KC1 – Corporate Financial Reporting

December 2015

Examiner's Comments

Question 01

This question tested the application of SLFRS 24 *Related Party Transactions*, SLFRS 15 *Revenue from Contracts with Customers* and the deferred tax standard.

A fair number of candidates were able to plan their answers well and answered almost all parts of the question. The quality of their answers was also at an acceptable level. However, some poor and irrelevant answers were noted mainly for parts (b) and (c) (ii).

Subject knowledge of candidates in relation to related party transactions was at an acceptable level. However, only a very few demonstrated good knowledge on current topics such as SLFRS 15 and the implication on the deferred tax computation when there is a change in the future tax rate.

Part (a)

This part required candidates to identify and evaluate the appropriate disclosures necessary for related party transactions. Some of the common mistakes made (as indicated below for each scenario) cost the candidates easily achievable 2 - 3 marks. The main mistakes were:

- Merely stating that it is a related party of HFP
- Failing to indicate under what circumstances the RP relationship is created
- Failing to indicate whether the transaction should be disclosed or not
- If to be disclosed, failing to mention the information that should be disclosed

Performance on each scenario is given below:

(i) Majority of the candidates identified that both EAT and PBL are under the control of HFP and thus identified them as related parties of HFP. However, a fair number of candidates were unable to disclose the required information under LKAS 24 and instead indicated the requirements under SLFRS 10 (e.g. elimination of inter-company profits, transfer price etc. in consolidation). The question required candidates to identify the disclosures and not the accounting treatment. Surprisingly, even those who had successfully answered the balance part of the question, had made this error.

(ii) Majority of the candidates correctly identified the related party relationship. However, in disclosing the transaction, they failed to disclose that the sale was at a discounted price.

(iii) A sizeable number of candidates had answered the question based on para 11 (a) of LKAS 24. Some others had a different view and cited that since Roshan is the son of the chairman and also holds 12% of the shares, he is a KMP and also an influential personnel. Therefore he is a related party of HFP and the transaction should be disclosed.

Some candidates had said that this transaction was done at market price and therefore there is no necessity to disclose it.

(iv) The majority had answered this part very well and obtained full marks. However, a handful of candidates were unable to indicate that directors are KMP. Some in fact said the CEO is not a KMP. Some others said only the CEO's benefits need to be disclosed.

(v) Performance on this part was mixed. Some candidates had stated that dividend declared on NCI should be disclosed in the consolidated financial statements of HFP. Some had misinterpreted the provisions in LKAS 24 and indicated that this transaction need not be disclosed, as 40% of CSL is held by the government.

(vi) Majority of the candidates had clearly identified the RP relationship with HFP and indicated that only the Rs. 10 million need to be disclosed. However, a fair number also stated that since this is an associate of HFP, no disclosure is necessary.

(vii) The majority of candidates were able to identify that there were no RP relationship because HFP only has significant influence.

Part (b)

This part was on a current topic and required candidates to identify significant financial implications that may arise upon adoption of SLFRS 15.

Performance on this question was very poor. Candidates were not updated on current developments. Approximately 90% of candidates had not answered this part, and the answers of the few who had attempted were confined to one or two sentences. A handful of candidates managed to score about 2 marks by identifying the treatment of the advance payment.

Part (c)

(i) this part was in relation to another current topic testing knowledge on the application of the deferred tax standard. Majority of candidates were able to correctly identify the tax rate that should be used to measure the current tax. However, not all of them were able to identify the correct tax rate for deferred tax. Even when the correct rates were identified, almost all the candidates did not provide the rationale for it. As the question required candidates to 'advise', the answer should have been supported by justification. The inability to do so resulted in losing some marks.

(ii) only a handful of the candidates were able to score 1 $^{1}/_{2}$ marks out of the 3 marks allocated. These candidates correctly indicated the deferred tax impact arising from goodwill on acquisition and the treatment, but none of them provided correct answers for the deferred tax impact on the investment in the subsidiary in the separate financial statements.

Question 02

Performance on this question was not satisfactory. Majority of the candidates failed to score over 50% of the allocated 25 marks.. The first section (in this question) with two parts tested knowledge on LKAS 39, LKAS 1 and ethics.

The second section was in three parts and was a direct application of LKAS 32. Candidates who knew how to recognise, value and measure a component financial instrument were able to score easy marks utilising minimum time. This part of the question provided an opportunity for candidates to save some time and effectively use this time for another question.

Candidates performed well on applying ethical requirements. However, their subject knowledge on financial instruments, its valuation and subsequent measurement and computation of effective interest rates was very poor. As a result, the general performance on this question was not satisfactory.

PART A

Part (a)

This part required candidates to analyse the given scenario in the context of the applicable accounting standards and ethical requirements. Majority had answered this part well and about 75% of the candidates were able to score over 50% of the allocated 7 marks for this question.

Part (b)

This part required candidates to explain the accounting treatment (by applying LKAS 1) in relation to a loan obtained from a bank where the company has not been able to maintain the conditions of the covenants. This was an easy two marks question, but the performance was poor.

Majority did not identify that there could be a breach of the loan covenant due to the fact that the company could not maintain the required annual sales volume. As a result, the bank could demand the loan to be paid. Accordingly, it is required to classify the loan as a current liability although the loan is due in more than 12 months.

Most of the candidates provided incorrect answers explaining that since the loan is due in more than 12 months, it should be classified as a non-current liability. Some others said there is no indication of the company having any going concern issue and therefore can classify the loan as a non-current liability. Some others mentioned that any instalments due in the immediate following 12 months should be kept as current and the balance as a non-current liability. The majority did not relate their answers to the key points in the scenario given. Therefore they failed to score any marks for this section.

PART B

This section tested knowledge on the application of LKAS 32.

Part (a)

This part required candidates to compute the value of each component in the instrument, excluding the issue cost. It was well-attempted by many. The majority provided satisfactory answers, applying the correct discount rate and correctly identifying both the equity and liability components of the given instrument..

Part (b)

Candidates were required to account for the issue cost and compute the net proceeds for each component of the instrument. Many scored poorly in this part.

Common mistakes made were:

- Deducting the entire issue cost from the total proceeds of the issue, instead of allocating it to the individual components in proportion to their proceeds.

- Not paying attention to the action verbs used in the question. The question focused on two action verbs. Candidates were required to **recommend** the required adjustments and **compute** the net proceeds. In order to recommend, candidates should have explained the requirement of the standard but many did not do this, therefore they lost some marks and were able to score only the marks awarded for the computation.

Part (c)

Performance in this part was poor. It required candidates to advise on how each component of the instrument should be subsequently measured, assuming that the liability is accounted for under the effective interest rate method.

Only a handful of candidates (about 2%) were able to compute the effective interest rate. Over 98% provided assumptions for the EIR instead of computing it from the given information and therefore lost 25% of the marks allocated to this part.

A considerable number of candidates did not present the answer in the format given by the examiner. Although the candidates were not penalised for not following the given format, they should make note of the importance of following the required guidelines when framing their answer.

Two other common mistakes made by candidates were:
- Taking gross proceeds of the liability in Year 1 without deducting the issue cost
- Failing to state that the equity component is not re-measured subsequently.

Question 03

The question intended to test the students' knowledge on consolidation, fair value measurement, integrated reporting and ratio analysis.

In general, even though most of the students were able to score more than 50% of the marks allocated to part (a) i.e. consolidation, their performance was very low when it came to evaluating company performance through ratio analysis. As a result majority of the students ended up by earning 20 - 30 marks out of the total of 50 marks allocated. Only a handful of students (5% - 7%) scored a mark above 30 for this question.

Part (a)

Most of the adjustments given in the question were straight-forward. In general, candidates performed well on this part and were able to make the necessary adjustments well.

Most were able to perform at a satisfactory level for this part. When analysing the marks, around 40% of candidates had scored more than 50% of the allocated 25 marks. The average marks scored by that 40% was 15 marks. However, around 5% of candidates failed to score sufficient marks, and their average was 5 marks or less, out of 25 marks.

Most of the students were able to make the following adjustments correctly:

- Identification of fair value applicable for goodwill computation
- Computation of goodwill
- Computation of consideration made in shares
- Identification of contingent liabilities
- Computation of consolidated retained earnings
- Correct identification of the type of lease

Presentation of the answer (along with the workings) was at a very satisfactory level.

However the following common mistakes were observed:

- When computing fair values candidates were unable to pick the best and highest use of value (Rs. 170 million).
- Many candidates missed out on computing the deferred tax effect on fair value changes in brand, building and bond investment. Out of those who did the deferred tax adjustment, majority recognised only the deferred tax on the FV of the building.
- Some candidates computed NCI as a % of net assets, whereas the question required to compute it at fair value.
- Most had incorrectly made provisions for relocating of employees (Rs. 5 million) as well.
- A considerable number of candidates failed to identify the 3-acre land and the 5 chalets as Asset Held for Sale. Instead they treated it as a disposal of the asset. Some candidates who correctly made the adjustment, failed in the presentation and erroneously classified the value under non-current assets.
- Some candidates had considered the Rs. 3 million incurred in the share issue in the computation of goodwill instead of accounting it as an expense within the period.
- Candidates did not identify the requirement to record the gain/loss on forward contracts at the reporting date:
    - A few had totally ignored it
    - A few recorded the gain in OCI
- Even though candidates were able to identify the classification of the lease, in most instances they were unable to;
    - Justify their classification
    - Make the necessary adjustments in the financial statements (e.g. remove Rs. 28 million from the related party and classify it as a prepayment or recognise it as an asset.

Part (b)

(i) This part was on fair value measurement. The average marks earned were 3-4 marks. Most were able to define the term 'Fair Value' and identify and define the three levels correctly. However they did not quote examples for each level from practical scenarios and as a result lost some of the marks. This indicates the difficulties faced by candidates in applying what they have learnt to practical scenarios.

(ii) This was on integrated reporting, testing the student's knowledge on current developments. Performance on this question was not satisfactory. Most were not clear of the concept and messed up the concept of integrated reporting with other concepts like triple bottom line reporting, sustainability reporting and corporate governance.

However quite a number of students were able to quote a few of the benefits of integrated reporting and scored some marks. Accordingly, the average marks earned for this section was between 2 - 2 $^{1}/_{2}$marks.

Part (c)

This part required candidates to analyse the performance of TSEL over the last two years through ratio computation, and prepare a report evaluating the performance in comparison to budgets. Details for the computation (budgets and the actuals) were given in the pre-seen and therefore candidates had adequate time to go through the details and do their pre-activities (analysis) prior to the exam.

However, students performed very poorly in this part of the question and scored only a very few marks, which resulted in them not collecting a considerable score out of the total 50 marks allocated to the full question. That was disappointing as all the information was in the hands of the candidates before the exam.

Most of the answers for this part were poorly planned. The question requested candidates to present a report to the management on the performance of the company. A considerable number of candidates were unable to follow a presentable format with appropriate headings and workings in an understandable and orderly manner.

Around 65% of the candidates scored 5 marks or below out of the 15 marks allocated to this section. Only 2% were able to score more than 10 marks. Accordingly, approximately 30% - 32% scored between 5 - 10 marks.

Reasons for the low performance:

- Not spending adequate time to do the necessary analysis on the pre-seen.
- Analysis being focused on profitability, whereas details were available to analyse liquidity, solvency and efficiency of the operations of the company.
- Not computing industry specific ratios (such as occupancy etc.) and analysing the performance referring to industry specific information.
- Mistakes with formulas and in application of data to the formulas.
- A considerable number of students were unable to present the analysis in a formal report format
- Computing some of the ratios but **not** analysing and interpreting them.

In summary, the low performance on this part clearly indicated the weakness in the knowledge of financial statement analysis and report writing.

KC2 – Corporate Finance and Risk Management

December 2015

Examiner's Comments

Overall performance of the paper

- Over 80% of the candidates showed poor time management
- Poor planning of the answer was visible
- Answers were not properly numbered (e.g. most candidates numbered Question 03 as Question 01).
- Candidates showed major weaknesses in theoretical areas
- Application of formulas was very weak

Question-wise comments

Question 01

This was a 25 marks question on evaluating three project options, and discussing how asset securitization can be used as a risk management tool.

<u>Common mistakes and weaknesses</u>

Part (a)

- Majority of the candidates had not planned their answers. As a result, only part of the question was answered by most of them.
- A considerable number of candidates advised from the ministry side.

Part (b)

- Some candidates missed the basic part of CIF analysis.
- Instead of calculating the NPV using discounted cash flows, some had calculated the P&L or CF.
- Taking the inflation effect of O&M from Year 1 instead of Year 2.
- Increase in O&M by 2.5% considered on absolute terms.
- Taking spare parts cost to Year 1 instead of Year 0.
- Some candidates misunderstood and thought only 5 machines were required and calculated accordingly.
- Treating income from O&M as an expense.
- Some students had done the evaluation on one machine. This did not give a correct picture as service charges were given on 200 machines.

- Under Option A, O&M charges were 5% of the bid value. Candidates had taken it as 5% of the cost.
- Planning of the answer was very poor.
- Calculation errors were commonly observed.
- Freight cost of 0.5% considered as 5% by most of the candidates.
- Some candidates assumed only 8 hours whilst some did not consider the number of hours per day at all.
- Confusion over the responsibility of operation. Is it GT or Ministry?
- Confusion over the scrap value and capital gain under Option C.

Part (c)

Candidates had understood the securitization concept as "giving an asset as a security to a bank/financial institution to obtain a loan, or obtaining an insurance policy against a possible loss/damage of an asset". This was incorrect.

Question 02

Part (a) (i)

Majority of candidates performed well and earned full marks for this question. However some did not remember the formula and/or did not have an understanding of the concept. Some candidates completely ignored the debt component when calculating EVA.

Part (a) (ii)

Majority of candidates confirmed the statement, but only a few linked their answer to the prospective of EVA and COC on invested capital.

Part (a) (iii)

Almost all of the candidates earned full marks for this simple question.

Part (b) (i)

Most of the candidates were able to do the calculations and earned full marks for it. However, they were unable to evaluate it as required. There were a few who calculated net working capital by deducting current liabilities from total assets.

Part (b)(ii)

Most of the candidates suggested delaying payments (which is unethical) to suppliers, rather than saying "negotiating with them for long credit terms".

Question 03

General comment

This was a 50 marks question based on the common pre-seen. However, more than 95% of the questions were based on the three observations given in the question paper.

Most of the candidates appeared to have spent a considerable amount of time analysing the data given in the pre-seen. This indicated that they were unfamiliar with the pre-seen and were inadequately prepared for the examination.

- Only a very few candidates had answered the question to a reasonable level.
- Some answered only a few parts of the question.
- Most of the answers were not related to the question.

Part (a) (i)

Many candidates indicated the importance of applying the correct cost of debt for local loans. However only a few had written correct answers including the impact of PPP.

Part (a) (ii)

Most of the candidates were unable to decide the correct method of calculating WACC. Common mistakes were as follows:

- Applying the USD interest rate of 4.5% instead of 5.75%. Since LIBOR of 1.5% was given only in the pre-seen, most of the candidates had missed that point.
- Ignoring interest on grace period.
- Calculating interest on the reducing balance method instead of fixed installments.
- Arriving at the value of the installment by just dividing the loan value by the number of years.
- Being unable to convert cash flows to Sri Lankan Rupees using the appropriate exchange rate.

Part (b) (i)

Majority of the candidates had not understood the question. As a result, these answers were not relevant and not even related to the subject matter.

Part (b)(ii)

- None of the candidates were able to give a satisfactory answer to this part.
- Candidates explained the other risk minimising options and money market techniques such as forwards, futures, hedging, options, which were completely irrelevant.
- Some had advised to cancel the SWAP agreement.

Candidates' knowledge in this area either seemed to be really weak or they appeared to not have studied at all.

Part (c)

- Understanding the nature of equity share capital seemed to be weak.
- Majority of the candidates justified the claim of MA Holdings. Some calculated the interest at the rate of 10% p.a. for 7 years.
- Some suggested to purchase MA Holdings in order to secure TSBL.
- Some justified a 10% claim, based on the cost of capital of 12% in similar companies or the interest of 5.75%.

Part (d)

- Majority of the candidates had calculated the net asset value of the business using the forecasted financial position as at 31/03/2016. However some had used the 31/3/2015 values.
- In arriving at the value of TSEL under the discounted cash flow method, candidates had made the following mistakes:
    - ➢ Deducting finance expenses of Rs. 20.1 million from net operating cash flow (NOCF) of Rs. 32.175million from year 2016 to 2019.
    - ➢ Ignoring tax of 28 % from NOCF.
    - ➢ Using inappropriate discounting rates.
    - ➢ In arriving at the PV perpetuity, 2016/17 NOCF values were used instead of 2020/21 NOCF values.
    - ➢ Failing to calculate the repayment of loan Rs. 215 million and interest on equal installment basis.
    - ➢ Failing to deduct PV of the loan repayment and PV of the tax benefit from the total PV of TSEL when arriving at the valuation of TSEL using the cash flow basis.

  Most of the candidates treated the net asset value as the minimum value and free cash flow as the maximum value.

Part (e)

Majority of the candidates had not understood the question and the following mistakes were observed:

- Failing to calculate recurring and non-recurring cash flows separately. As a result, in the first 3 years, non-recurring cash flows were also included in the recurring cash flows when determining PV of the cash flows (perpetuity).
- Disregarding the impact of 28% of tax.
- Valuing TSEL on the basis of synergy benefits, without incorporating the value arrived at in part (d) of the question.
- Synergy effect not considered accurately with time periods.

Part (f)

- Some candidates expressed that nonpayment of dividend is a reason to dispose shares since the dividend is the only return for ordinary shareholders.
- Some thought that non-payment of dividend is a reason to exit.
- Candidates displayed poor knowledge on capital appreciation of shares. However, some showed a fair knowledge on residual dividend payments.

KC3 – Corporate Taxation

December 2015

Examiner's Comments

Overall comments

The paper was set from core topics of the subject. Overall performance of the candidates was not satisfactory.

Most candidates were unable to approach questions methodically and did not produce focused, relevant answers that addressed the principal and core components of each requirement.

It appears that candidates have ***repeatedly*** not addressed the structure of Curriculum 2015 and the key attributes related to Corporate Level. Understanding of industry and business circumstances, analysing of information, making decisions based on various information collected and analysis made, and reporting and communicating skills were very poor, despite the fact that corporate level students are expected to have these skills in order to be future corporate leaders.

Candidates should be able to compile comprehensive tax computations. Not only that, they should also be able to engage in tax planning, make decisions to minimise tax expenses and mitigate risks, and effectively communicate with tax authorities, clients and the management. Thus, displaying only technical knowledge is not sufficient. Even though this was an open book examination, answers were not up to the required standard in terms of technical and legal aspects.

Candidates are advised to address the structure of the paper. The three questions are based on scenarios and therefore the answers should be the outcome of leaders in that practical situation. In line with that expectation, it is recommended that candidates pay careful attention to the action verbs, expected learning outcomes, knowledge process, knowledge dimension etc.

The main reasons for poor performance appeared to be the following:

- Lack of studying as well as preparation for the syllabus change
- Lack of understanding of the requirements of the questions
- Producing irrelevant facts and thereby not having sufficient time to answer all the questions adequately
- Lack of communication and presentation skills.

Question-wise comments

Question 01

General comments

Overall performance in this question was very poor and below the satisfactory level.

The commonly observed weaknesses of candidates were:

- Lack of knowledge in double taxation principles, which is an area corporate level students are expected to be reasonably thorough in.
- Inability to write reports by analysing the given facts of a situation.
- Improper reading, which resulted in misunderstandings and careless mistakes in calculations.
- Poor reference to the relevant section and building the answer accordingly.

Part (a)

- Knowledge on the residency principle was poor. Candidates were weak in explaining the facts.

Part (b)

- Most candidates did not take the 1st quarter receipts.
- Some have incorrectly taken 6% and 12% as the tax rates applicable to foreign and local components, respectively.
- Most candidates did not have the knowledge to correctly calculate remittance tax.

Part (c)

- Most candidates were not aware of how to make use of the provisions of Section 45 and Section 46. They did not know that it is not applicable to non-resident companies and non discrimination article of Double Tax agreement.

Part (d)

- This was an easy and straightforward question since the Act was available. Candidates could have easily referred to the Act and given the correct answer.

Part (e)

- Some candidates had mentioned different days to determine residency status (e.g. 180 days, 90 days).
- No one mentioned the DT agreement requirements.

Question 02

General comments

This question tested the knowledge of candidates in Value Added Tax (VAT) in the following areas:

- Assessing output tax, input tax and ascertaining the balance tax payable thereon, by a VAT registered person that carries out multiple business activities.
- Outlining significant features of the Simplified VAT (SVAT) scheme.
- Outlining the penal provisions applicable to accountants, auditors and tax practitioners in respect of interpretation of provisions, frauds and incorrect returns.
- Financial reporting and taxation

Regretfully, majority of the candidates showed a lack of detailed understanding of the areas being examined.

Most candidates were not familiar with the proper method of calculating VAT, which is not at all acceptable at Corporate Level examinations. Many candidates were unable to follow even the correct order to present the VAT payable calculation.

Part (a)

- Candidates failed to identify suspended supplies and apply the correct VAT treatment thereon. Some did not identify them as suspended supplies and instead incorrectly considered them as zero-rated supplies.
- Some candidates had applied 11/111, although it was clearly mentioned in the question that amounts were "VAT exclusive". This showed that they had not read the question carefully.
- Most candidates did not recognise the fact that there is an allowable input tax that is claimable without any restriction.
- Some candidates had considered suspended supplies when finding claimable input tax subject to 100% restriction.
- Even though the question specifically stated that all due credit vouchers on suspended supplies have been received, none of the candidates noted this fact and therefore did not take the SVAT credit against the VAT liability.

Part (b)

- Only a handful of candidates had mentioned the relevant SVAT forms.

Part(c)

- Part (i) – Only a very few candidates were able to identify the relevant category as being "Excluded Supplies".

- Part (ii) – Most candidates had not duly referred the correct subsections. Since the Act and relevant sections were available, candidates could have answered this part with ease.

- Part (iii) – Only one candidate has correctly answered this part. If candidates had referred the Inland Revenue Act, they could have easily found the correct answer.

Part (d)

- Candidates are expected to have report writing skills at Corporate Level. However, many were unable to present the answer properly.
- Some candidates had completely misunderstood the question (deferred payment scheme) and instead explained deferred VAT on imports.
- Candidates are unaware of the gazette notification of 1857/8 dated 09/04/2014 on adoption of Sri Lanka Financial Reporting Standards. Not a single candidate had mentioned it.

Question 03

General comments

Candidates should understand the importance of the "pre-seen" as the aim of the examination was to test a wide range of syllabus areas. Candidates are strongly reminded that they must familiarise themselves with the pre-seen material prior to the examination. There may be instances where the examination questions do not directly examine the pre-seen material. However, the unseen material has been build upon the pre-seen information and therefore the pre-seen material does help candidates to gain a better understanding of the overall theme of the unseen material.

Part (a)

- Overall performance in this question was below the expected level. Some candidates seemed familiar with certain tax treatments whilst some were not.
- Most candidates were not aware of different income rates applicable on qualified export profits.
- Interest income – debenture interest had been considered as liable though it is an exempted income.
- Some candidates had erroneously taxed dividend income. Some had grossed it up and deducted the same from assessable income although it should not considered as part of total statutory income.
- Only a handful of candidates knew that advertisements outside of Sri Lanka incurred solely in connection with the export trade, for payment in foreign currency and related foreign travel expenses, are 100% allowable when export income is concerned.
- Very few candidates identified that advertising outside Sri Lanka on setting up an office is capital in nature and is disallowed for tax purposes.
- Almost all candidates were not aware of the entitlement to claim 100% depreciation allowance on the acquisition of the wind power plant. Instead, they applied other rates.
- Poor presentation of the answer prevented candidates from scoring the allocated marks.
- Claim of losses – candidates were not aware of respective provisions applicable to a company enjoying a tax holiday and thereby lost marks allocated to determining trade loss net of trade profit during such a tax holiday period. However most candidates did display their knowledge on restricting a loss claim to 35% of total statutory income.

- Qualifying payments – only a very few candidates knew that the investment in the community development project was limited to Rs. 10 million, and approved donations limited to $^1/_5$ of assessable income or Rs. 500,000, whichever is less.
- None of the candidates identified that interest income of a limited liability company is liable to tax at 28%, or were aware of how it should be computed where the comprehensive income tax computation is concerned.

Part (b)
- This question tested the awareness on major tax holidays, exemptions and other incentives granted under the Inland Revenue Act and Board of Investment Law. Almost all candidates were unable to analyse the tax exemption correctly, clearly showing a lack of ability to interpret legal provisions and identify tax holidays, exemptions etc.

Part (c)
- This question tested the knowledge on statutory provisions relevant to transfer pricing (including the concept of "arm's length price" and prescribed (gazette) methods of transfer pricing). Majority of the candidates were unsuccessful in answering this question. They just had to write the explanation given in the applicable section for an associated undertaking and identify activities or areas where it may have an exposure to transfer pricing.

Part (d)
- This question tested the knowledge on statutory provisions related to case law and their application. It was generally well attempted. Almost all candidates were able to give correct answers, at least to a certain extent. However, candidates are advised to develop their answering skills by analysing, referring to a decided case and then coming to a conclusion. Some candidates had mentioned cases that were irrelevant.

Part (e)
- This was an easy, straightforward question that required understanding of statutory provisions on submitting dividend returns. Majority of the candidates showed a lack of detailed understanding in this area. Although the question referred to a return of dividend, most candidates had misunderstood it and explained deemed dividend tax.

KC4 – Corporate Governance, Assurance and Ethics

December 2015

Examiner's Comments

Overall comments

This paper consisted of three questions. Question 01 and Question 02 carried 25 marks each, and Question 03 carried 50 marks.

The third question was based on the pre-seen material as well as the scenario given with the question. Although all candidates had attempted this question, the performance was not satisfactory.

The main reasons for poor performance appeared to be the following:

- Lack of knowledge in auditing standards
- Failing to answer the specific question requirement
- Lack of knowledge in examination techniques
- Not following the action verbs
- Not tailoring the answer to the scenario
- Not studying the study text
- Illegible hand writing

Question-wise comments

Question 01

Parts (a), (b), and (c)

- Candidates who had identified the correct reporting framework, SLAuS 800, produced good answers. Others had written irrelevant answers. This may be due to the lack of knowledge of examination techniques. If candidates had done past papers they could have answered well.

Part (d)

- Most candidates had misunderstood this question. It asked to advise the partners, as there were adverse remarks on the quality of the audit work. Some candidates had written irrelevant answers referring to quality control at an individual assignment level. This reflected that these candidates lacked practical experience, or that they had not done past papers.

Question 02

Part (a)
- Candidates demonstrated lack of knowledge in audit risks, such as going concern, estimates and frauds. However, they were able to identify weak areas in the given scenario.

Part (b)
- Majority of candidates ignored the appropriate method of examining journal entries. They also failed to identify the issue as "management override", and as a result produced irrelevant answers such as authority sequence of the entries.

Part (c)
- Candidates lacked knowledge in audit strategy. They should have referred to the study text.

Part (d)
- Majority of candidates had not produced correct answers. They lacked knowledge in audit procedures.

Question 03

Part (a)
- This question was based on the study text. Majority of candidates had misunderstood the question and wrote about the board balance and non-executive directors, ignoring that fact that the company is not a limited liability company.

Part (b)
- This question was also based on the study text, but the importance of the external auditor's role was not answered by many candidates.

Part (c)
- Although this question was on critical business risks, most of the candidates had written about normal business risks. Yet again, this question was based on the study text but only a small number of candidates had answered it.

Part (d)
- Many candidates were unable to understand the independence of the internal audit division. Some had written functions of the internal auditor.

Part (e)
- This part also could have been answered well if candidates had studied the study text. The answers given were not specific.

Part (f)
This part was answered well by the majority of candidates.