

## **KB1 – Business Financial Reporting**

**June 2017**

### **Examiner's Comments**

### **Question-wise comments**

#### **Question 1**

##### **General performance**

Majority of the students scored more than 4 to 6 marks out of 10 marks allocated. More marks had been scored for part (b) which was fairly easy part testing the board composition.

##### **Reasons for good/bad performance**

###### **Part (a)**

- Most of the students have not understood the question properly, and failed to provide their assessment on the recognition of investment in shares in the books of Wealth. Quite a number of students have not mentioned the definition of an asset provided in the conceptual framework.

###### **Part (b)**

- The question was straight forward as it was directly from the study materials. This was tested in past papers too. More than 50% of students scored 5 or 6 marks out of six marks allocated.
- Even though the expected answer was confined to the composition of the board, few students have written about the responsibilities of the board, audit committee, remuneration committee etc.
- Even though the question asked to explain 3 areas, quite a number of students wasted their time by writing 4 to 5 points.

#### **Question 2**

##### **General performance**

The question is fairly easy and straight forward regarding the preparation of an extract of statement of cash flows showing cash flows from operating activities using the in-direct method. Most of the students scored more than 5 to 7 marks out of 10 marks allocated.

### **Reasons for good/bad performance**

- Most of the students have not adjusted for the impairment of property, plant and equipment as it is a non-cash item.
- Few students have considered the movement of the bank overdraft balance as a working capital adjustment.
- Movement of the deferred tax liability has not been considered in computing the income tax paid during the year.
- Without properly reading the question, 15% to 20% of students have prepared the full cash flow statement and have wasted their time.

### **Question 3**

#### **General performance**

This question is fairly answerable and carries 10 marks. About 40 % of students scored 4 to 6 marks out of 10 marks allocated.

#### **Reasons for good/bad performance**

##### **Part (a)**

- Around 30% of students failed to identify that the initial recognition of loan is at fair value and the subsequent measurement is at amortised cost.
- Some students have recognised the total loan proceed received, as the initial value of the loan. However the initial value of the loan should be the fair value of the loan, which has to be arrived by discounting future payments using the market rate of interest of a similar loan.
- Without properly understanding the question, few students have answered from the point of Kay (Pvt) Ltd instead from the point of view of Jay (Pvt) Ltd.

##### **Part (b)**

- The question required to advise the management on the initial recognition and subsequent measurement of available for sale financial assets. However, around 30% of students have just written, the value of a share without mentioning the basis for adding the purchase commission at the initial recognition of the financial asset and the basis for not adding the sales commission at subsequent measurement.
- About 30% of students failed to point out the correct accounting treatment for the impairment of the financial asset.

### **Question 4**

#### **Reasons for Good / Bad Performance**

##### **Part (a)**

- Most of the students have scored from calculations but failed to correctly mention one year figure by spreading it over four years. Though the question required to discuss the accounting treatment for the share option, most of the students have limited their answers to calculations.

### **Part (b)**

- More than 50% of students scored full marks for part (i).
- However, considerable number of candidates have shown net actuarial gain under P & L account instead of recognising it under other Comprehensive Income.

### **Question 5**

#### **General performance**

This question carrying 10 marks had two parts. Part (a) tested the student's interpretation and analysis knowledge on ratios. Part (b) was on integrated reporting. Although the question was very direct and easy, the candidates did not perform to a satisfactory level. About 30% of the candidates were unable to get 50% of the marks for part (b).

#### **Reasons for Good / Bad Performance**

##### **Part (a)**

- Even though the company has shown a good liquidity position compared to the previous year and the industry average, some students identified it as a negative indicator.
- Some students failed to understand what is meant by inventory turnover (times). Therefore the reduction of inventory turnover has been considered as favourable to the company.
- Few students did not understand the concept of liquidity and working capital management.

##### **Part (b)**

- Majority of students wrote lengthy answers by describing integrated reporting rather than writing the benefits of integrated reporting.

### **Question 6**

#### **General performance**

This question carried 25 marks and was in two parts, where 19 marks were given for the preparation of Consolidated Statement of Financial Position, and 6 marks for a theory question which required the students to analyse whether the given company is an associate or not. Most of the students did the calculation part correctly. Average marks scored were 12-15 out of 19 marks allocated.

#### **Reasons for Good / Bad Performance**

##### **Part (a)**

- Depreciation of building in adjustment number 2 has not been properly understood by few candidates. Some students have calculated depreciation on land value also.
- Even though some candidates calculated unrealised profit correctly, they erroneously adjusted the total figure to retained earnings without adjusting it to the non-controlling interest.
- Some students just wrote the amount without showing calculations in their workings, and hence lost marks allocated for the steps.

### **Part (b)**

- Around 40% of students identified that Bean (Pvt) Ltd cannot be treated as an associate company of Sonic (Pvt) Ltd.
- Most of the students repeated the same facts given in the question and did not clearly state the conclusion.

## **Question 7**

### **General performance**

As in the previous examination, this was a question with 25 marks in total. Student's knowledge on application of the principles in various accounting standards is tested in four different parts.

Significant number of candidates (approx. 40%) scored less than 10 marks. Around 25% of students who attempted this question at the end, did not manage the time properly. Without understanding the action verbs such as "Advise" and "Comment", most of the students did not write the principals behind the adjustments and judgments. This being a '25 mark question', weak performance would have led to quite a number of students not reaching the required pass mark.

### **Reasons for Good / Bad Performance**

#### **Part (a)**

- Few students did the calculations correctly without providing proper explanation of the accounting treatments while some students wrote the accounting treatment without the calculations.
- Some students identified the entire value of the bonds as a liability, and failed to recognise the equity component.
- Few students have considered the maturity period of the bond as 9 years, though it should be 10 years. As a result, students have ended-up with a wrong present value calculations.
- Some candidates did not discount the cash flows to arrive at the liability and equity components of the loan. Students have used a lengthy processes to calculate the present value of the liability component, without simply using the annuity factors.

#### **Part (b)**

- Only a very few students recognised Windows 10 licence as an operating software which has to be capitalized with the laptops.
- Some students accounted MS Office 2017 licences under current assets, though it is a non-current asset.
- Most of the students have calculated depreciation for 12 months, even though only 3 months were applicable for the current year.
- Some students considered all the items as property, plant and equipment even though MS office and AutoCAD were intangible assets.

#### **Part (c)**

- Few candidates did not understand that the given scenario has included a contingent asset as well as a contingent liability.

- Due to that around 40% of students wrote correct answers for the provision for contingent liability but failed to identify the insurance claim as a contingent asset. Therefore they did not mention about the disclosure requirements applicable for the contingent asset.
- Few students wrote that provision for contingent liability should be accounted through OCI.
- Considerable number of students have not mentioned the recognition criteria for contingent liabilities as per LKAS 37, though it was expected to be mentioned in the answer. Some of the students have incorrectly calculated the liability by recognising only 60% of Rs. 26 million.

**Part (d)**

- The action verb in the question was “Advise” but some students did only the calculations without understanding the action verb.
- Some of the students failed to recognise the grant related to the training cost as an income related grant. Therefore they have accounted it as an asset related grant and recognised it as an adjustment to the property value thereby computing the depreciation.

## KB2 – Business Management Accounting

June 2017

Examiner's Comments

### Question-wise comments

#### General comments about submission of workings

There were a number of instances where marking examiners could not award marks due to the failure of the candidates to submit workings. When a candidate has made a mistake, and the particular workings is not shown, it may not be possible for the examiner to award marks for the correct steps in the particular workings and possibly also other subsequent steps which would have otherwise earned marks.

#### General comment about candidates' handwriting

There were a number of instances, where the marking examiners found it extremely difficult to read the candidates' handwriting. If the examiner is unable to read what has been written, then no marks can be awarded to the illegible section.

#### Question 01

##### General Comments

The average performance for question 01 ranges from **5 marks to 6 marks** out of 10 marks allocated.

The question is straightforward and tests the candidates' knowledge about **marginal costing and throughput accounting**, especially the computation of **contribution and determination of product mix** in the **presence of bottleneck processes**, under two principles. In particular, the question tests the ability of the candidates to identify and ascertain the profit maximizing product mix when there are more than **one bottleneck process**. The selection of bottleneck process had been a key decision in the answer.

The specific comments and weaknesses observed under each part are as follows

##### Part (i)

Candidates' performance on part (i) was **very satisfactory**. Majority of the candidates (about 90%) had scored **full marks** allocated to the part. However, a negligible amount of candidates (about 3%) had discussed on how stock valuation differs under **marginal costing** and **throughput accounting**, without any reference to **contribution**. Some students (about 15%) had given **extensive calculations** taking figures from the question itself, which was not expected by the Examiner.

Part (ii)

Performance of candidates was **somewhat satisfactory**. Average marks scored on this part ranges from 2 marks out of 3 marks. Large number of candidates (about 70%) had not identified the **“the key process”** under bottleneck (i.e. Y) whereas some poor candidates had identified X as the **only** process under bottleneck, **without reference** to the requirement of the question. The question stated that the product ranking should be done based on the **throughput accounting ratio defined** in the question. Although marks were allocated for identifying both Y and X as bottleneck processes and ranking products based on contribution per limiting factor, all candidates who attempted in a such manner, had not mentioned the fact that the **slack time available in other processes, for example, Z could be utilized for processes under bottleneck**.

Some weak candidates (about 5%) had ranked products dividing **total available time under each process** by the **contribution** (e.g. 3200/112 for B). Substantial amount of candidates (about 60%) had not computed the number of units to be produced from **product B** because they had not identified the **“key process”** under bottleneck. Although the marks were allocated for ranking products on total time required on the whole process (i.e. X+Y+Z) or two process under bottleneck (i.e. X+Y), there **was no consistency displayed throughout** the answer **until the product mix is computed**. That is to say, many candidates (about 50%) had ranked products on all three options (i.e. X, Y, Z) **separately** and computed the **product mix under three options leaving the examiners to chose the best answer**. They displayed poor discipline in academic evaluations. Some candidates (about 30%) had computed profit under each **method** and advised accordingly.

Part (iii)

Average performance on this part of the question varies from **2 marks to 2 ½ marks out of 5 marks** allocated. The performance of the candidates on this part of the question **was somewhat satisfactory**. Throughput contribution had been computed by **all most all the candidates correctly**. However, about 70% of the candidates had taken the **total number of hours required per unit** for the computation of throughput contribution per bottleneck resource (E.g. 120/36 for B). As observed in part (ii) of the question, ranking and computation of product mix had been done for **all possible options**, with respect to identifying bottleneck process and **left the selection and advise part to the Examiner**.

A number of candidates (about 50%) had omitted the **variable component of the factory overhead** in the computation of TAR. Many candidates (again, about 70% of the candidates) had been unable to identify the **“the key process”** i.e. process Y in order to compute the **throughput contribution per bottleneck resource**. Some candidates (about 15%) had used product ranking under marginal costing for part (iii) and computed the product mix accordingly. As observed in part (ii), a considerable amount of candidates (15%) had computed profit and loss under throughput accounting and attempted to interpret the results. All most all candidates (about 98%) appear to have not understood the usefulness of TAR as none of them advised that **product B should not be produced as TAR is less than one**. This was largely because of the wrong selection of the **key process under bottleneck**.

## Question 02

### Part (a)

Answered satisfactorily by a majority of the candidates. However, some could not state the environmental costs correctly and had given irrelevant answers such as; inventory holding cost, ordering cost etc. The part (ii) required candidates only to state the environmental costs. However, some had wasted their time trying to explain them.

### Part (b)

Although many had satisfactorily answered this part by identifying liquidity and profitability as the two main objectives of working capital management, some could not explain clearly why these two are sometimes in conflict with each other.

Some had given irrelevant answers like trying to explain the components of the working capital, stating the objectives as minimising risk and maximising returns, aggressive and conservative working capital management.

Some had explained liquidity as holding only cash and the need to invest in stocks to maintain the profitability displaying their lack of understanding of liquid assets.

## Question 03

### Part (a)

This part was satisfactorily answered by many candidates. However, some candidates had made mistakes in,

- (i) Calculating the slope of the price – demand line,  $y = a + bx$
- (ii) Computing total revenue function in terms of price (p) and arriving at  $\frac{dR}{dp}$  and thereafter unable to proceed or equating it to MR (i.e.) being unaware of the relationship  
 $MR = \frac{dR}{dx} \cdot \frac{dp}{dx} = \frac{dR}{dx}$
- (iii) Some who had followed the tabular approach had distributed fixed cost among the units like variable cost.
- (iv) Using incorrect price levels to arrive at the maximum profit (when using the tabular approach) i.e. candidates could not state the price range which has the maximum price.

### Part (b)

Answers to this part were poor. Many had mixed up market penetration with market skimming and thus discussed the appropriateness of market penetration instead of skimming. Those who had answered on market skimming could not discuss why skimming is not relevant to the given scenario.



## Question 04

### General Comments

The average performance for question 04 ranges from **2 marks to 4 marks** out of 10 marks allocated.

The question is simple and tests the candidates' knowledge about **responsibility centers and the importance of the controllability principle in setting up responsibility centers**. Overall performance of the candidates was not up to the standard.

The specific comments and weaknesses observed under each part are as follows.

#### Part (a)

Candidates' performance on part (a) was **very poor** and the average marks scored by the candidates for this part of the question was **2 ½ marks out of 6** marks allocated. Majority of the candidates (about 60%) had failed to identify and explain the responsibility centers **accurately**. Considerable amount of candidates (about 30%) had just **defined** the responsibility centers by **functional form**, for example, **revenue centers accumulate and make sales whereas cost centers make all types of payments**. Very poor candidates (about 10%) had displayed their unfamiliarity with the understanding of **responsibility centers** as they had identified **marketing, production and IT services** as responsibility centers. Also, another set of candidates (about 35%) had provided **very general answers** which were **unacceptable**, for example, **revenue centers are the units that generate revenue and cost centers are the units that incur costs**. These candidates appeared to have **not understood** and **read** the question carefully as the question requires to **explain the responsibility centers** with respect to **responsibilities** (or even accountability) of managers or center heads. A large number of candidates (60%) had failed to mention that center managers or respective centers are **only accountable for controllable major components** (e.g. controllable sales of a sales center/ controllable costs of a costs center etc.). An expected answer should have carried, very briefly, **an example for each center** and how the **performance of each center could be measured** (i.e. **one or two** measures would have been sufficient). **All most all candidates** had not mentioned that investment centers **carry additional responsibility** (in addition to sales, product cost, and profits) for **investments, capital employed including working capital** of the Company.

#### Part (b)

Performance of the candidates was **very poor**. Average marks scored on this part range from **½ a mark to 1 mark out of 4 marks**. The question requires the candidates to identify and explain the application of **controllability principle** in setting up responsibility centers.

In particular, the students were required to **demonstrate** that centers must ensure **uncontrollable elements are eliminated**, or at a minimum, **distinguished** between **controllable and uncontrollable**, from the scope of center managers so that the **reporting responsibility is within the purview of the managers**. Only a negligible amount of candidates (about 5%) had explained this clearly. Also, all the candidates (99%) had missed out the fact that **performance evaluations of the center managers/heads** must be based on **measurable targets**, significantly **influenced** (within the control) by the center managers/heads.

## Question 05

Performance in the question was poor with approximately 20% of the candidates either did not attempt the question or scored zero.

Common mistakes made by the candidates were;

- (i) Though the question states that the company's present overdraft balance of Rs. 50 million is accruing interest at 15% per annum and any excess money can be placed on deposits at 12%, many candidates had used this deposit rate to work out the interest cost on debtors without realising that the company has to pay an overdraft interest even after the proposed settlement discount scheme is implemented.
- (ii) Calculation of interest on the increase in credit sales rather than the interest on increase/decrease in debtors.
- (iii) Bad debts being provided on cash sales.
- (iv) Very few candidates have calculated the average credit period after the change (39 days) and compared with the existing credit period (75 days). The answers to part (b) were poor with many attempting to answer the part without the necessary calculations of the average credit period after the proposed settlement discount scheme.

## Question 06

### General comments

Majority of the candidates hadn't answered the question satisfactorily. However, a few candidates had scored high marks. The question consisted of four parts testing the candidates' knowledge on the learning curve, budgeting, planning and operating variances as well as feedback and feed forward controls.

Part (a) required the candidates to compute the revised labour and variable overheads budget without flexing, taking into account the learning effect, where the impact of the learning effect applied only to the first 1,000 units produced during the month. The marks allocated to the part was 07.

In part (b), where the mark allocation was 4, the candidates were required to prepare a budgetary control statement (flexed budget) for the month taking into account the learning effect.

Part (c) required the candidates to compute the planning and operating variances for labour efficiency and variable overheads efficiency to score 6 marks.

The requirement in part (d) was to discuss the differences and usefulness of feedback control and feed forward control techniques for WPL to manage its operations efficiently. Eight marks were allocated to the part.

### Specific comments

The candidates' performance in part (a) was poor. It appeared that most of the candidates were not aware of how to calculate the total time needed to produce 3,000 units, where the learning effect was applicable only to the first 1,000 units produced during the month (9,000 units being produced during the first 3 months). Only a very few computed the cumulative average time per unit and the total time to produce the first 9,000 units, 9,999 units and 10,000 units and the incremental time for the 10,000<sup>th</sup> unit, in order to compute the correct total time required to produce 3,000 units. Some candidates had substituted 3,000, the budgeted production for the month for  $x$  in the learning curve

formula and used the resulting cumulative average time per unit to calculate the revised labour hours for the fourth month. Some candidates had obtained the difference between the cumulative average time per unit for 9,000 and 10,000 units and multiplied by 1,000 to compute the total time for 9,001 to 10,000 units. A number of candidates had calculated the standard labour rate per hour and VOH absorption rate per hour incorrectly, Rs. 2,000 and Rs. 1,500 being the most common, although more than half the candidates had computed the rates correctly.

The performance of the candidates in part (b) was average. Many candidates had failed to compute the direct labour and variable overhead costs correctly for the flexed budget. A number of candidates had ignored the fact that the fixed cost would not change with the change in the quantity produced. Further, many candidates had calculated the revised budget for 3,000 units, instead of the flexed budget for 2,500 units.

Candidates' performance in part (c) was not satisfactory. A considerable number of candidates appeared not to have known that operational variance is the difference between the revised budgeted hours for actual production of standard rate per hour and the actual hours at standard rate per hour and the planning variance is the difference between the original and revised budgeted hours for actual production at standard rate per hour. Hence, they had computed the original and revised budgeted hours based on the budgeted production, instead of the actual production. Further, many candidates had used the actual cost instead of the actual hours at the standard rate to compute the operational variances. Some candidates had used an incorrect standard labour rate per hour and standard VOH absorption rate per hour in computing planning and operating variances for labour efficiency and VOH efficiency.

Candidates had performed satisfactorily answering part (d) of the question. Many candidates had differentiated between the feedback control technique and the feed forward control technique. However, many hadn't discussed the usefulness of these control mechanism to WPL. Many candidates failed to recommend the control mechanism that would be beneficial to WPL. Further, a very few candidates mentioned the fact that under feed forward control the future expectation is usually generated by using the information that was not available at the time the original plan was set.

Part (d) was best answered.

## **Question 07**

Part (a)

Performance poor, with many candidates misinterpreting the information given in the question and/or misinterpreting the requirements of the question.

### Misinterpretation of the information

The following information given in the question has been misinterpreted.

“ If MDB wins project X, it will not consider any price reduction when bidding for project Y. The probability of MDB winning both projects in that event is 48%”.

Some candidates have misinterpreted the above information and have taken the probability .48 as the probability of Y given X occurring (probability  $Y/X$ ) and not the probability of both X and Y occurring (probability  $X\&Y$ ).

### Misinterpretation of the requirements

Part (a) requires the candidates to assess the following probabilities.

- (i) The probability of winning Y after winning X, having quoted X at normal price.
- (ii) The probability of losing Y after winning X, having quoted X at normal price.
- (iii) The probability of winning Y after winning X, having quoted X at reduced price.
- (iv) The probability of losing Y after winning X, having quoted X at reduced price.

Some candidates have misinterpreted the above requirements and have worked out joint probabilities instead of the conditional probabilities (i.e.) have calculated the probabilities of winning/losing the projects X and Y, by interpreting the word after winning X as winning both the project X and Y. (since project X precedes project Y)

Part (b)

Many candidates were unaware of the basics of construction of the decision tree:

- Every decision tree starts from a decision point with the decision options that are currently being considered. Many had not identified that the main decision point is quoting EXE at Normal/Reduced price. Instead, some have started the decision tree with winning/losing EXE, not realizing that these are outcomes arising from the decision choices.
- Distinguishing decision points from outcome points (i.e.) a circle is used as a symbol for an outcome point (a square is used as symbol for decision point)
- When a decision taken now leads to other decisions taken in the future, the decision tree should be in chronological order from left to right (first decision should be drawn on the left)

Part (c)

This part was poorly attempted. Many were unaware of the methodology in evaluating a decision tree. Many were unaware that evaluating a decision tree involves calculating the expected values starting from the right hand side and working backwards towards the left hand side and the current decision under consideration.



## KB3 – Business Law and Tax

### June 2017

#### Examiner's Comments

#### Question 01

- (a) Candidates are expected to explain provisions in relation to forming of single shareholder (sole shareholder) companies as laid down under section 4 (2) of the Companies Act. Some candidates understood the section correctly but some others have not understood the question correctly. They have confused the Secretary to Treasury with the company secretary. They had expressed the view that the company secretary cannot hold shares in the company i.e. secretary is not authorised to own shares of the same company. Therefore, Chathura Senarathne who held shares on behalf of the government cannot be the sole shareholder of a company i.e. it is not possible for Chathura to be the sole shareholder of a company even though he holds shares on behalf of the government in his capacity as Secretary to the Treasury of Sri Lanka.
- (b) (i) Question asks to explain the role of the company secretary as laid down in *Panorama Development Ltd vs. Fidelis Furnishing Fabrics Ltd*. Some had made reference to section 221 and stated that every company shall have a secretary and had explained further the requirements that should be followed in appointing a secretary. Some others had explained persons who are disqualified to appoint as secretary to the company and the required qualifications for person to be appointed as a secretary of a company or certain functions, which are not coming under the purview of the company secretary.
- (ii) Question asks as to who will have the power to remove the secretary from the office of company secretary though some had furnished the correct answer as per section 221. Some others had gone and explained the procedure followed in appointing a company secretary/ registration of a secretary.

Some others had expressed the view that shareholders have the power to remove the secretary by passing a special resolution at an AGM or EGM or Registrar of Company has the power to remove the company secretary.

## Question 02

(a) Candidates were expected to explain how a pre-incorporation contract can become binding on the company when it is incorporated since there are changes in the new Companies Act. In their answers they had dealt with case law *Kelner vs Baxter* which is no more valid for company law in Sri Lanka. Some others had stated the company is not under obligation to ratify the pre-incorporation contract and the promoters are personally liable for the affected party.

(b) Some had correctly stated 2 duties of promoters. Whilst some others had stated duties in general and explained areas such as;

He should act in good faith for the best interest of the company and they are liable to third parties with whom the pre-incorporation contract was made and so.

(c) This part requires to summarise 3 methods that can be utilised to reimburse the cost incurred by promoters to incorporate the company and to obtain payment for the services rendered by them. Some were familiar with those methods while some were not familiar with it and had explained various areas which were not relevant. In the answers candidates had stated that as per section 42 of the Companies Act payments to promoters are made by issuing shares as follows.

- Company seeks to pay them by issuing shares.
- A percentage of the net amount of the consideration received by the company in issuing shares or debentures.
- Directors of the company can approve the amounts due to promoters and so on.

## Question 03

(a) Majority of the candidates did not know the features of ordinary shares and preference shares and had furnished their own assumed answer on the basis of the names of the shares. In their answers they had covered some areas such as;

- i. Ordinary shares represents equity capital or stated capital and preference shares represent debt capital.
- ii. Ordinary shareholders are the real owners of the company whilst its preference shareholders are creditors of the company.
- iii. Ordinary shareholders are invited for the AGM/EGM of the company and preference shareholders are not invited for them.

(b) A fair percentage of candidates were familiar with section 06 of the Companies Act and had furnished acceptable answers. A majority of candidates were not familiar with the said section and had dealt with some irrelevant areas such as;

Section 17 (1) objects containing in Articles of a company.

Section 49 (1) issuing of preference shares by a company.

Section 67 (2) redemption options available for redeemable preference shares.

Section 68 redemption of preference shares at the option of preference shareholders and so on.

Few others had expressed the view that the consideration payable on redemption of shares has to be calculated by referring to a formulae or required to be fixed by a suitable qualified

person who is not associated with or has no interest with the company affairs and the directors are responsible to do the same.

#### Question 04

- (a) The question requires to explain the procedure to be followed in passing of a resolution in lieu of a meeting as laid down under section 144 of the Companies Act. Some candidates were familiar with the section and had furnished some satisfactory answers. This is very simple as they had the Act with them for reference while answering the question.

But many others had not correctly understood the question and had explained some irrelevant areas like procedure to be followed in appointing the directors of a company, procedure followed for passing a special resolution, procedure followed in calling for an AGM/EGM, instances where company need not call for an AGM, removing of directors from the post in terms of section 206, provisions laid down under section 143 re-passing of special resolution and so on.

- (b) (i) Question requires to explain the main difference between a shareholders' voluntary winding up and a creditors' voluntarily winding up as per provisions laid down in the Companies Act.

Some candidates instead of explaining two differences had explained some areas such as;

- Explaining as to what is meant by shareholders voluntarily winding up or creditors' voluntary winding up.
- Who can be appointed as an administrator.
- Explaining situations under which shareholders can wind up the company voluntarily as per section 319 and circumstances under which a creditors voluntarily winding up can take place and so on.

- (ii) Though some had correctly explained instances where an administrator may not be appointed, many others had furnished incorrect answers including the following;

- Explaining the procedure followed in appointing of an administrator and remuneration payable to him.
- Realisation of assets of the company by the administrator and accounting for them.

#### Question 05

- (a) Some candidates had furnished acceptable answers whilst a majority had failed to do so. In their answers they had dealt with areas including the following,

- Explaining the term insider trading.
- Berty has got the information not from an insider of the company but he got the information from an employee who works at the CSE.
- Employees of the CSE have a duty not to give insider information to outsiders and so on.

- (b) Many candidates were not capable of explaining as to what is meant by alternative dispute resolution (ADR) and had mentioned that,

- Mediation is a process, where parties at dispute engage the assistance of a neutral third party to act as a mediator.
  - It usually points out to the parties the probable consequence of failure to mediate.
- It could be observed that some candidates had reproduced the functions of the CMCSL as stated in page 158 of the study text. It appears that candidates have copied what is in page 158 of the study text in the Companies Act and taken into the examination hall and had reproduced their answer to this particular part of the question. It could be observed that even in some previous examination they had followed this practice.

## **Business Taxation**

### **General comments**

1. The subject matter tested in all the questions were within the syllabus and adequately covered in the study pack published by CA Sri Lanka.
2. Overall performance in the paper can be considered as fairly satisfactory. Around 35% of the candidates scored 50% or more of the allocated marks.
3. The standard of all the questions can be considered as reasonable at this knowledge level being neither too difficult nor too easy.
4. The model answers appear to be well planned and structured and can be considered as a reliable guide to marking examiners.

### **Question 06**

This is a two part question.

Part (a) required candidates to assess the income tax liability, tax credits and balance tax payable by a resident company engaged in the business of manufacturing packing materials for the domestic market. The question included calculation of the statutory income from the following sources:-

- (i) Trade - This included an adjustment to profits.
- (ii) Dividends - Foreign, unit trust.
- (iii) Interest - Corporate debt securities.

The question also included identification of items eligible for qualifying payments relief under section 34.

Part (b) required candidates in relation to a private company to:-

- (i) Calculate the dividend tax payable on voluntary distributions.
- (ii) Identify the minimum dividends that should be distributed to avoid deemed dividend tax and to state before when such distributions have to be made.
- (iii) Compute the deemed dividend tax when the distribution falls short of the minimum that should be distributed and to state before when such tax has to be paid.

### **Specific comments**

Majority of the candidates made a good attempt at the question and scored over 50% of the allocated marks. Generally candidates displayed excellent skills in the presentation and identification of the statutory contents of a corporate income tax computation. They demonstrated sound subject knowledge in:-



- Identifying and computing the statutory income from different sources.
- Identifying allowable/disallowable expenses and charges under section 25 and section 26 of the Inland Revenue Act.
- Identifying qualifying payments relief under section 34.
- Identifying tax rate applicable to a subsidiary of another company.
- Identifying tax credits.

Where mistakes were made, those generally related to:-

### **Instances where information given in the question were not understood.**

In part (b) (ii) the amount of the distributable profit is given in the question. However, a few students wasted valuable exam time and computed the distributable profit using the available data.

### **Instances where the requirement was not understood by the candidates.**

- Foreign travel – The intention of the examiner was to test the candidates’ knowledge of section 26 (c) – foreign travel in connection with any trade or business, and section 26 (h) capital expenditure. Majority of the candidates treated the total expenditure as disallowed or allowed subject to the limitations.
- Entertainment expenditure – The intention of the examiner was to test the candidates’ knowledge of section 26 (e) – entertainment expenses, and section 26 (f) – entertainment allowance to executive officer.

A good number of candidates merely disallowed the total expenditure without displaying knowledge.

### **Errors in principle/shortcomings in technical knowledge.**

- Computation of adjusted profit from trade or business. A good number of candidates commenced the computation taking the revenue instead of net profit. This approach is both complicated and time consuming with consequent waste of valuable exam time earning no extra marks.
- Rent income – A few candidates appeared to be ignorant of section 217 and treated the ground rent received by the company as a source of income under section 3 (g).
- Capital allowance – A good number of candidates claimed capital allowances in respect of buildings under construction and furniture not put to use during the year of assessment.

### **Question 07**

The question required candidates to:

- Assess the income tax liability and balance tax payable by a sports club for the year of assessment 2016/17.
- compute the VAT liability for the quarter ended 31 March 2017.
  - list four (04) particulars that should be included in a valid ‘tax invoice’.
- mention the information to be disclosed in a return of income.
  - state whether the club is required to furnish a statement of accounts and schedules when submitting the nature of income.

## Specific comments

Majority of the candidates performed well in the computational parts [07 (a) and 07 (b) (i)] of the question. Generally candidates displayed excellent knowledge and skill in the preparation and presentation of the income tax computation of a sports club.

However, overall performance in the theory parts [07 (b) (ii) and 07 (c) (i) & (ii)] of the question was very poor. As mentioned in my earlier comments, students do not appear to devote sufficient time to read the Inland Revenue Act or the study pack published by CA Sri Lanka. Besides, poor communication (language) skills is yet another contributory factor for the poor performance.

### Instances where information given in the question is misunderstood.

The question states that income and expenditure are net of Value Added Tax (VAT). Some candidates misinterpreted this and treated the taxable supply as inclusive of VAT.

### Instances where the requirement from the candidates are not understood.

The question requires to explain whether the club is required to furnish a statement of accounts and schedules when submitting the nature of income. A good number of candidates merely answered “yes” or “no” without mentioning the threshold of turnover or profits.

### Errors in principles/shortcomings in technical knowledge

(i) A good number of candidates appeared to be confused as to the basis on which a club is taxed.

E.g. 1. The club is deemed to carry on a business. Therefore, the club is liable to pay tax on business income OR investment income whichever is higher.

E.g.2. The club is deemed to carry on business. Therefore, the club is taxed on the business income.

(ii) Computation of adjusted trade profit

A good number of candidates computed this commencing from turnover instead of net profit. This approach is both complicated and time consuming. This is a waste of valuable exam time earning no extra marks.

(iii) Rent income

A significant number of candidates treated this as part of the statutory income from trade or business. Income from rent is assessed under section 3 (g) and not under section 3 (a).

(iv) Qualifying payment

A good number of candidates did not know that the donation of goods to an approved charity for the provision of institutional care for the sick and needy is not eligible to claim qualifying payments relief under section 34.

(v) Capital allowance

A good number of candidates claimed the allowance in respect of crockery and cutlery.



## **KB4 – Business Assurance & Ethics**

**June 2017**

### **Examiner's Comments**

#### **General comments**

The examination consisted of two sections. Section 1 contained five questions for 10 marks each. Section 2 contained two questions of 25 marks each. As previous examination sessions, to score well in the exam candidates needed to demonstrate good technical knowledge. In this exam well prepared candidates demonstrated an ability to use their knowledge to relate their answers to the requirements of the questions. Generally, candidates were able to demonstrate good time management and address the required number of questions. However, many candidates appeared to have lost focus on the requirement and gave answers which are irrelevant and couldn't gain sufficient marks.

#### **Specific Comments**

##### **Question 01**

##### **Part (a)**

It was required to analyse the threats to independence arising when carrying out the audit from the matters noted in the given scenario. Majority of the candidates were able to provide relevant answers. There were some who had not understood the question and wrote that Sarath will face a self-review threat as he has joined the client. It may be due to lack of technical knowledge or due to communication skills.

##### **Part (b)**

It was required to identify the safeguards to mitigate the threats identified. Many have produced relevant answers. There were irrelevant answers such as;

Familiarity threat-inform the audit committee  
Self-interest-third party review

##### **Part (c)**

In this part it was expected to state matters that affect the form and content of working papers of the audit. Many candidates have not understood the question requirement, they wrote only the contents in a haphazard manner. Some have written irrelevant answers such as;

- The clients name
- The clients address
- Materiality level
- Objective of the test

## Question 02

### Part (a)

It was required to identify effective controls in the purchasing system. Many were able to produce relevant answers, but some have just copied the facts given in the question without identifying the controls.

### Part (b)

It was required to propose audit procedure to test the effectiveness of the controls. Majority was able to produce relevant answers but there were some who wrote irrelevant answers as they have written test of details instead of test of controls. Irrelevant answers;

- Reconciliation of the control accounts
- Check journal entries

If the candidates followed the controls in the given scenario they could have produced relevant answers.

### Part (c)

It was required to state control objective relating to the purchasing system. Those who have studied the text book have produced relevant answers. The control objective should be the objective for the test of controls based on the facts given in the scenario. Some have written general answers such as;

- To evaluate effectiveness of the operation
- To avoid frauds and errors
- Introduce segregation of duties

## Question 03

### Part (a)

In this question it was expected to prepare an analytical review of the given information. Many have answered well. There were some who calculated only the variance of revenue, as a result they obtained less marks.

### Part (b)

It was required to assess risk areas that require further audit work. Some have written business risks instead of audit risks such as the quality issue will affect the reputation and company goodwill. Some have identified the areas without analyzing as an audit risk such as finance cost, administrative cost

## Question 04

### Part (a)

It was required to analyze related party relationships and transactions referring to the scenario. Some have produced relevant answers. Some have identified the correct party as the related party but either they analyzed that incorrectly or not analyzed at all such as;

Silva – As he holds majority of shares

Ramani- As she is the wife of the chairman

Asanka-As he is the adviser

Those answer scripts demonstrated the lack of technical knowledge of the candidates.

### **Part (b)**

It was required to outline the procedure to identify the risks associated with related parties. Many candidates were unable to identify the procedure. As the question is to identify the risks the auditor should review and inquire, many have written that the auditor should obtain necessary documents. It would not help to identify the risks. There were irrelevant and incomplete answers such as;

- Obtain age analysis of debtors-answer should be to review the debtors schedule in order to identify related party transactions and the associated risks.
- Obtain movement of related parties-answer should be to check the transactions with the identified related parties to see whether any risks.
- Obtain confirmation from related parties- answer should be to review the confirmation from banks to see whether there are any guarantors to the entity.
- Obtain letter of representation- it would not help to identify risks
- Obtain prior year working papers-The answer should be to review
- Inquire management- answer should be to verify whether the transactions with the related parties are to be disclosed

### **Part (c)**

It was asked to state benefits of using audit software to perform test on computer files and data bases. The only relevant answer produced by many was that the benefit is that it reduces time and can perform calculations more quickly than manually. As in the previous occasions it reflected that the knowledge in IT field is very poor. It reflected that many have not studied the text book.

### **Question 05**

Part a; It was required to explain condition that may cast doubt about the going concern. Many have produced relevant answers.

Part b; It was required to outline the impact on the audit report. Some have written only to include an emphasis of matter paragraph as a result they have not scored full marks. The candidates should be mindful that as 4 marks have been allocated to analyze the issue and write why such paragraph should be included. The examiner expected the candidates to be aware of that there is material uncertainty regarding going concern and that has been disclosed and the opinion and the audit report should be based on that. There were some candidates who explained the situation but did not write the impact on the audit report. Some have written irrelevant answers such as;

- Disclaim the opinion
- Modify the opinion
- Carryout further audit procedure

### **Part (c)**

It was required to outline the impact on the audit report due to preparation of two audit reports. Many candidates have not understood the question requirement. 20% of the candidates produced satisfactory answers which reflect that there is no ambiguity in this question. The candidates who have not answered well have demonstrated poor communication skills and poor technical knowledge.

## Question 06

### Part (a)

It was required to identify the items that should be included in the audit engagement letter. The performance was satisfactory. Some have mixed up with the contents of management letter. Some candidates have written irrelevant answers such as;

- Name of the audit firm
- Date and the Signature of the auditor
- Period of the audit
- Clients name
- Management representation without identifying the management responsibilities

### Part (b)

It was required to recognize fraud red flags that indicate possible fraudulent activities in the given scenario. Candidates who had clear knowledge about the fraud red flags were able to obtain full marks allocated for this part. Some have misunderstood the question. A red flag means a warning of danger. It was not understood by many and had explained fraud risk factors. Some have written irrelevant answers such as;

- that the compensation package of CEO and the CFO depends on profits and there is a huge risk.
- CEO should be appointed at the AGM

Some candidates knew that the internal audit division operates under restrictive management conditions, but explained incorrectly as there is management override there will be frauds.

### Part (c)

It was required to recognize possible fraud risk factors and state the condition referring to the scenario. Some candidates have recognized the fraud risk factors but they have not written the condition in the fraud triangle correctly, as a result obtained less marks. It was also noted that similar answers to the part b of the question was written as fraud red flags such as CEO attending the audit committee meeting, and unusual journal entries are available. CEO being a dominant character decides the scope of the internal audit division. In order to avoid risks there should be an independent line of communication with the audit committee.

### Part (d)

This part of the question was a theoretical question. It was asked to outline ways in which the internal audit department can assist the board of directors. Some candidates were unable to understand that it is a theoretical question and written facts referring to the scenario. Many have not understood the question requirement of this part and wrote irrelevant answers such as;

- To check board minutes
- Appointment of directors to remuneration committee
- To advise on appointment of two non-executive directors to the board
- To attend board meetings
- to report on internal controls to an independent audit committee which is not available. ( though identified the correct point explanation was incorrect)

**Part (e)**

This part was also a theoretical question which tests the knowledge on SLAuS. It was required to explain the limitations of internal audit function. Many have not understood the question and produced answers referring to the scenario. There were irrelevant answers such as;

- Inherent limitations such as human error, collusion, management override.
- Internal auditor is an employee of the entity
- High cost to maintain the division
- Corporate management does not have competency to understand findings of the internal auditor

**Question 07****Part (a)**

It was required to state three stages in an audit that analytical procedures are used. Majority of the candidates answered well. There were some irrelevant answers such as;

- Analyzing revenue
- Going concern assumption
- Impairment

**Part (b)**

Candidates were asked to assess the appropriateness of the sampling method used by the engagement team in the given scenario. Those who have provided good answers have mentioned all points assessing the appropriateness. It reflect that any prepared candidate could give a correct answer. It is disappointing to note that most of the candidates demonstrated poor knowledge in sampling methods. Many have not analyzed the issue with sampling methods. There were only a few candidates who identified the weakness in the MUS which is that it doesn't cover credit balances. Some candidates had written as a weakness that it doesn't consider the materiality level and age analysis which is not applicable to the given scenario.

**Part (c)**

It was required to discuss whether the provision of legal fees is correct. The candidates with some technical knowledge could have picked the answer from the question itself. Those who wrote satisfactory answers reproduced the facts in the question and stated the accounting treatment is correct. Many candidates have not discussed the issue and wrote the accounting treatment is correct, as a result they were not able to score full marks.

**Part (d)**

It was required to recommend audit procedures to validate the subsequent events.

Many have written irrelevant answers such as;

- Recalculate, inspect, and carry out analytical procedure
- Analyze receivable schedule

**Part (e)**

It was required to recommend audit procedures to perform in connection with the legal case and the liability thereon. Many have written the procedure to check the court decision, but failed to write the relevant procedure to check the legal liability. There were irrelevant and incomplete answers such as;

- Appoint an expert
- Check the financial statements
- Obtain confirmation
- Check ledger posting



**Part (f)**

It was required to outline procedures to obtain sufficient and appropriate audit evidence on allowance for impairment of obsolete stocks. Many have written irrelevant answers such as;

- Participate at the stock count
- Inquire from management
- Recalculate impairment of obsolete stocks
- Inquire from an expert for the value of stocks

**Conclusion**

Many candidates have demonstrated poor technical knowledge. They should be aware with past experience that the questions are within the syllabus and most of them can be answered if the text book is referred. It was observed that most of the candidates are not considerably good, as the range of marks of the candidates who were successful had obtained between 50 and 55.

## **KB5 – Business Value Creation**

**June 2017**

### **Examiner's Comments**

### **Question-wise comments**

#### **Question 01**

##### **General comments**

Overall performance of the candidates was good. The question carries 10 marks. Candidates were required;

- (a) To assess 04 resources /competencies given in the scenario using the VRIN framework and to identify they are strategic capabilities of Crumbles.
- (b) To outline two methods for testing the strength of strategic capabilities.

##### **Specific comments**

- (a) Competencies/resources like good reputation and more than 15 years of experience in the industry provide strategic capabilities. Resources/competencies like skills and training of the two chefs, linkage with foreign institutions and the situation of the shop in a busy shopping mall in Colombo may not provide strategic capabilities for Crumbles in light of VRIN framework. Some of the students cited resources/competencies of Crumbles correctly, but not assessed them in relation to the VRIN framework. A fair number of students stated correctly that resources and competencies of Crumbles carry 'Value' and 'Rare', but inimitability and non-substitutability were not identified correctly.

E.g. . Skills/training of the two chefs was identified as inimitable and non-substitutable which earned no marks.

- (b) Benchmarking, Value chain analysis & value network analysis, Strengths & weaknesses analysis are methods of testing the strength of strategic capabilities, which were outlined by some students. Some outlined PESTEL Analysis, Five forces model as methods of testing the strengths of strategic capabilities, which earned no marks. A few suggested to keep a box to insert suggestions and complaints by customers, which could test the capabilities, according to them.

## Question 02

### General Comments

Overall the performance was good. This question carries 10 marks Candidates were required to;

- (a) Discuss 04 ways in which the Company Gill can create value through the supply chain.
- (b) Explain two methods to improve the supply chain of vegetables/fruits.

### Specific comments

- (a) A few discussed correctly Responsiveness, Reliability, Relationships and Operational efficiencies as ways in which value could be created. Some students discussed methods of improving the supply chain rather than discussing ways in which value could be created. Some wasted their valuable time by drawing value chain diagram which was not required by the question. Most of the students have not adequately discussed the responsiveness and reliability.

E.g. some just mentioned that Company needs to respond to customers quickly.

The students have ignored to mention what customer needs, their comments and the need for responsive suppliers to respond to customers successfully. Some students have mentioned methods of improving the value chain instead of ways in which the value chain could be improved.

- (b) Reduction in number of suppliers and number of customers, coordination of warehousing, sales and marketing and suppliers involvement in product development and component design are methods of improving the supply chain, according to some students who earned the allocated marks. Some students did not explain the methods adequately.

E.g.: Under reduction in the number of suppliers, some students just mentioned that suppliers who are not reliable and not responsive need to be dropped. They have ignored the other advantages of reduction of number of suppliers like reduction of admin cost, easy use of shared IT system with suppliers etc. A fair number of students have explained Inventory Management System as a method to improve the supply chain which earned only few marks. What is expected by the Examiner is the coordination between warehousing sales and marketing to improve the supply chain.

## Question 03

### General Comments

Overall performance was good. This question carries 10 marks Candidates are required to;

- (a) Explain the stages of the project life cycle.
- (b) Outline 04 responsibilities of the Project Manager.

### Specific comments

- (a) Project definition, cost benefit analysis, establishment of project team, detailed project planning, undertaking the project and implementation are the stages. Some have just named the stages without being explained. Some have listed out life cycle stages as objectives of the

project, reasons for the project, cost of the project etc. which earned only a few marks. Most of the students have not adequately explained the relevant stages in relation to the scenario provided.

E.g.: *'Need of the project i.e. to diversify the business into the leisure sector'* was not stated. Some incorrectly stated *'Beta-testing and market testing, technical implementation, pre-launch review, post launch review etc.'*, as stages of project life cycle. Some stated product life cycle stages namely, introduction stage, growth stage, maturity and decline stage which earned no marks.

- (b) Outline planning, detailed planning, obtaining necessary resources, team building, communication, co-coordinating project activities, monitoring and controlling, problem resolution and quality controlling are responsibilities of the Project Manager. Some just listed out the responsibilities while some could not outlined them in an acceptable way.

E.g. Co-ordination of project activities were outlined as co-ordination within project team members instead of coordination between the team, suppliers, owners and end users.

#### **Question 04**

##### **General Comments**

Overall performance of the candidates was fair. This question carries 10 marks and requires candidates to,

- (a) Outline 05 methods of Training & Development (T&D)  
(b) Explain 05 elements of the process of Knowledge Management.

##### **Specific comments**

- (a) Some outlined correctly methods of T&D, namely job related training, on the job training, Apprenticeships, formal coaching, leadership training etc. Some just listed out methods without being outlined. Some named formal coaching as in-house training. A few outlined training under two categories namely, training by an external party and training by an internal resource person.
- (b) Knowledge creations, knowledge validation, knowledge presentation, knowledge distribution and application are elements of knowledge management according to some students who earned marks allocated. However some earned only a few marks, since they just listed out the elements without being explained. Some totally misunderstood the question in that, online training, practical training, 'technical training', have been identified as elements of the process of knowledge management.

#### **Question 05**

##### **General Comments**

Overall performance of the candidates was very good. The question carries 10 marks and requires to

- (a) Conduct a SWOT analysis for Tasty foods.  
(b) Prepare business level goals and three objectives.

### Specific comments

- (a) Most of the students correctly identified strengths as operating for over 50 years, having an experienced Management, highly skilled operations staff. The main weakness was staff resistance to change as per most of the students who earned allocated marks. Most of the students correctly identified growth in sugar free foods market as an opportunity. A few identified '*reluctance to change*' as a threat.
- (b) Enhancing manufacturing quality, diversification into sugar free market, highest employee satisfaction, becoming a leading food beverage Company with highest customer satisfaction are some goals. Increasing production capacity of the plant by 20% during the year, growth in sales by 50%, reduce customer complaints by below 5% every year are some of the objectives according to some students who earned allocated marks. Some mentioned objectives without SMART features.

E.g.: To increase the skills of the staff by providing training, increase customer satisfaction. Some came out with general answers for goals without them being related to the '*Scenario*' given. E.g.: obtain revenue growth, increased market share etc.

### Question 06

#### General Comments

Overall performance of the candidates was not satisfactory. The question carries 25 marks. Candidates were required to;

- (a) Evaluate a suitable competitive strategy for each of the existing and new product-lines based on Bowman's Strategy Clock.
- (b) Discuss how Star Apparels could use B2B applications of E-Business to further improve operations.
- (c) Discuss how Star Apparels could benefit by introducing an online business platform.
- (d) Explain 2 approaches of job design to motivate staff.

### Specific comments

- (a) Most of the students have correctly drawn strategy clock. Low price strategy in the strategy clock is suitable for the existing product line according to some students who managed to earn allocated marks. Some were unable to mention the ways in which costs would be reduced

*E.g.:* Economies of scale, applying latest technology, minimizing overheads, relocation of operations to a cheaper location etc. For the new product line focused differentiation strategy is ideal. Some could not evaluate the strategy adequately.

*E.g.:* Under focused differentiation the Company seeks a high price premium in return for a high degree of differentiation in a well-defined and quite restricted market segment.

- (b) Supply Chain management, Procurement and Customer Relationship Management could be processed through electronic means. Communication between factories and the retail shops would be easier. The operation would become more efficient. Purchases could be made through internet or electronic data interchange with major suppliers. Most of the students did not mention about e-procurement. Some just mentioned intranet, extranet and not described as to how the applications could be used to improve operations.

- (c) Online business platform will help Star Apparels to have direct contacts with customers, help to cater to unknown territories, to reduce the number of outlets and administration cost, help to collect data easily about customers and their purchasing habits. Some students just mentioned that the online business platform would reduce cost, improve sales, enhanced controls without discussed it.
- (d) Job enrichment, job enlargement and job rotation are the main approaches of job design to motivate staff. Most of the students did not understand the fact that job rotation needs to be linked with challenges to provide motivation. Some misunderstood job enrichment as job enlargement and vice-versa.

### Question 07

#### General Comments

Overall performance of the candidates was not good. The question carries 25 marks. Candidates were required to;

- (a) Discuss how to design the marketing mix for each product of the Company Q Tel
- (b) Explain the additional elements of the extended marketing mix for satellite TV connection service
- (c) Outline how CRM would help to overcome the current issues in the satellite TV market

#### Specific Comments

- (a) Since LED TVs go through growth stage, products need to be differentiated, price needs to be competitive, more distribution channels need to be adopted and promotion needs to be heavy to persuade customers to buy. Some stated product needs to be attractive which earned only a few marks. A few suggested to charge a lower price which was not correct. Most of the students correctly stated to use more distribution channels for LED TVs.

##### *LCD TV*

Since LCD TVs are in the maturity stage, maturity phase needs to be extended by introducing new features and developing new and improved models. Since price competition is high in the maturity stage, Company needs to lower prices. Distribution channels need to be made more efficient than developing new channels. Spending on advertising and promotions should be managed as part of overall marketing mix. Some stated price will go down but they forgot to discuss that high price competition would force the Company to lower the price. Some incorrectly stated that spending on advertising and promotion need to be more.

##### *VCD Players*

Since VCD players are in the declining stage, product will exit from the market eventually. Till then try to extend the life cycle. Price competition will rise and cost may increase due to falling volumes. Distribution channels could shrink as distributors are reluctant to carry slow moving products with lower margins. Spending on advertising and promotion will have to be reduced as higher costs, could make the product more unprofitable. Some have made a general comment in that, since the '*VCD players are in the declining stage all marketing mix, namely price, product, promotion and place become weak*' and decline which earned only a few marks. Some students mentioned that promotions expenditure needs to be reduced without being justified. Only a few correctly stated that by extending discounts for customer who buy, for example both TV and VCD player, sales could be enhanced.

- (b) Some have just identified the service marketing mix namely people, physical evidence and process without being explained, which earned only a few marks. Interaction between employees and customers are important according to some students, but they were unable to explain as to how interaction could be enhanced. Some have misunderstood the term physical evidence as infrastructure provided to the smooth operation of the satellite towers. A few correctly explained physical evidence as intangible aspects such as look and feel of the Organization and its brand from customers' perspective, Process is the way the service is delivered, using the user friendly system for buying and selling according to some students who earned allocated marks.

Anyway some could not elaborate the '*user friendliness*' giving examples like quick responses to customer inquiries and complaints.

- (c) Only a few was able to outline how customer relationship management would help Q Tel to overcome the current issues, under the topics of loyalty, word of mouth promotion, cost, revenue and profits and extending the product range. Some provided general answers.

*E.g.:* When the Company creates a good CRM cost could be reduced, customer loyalty could be enhanced etc. They were unable to outline the value of retaining existing customers than attracting new customers in terms of cost.