answers were wrong due to the errors in the first step of the question.

Candidates had another way to calculate part (1) which was not mentioned in the model answer. Half of the students who attempted the question could not calculate the seasonal indices and removed the seasonal effects.

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## Management and Business Economics - March 2012

Business Economics Part B paper consisted of 5 questions. Average performance of the candidates were impressive. Nevertheless common mistakes done by the students are given below .

### Question No. 01

#### *(a) (I) Allocated Marks 03, Average Performance 03*

Almost all candidates have arrived at equilibrium price and quantity correctly. Nevertheless a few had arrived at incorrect price and quantity predominantly due to mistakes done in applying the formula.

#### *(a) (II) Allocated Marks 03, Average Performance 02*

Some have displayed poor knowledge over price elasticity of demand in that, they have divided change in quantity ( $\Delta Q$ ) by change in price rather than percentage change being considered.

Some substituted incorrect figures for the formula and ended up with wrong answer.

A few had ignored the minus mark in arriving at price elasticity of demand.

#### *(b) Allocated Marks 06, Average Performance 03*

Most of the candidates ignored the fact that price mechanism determines resource allocation for a particular project/production only after sacrificing another production.

Some did not indicate the functions of "Price" in explaining the price mechanism.

Some were unable to mention that price mechanism is based on the market forces of demand & supply.

### Question No. 02

#### *(a) Allocated marks 03, Average performance 02*

Some repeated the same point in explaining explicit cost. Eg. both "cost incurred" and "cost paid" were indicated.

Some could not mention that implicit cost is not involved in cash outflows and instead the opportunity cost.

Some were confused over the meaning of two terms and some were of the view that only explicit cost is used for economic decisions.

#### *(b) Allocated marks 05, Average performance 02*

Some were unable to explain that only variable factors of production are subject to change in the short run and fixed factors remain unchanged which is the basis for behavior of cost curves.

Some have not drawn the MC curve correctly, in that, MC should first slope down parallel to ATC and at lowest point of ATC, MC should start moving upward, this point of crossing was not correctly shown.

The law of diminishing returns was ignored by some in drawing the curves.

(c) ***Allocated marks 04, Average performance 02***

Some ignored the fact that perfectly competitive firm has to follow a price determined by the market, i.e. they have not drawn the price curve parallel to horizontal axis.

Abnormal profit had not been arrived at and not shown in the graph by some students.

Main condition for maximizing profit is when  $MR=MC$ . This had been overlooked by some candidates.

**Question No. 03**

(a) ***Allocated marks 05, Average performance 04***

Some ignored both Exports and Imports in writing down the GDP (EXP) formula.

Some of those who correctly wrote down the formula had substituted figures incorrectly.

A few had mistaken in arriving at final answer.

(b) ***Allocated marks 05, Average performance 04***

Some ignored depreciation or indirect taxes or both in writing down GDP (income) formula.

Some of those who correctly wrote down the formula substituted incorrect figures.

Some had calculation errors and ended up with incorrect GDP (income).

(c) ***Allocated marks 02, Average performance 01***

Adequate explanations were not provided by some students to the points they mentioned.

For example they just mentioned that GDP would help to calculate per capita income for which only half a mark was conceded. They should have also mentioned per capita income could be compared with those of other countries and different periods.

Some just mentioned that GDP would help to transact between countries without being elaborated.

Most of the candidates had not mentioned the fact that GDP is the basis for expressing certain aggregates of the economy like public debt, budget deficit etc.

**Question No. 04**

(a) ***Allocated marks 03, Average performance 02***

Devaluation was done to bridge the Budget Deficit according to some candidates.

Some mentioned that devaluation was done to develop tourism industry without being elaborated as to how it happens.

Some did not mention that higher rate of increase of imports compared to exports has led to devaluation.

(b) ***Allocated marks 03, Average performance 02***

Some have not generalized their answers in terms of effect on imports and exports, in that they have taken specific scenarios like tourism industry, import of fuel etc. and given the impact on BOP for which full marks were not conceded.

Some ignored to mention the impact of devaluation on foreign reserves.

Most of the students have not understood that fair valuation of rupee against dollar would result in due to the fact that over-valuation of rupee existed at the time of devaluation.



- (c) ***Allocated marks 03, Average performance 02***  
 Some candidates stated that monetary policy is policy measures taken by the general Treasury.  
 Some of the candidates have not taken into account policy objectives in order to differentiate the two terms.  
 According to some candidates, control of revenue and expenditure is associated with monetary policy, for which no marks were conceded.
- (d) ***Allocated marks 03, Average performance 02***  
 Some explained macroeconomic goal as fiscal policy measures for which only a few marks were allocated.  
 Some cited Foreign Trade Policy as a fiscal policy measure without being cited with examples as fiscal policy measures.  
 Fiscal policy measures relating to “Equity” were not cited by most of the candidates .

### **Question No. 05**

- (a) ***Allocated marks 02, Average performance 1½***  
 Some did not state that the budget deficit is related to a projection of income & expenditure.  
 Some candidates just mentioned that budget deficit is the difference between projected income and projected expenditure sans being related to a specific period.
- (b) ***Allocated marks 03, Average performance 1½***  
 Increasing taxes and imposing new taxes are one source of financing of budget deficit, according to some candidates.  
 Some did not mention privatization-income as a source of financing budget deficit.
- (c) (I) ***Allocated marks 02, Average performance 1***  
 Some did not mention the correct word i.e. GDP as the basis on which budget deficit is expressed. Instead they have mentioned government revenue or government expenditure for which only a few marks were conceded.  
 Some just stated that meaning of the statement is “to reduce the budget deficit in the next year compared to present position”.
- (II) ***Allocated marks 03, Average performance 2***  
 Some have generalized the answer, in that, they mentioned that it was advisable to maintain the fiscal policy target to achieve economic progress.  
 Some were of the wrong view that the target under reference would lead to foreign loans, grants being obtained.
- (III) ***Allocated marks 02, Average performance 1***  
 Some just mentioned fiscal policy and monetary policy without being elaborated as to how it contributes to achieve the fiscal policy target.  
 Only a few stated that taking measures to reduce wastage and corruption will contribute achieving the target.

### **Question No. 06**

Tests candidates' knowledge on main important stages of control process, why such a control process is needed for a business organization and to explain four conceptual skills of a top manager for achieving the success of a business organization. Performance was not quite satisfactory. A few candidates got marks over 6/12. Only a very few candidates were able to explain the control process and the key factors such as organisation's expectations with the current situation and to take necessary steps to overcome lapses.

#### **Weaknesses observed**

1. Most candidates had discussed about flat and tall organisations.
2. Some candidates had written about planning process. Candidates were unaware that control function is most important above all other management functions.
3. A few candidates had written about different types of controls such as pre controls, continuous controls and post controls which indicate that they have not read the question carefully.
4. When the importance of control process is discussed candidates were supposed to explain the impact of control function on other management functions. If there is no control function target, plans could not be achieved.
5. Role of a manager was explained by many.

### **Question No. 07**

Only a few candidates had selected this question. Performance of the candidates in general was not quite satisfactory. The distinction between planning and strategic planning is not well understood. However, candidates performed well in 7 (b). 7 (c) was not quite satisfactory.

#### **Weaknesses observed**

1. Many candidates had written about planning and not strategic planning.
2. Key words in strategic planning such as strategy or direction, decision of allocating resources, proper understanding of the current position of the organization (SWOT analysis) long term nature were not properly grasped.
3. Some candidates had mentioned that designing an organization chart is strategic planning.
4. Most of the candidates have failed to identify that strategic planning is done by the top management.
5. Some candidates were confused with corporate governance.
6. Many candidates stated that meeting legal requirements and requirements of the stakeholders are social responsibilities.

#### **Suggestions to improve**

1. Write legibly and to the point.
2. Read more and more books on management.
3. Attempt past question papers.

# **THE INSTITUTE OF CHARTERED ACCOUNTANTS OF SRI LANKA**

## **Business English I - March 2012**

What is tested in the paper: The question paper aims at testing the candidates' knowledge of vocabulary and grammar, the ability to complete dialogue, write official documents such as letters and memos. It also tests the ability to read and understand an information text and the skills in interpreting a chart.

The standard of the question paper. It is more challenging than the September 2011 examination paper. It is appropriate to say that it is suitable for all levels of candidates, the weak, average and the good. When we consider the marks obtained by the candidates it is clear that the paper is a moderate one.

According to the examiners the examination paper is quite good and the same standard should be maintained.

As a guide to candidates: Most of the candidates could not write the letters of the alphabet clearly. The examiners found it difficult to understand what the candidates meant. Some candidates had written numbers instead of letters.

Suggestions to improve: Candidates are required to read daily papers (Daily News, Sunday Observer etc.) to improve their vocabulary.