



KE1 – Financial Accounting & Reporting Fundamentals

March 2019

Examiner's Comments

Question 01 (MCQs)

Majority of candidates did not correctly answer Question 1.1 (responsibility of the professional accountant) and Question 1.9 (deferred tax).

(Total: 20 marks)

Question 02

- 2.1 Most candidates did not obtain marks for this question. Only a very few who studied the supplementary reading material were able to answer this question correctly. Most candidates wrote just payroll functions.
- 2.2 Most candidates scored marks for this question. However, some incorrectly wrote about stakeholders' information needs with regard to an organisation.
- 2.3 Most candidates were unable to obtain full marks for this question. It was evident when reading answers that candidates had not read the supplementary material.
- 2.4 Candidates' knowledge on 'relevance' was not satisfactory due to a lack of technical knowledge. Some mentioned the predictive value and confirmatory value of relevant information but the explanations were incorrect. A lot of candidates mentioned materiality (which is not a feature of relevant information per the conceptual framework) and wrote answers around that.
- 2.5 Although this question tested basic knowledge, some candidates did not know the difference between accrual basis accounting and cash basis accounting. The main difference, which is the matching concept, was mentioned only by a few candidates. Most wrote the definitions of accrual and cash basis.
- 2.6 Most candidates understood this question and the given scenarios, and answered properly. A few did not mention the amounts, hence lost marks unnecessarily. Some candidates also did not know how to write off bad debts and record a credit note.

- 2.7 Answers to this question were not satisfactory. Some candidates mentioned only the impact on the receivables control account or receivables subsidiary ledger. There were also a few others who disregarded damaged stock, made incorrect calculations or presented their answers in an unclear manner.
- 2.8 Candidates' knowledge was not satisfactory on this topic. Some had not understood the question properly and wrote on how to recognise an asset in the financial statements.
- 2.9 Most candidates were not aware of the relevant standard simplification areas and gave very poor answers.
- 2.10 This question was answered correctly by almost all the candidates.

(Total: 30 marks)

Question 03

This question tested knowledge on the purpose of control accounts and journal entries required for correcting errors.

Suspense accounts were used by some candidates for error correction, although it is not required. Some also did not properly understand the difference between control accounts and ledger accounts. A few candidates passed journal entries to the ledger account although these entries needed to be passed to the control account. There were also some candidates who did not write narrations for the journal entries or did not provide adequate narration.

(Total: 10 marks)

Question 04

This question tested knowledge on the preparation of financial statements for non-profit entities.

The overall performance was acceptable. However, being an optional question this was the least attempted question by most candidates.

The subscription income and receivable balance was not calculated properly by a fair number of candidates.

Some candidates did not calculate cafeteria profitability separately, and instead included it under the income and expenditure account.

Some candidates were not aware of the format for the income and expenditure account. They showed T accounts but not the relevant items in the correct side. Sales receivables and purchases payables were not properly accounted for under the cafeteria profitability computation in some instances.

(Total: 10 marks)

Question 05

This question tested knowledge on the preparation of accounts from incomplete records. The overall performance was acceptable.

There was a lack of knowledge observed in arriving at the opening capital. Some candidates did not properly compute the sales value due to the expense paid. The cash stolen adjustment was also not properly done or considered by some candidates.

Candidates' attention should be drawn to the depreciation adjustment and the disposal of assets. They must also remember to present their answers along with the relevant working.

(Total: 10 marks)

Question 06

This question tested knowledge on basic accounting ratios and bank reconciliations along with adjustments to the cash book.

The adjustment for the incorrectly recorded cheque amount was not done by most candidates when arriving at the correct cash book balance.

Poor knowledge in basic accounting ratios was observed as most candidates failed to pick the correct basic values required for the ratios even though the correct formula was written (e.g. capital employed considered as shareholders' equity).

Candidates are advised to refer the relevant sections of the study text.

(Total: 10 marks)

Question 07

This question tested knowledge on the preparation of financial statements for management and publication disclosure under LKAS 2.

Overall performances was satisfactory. Common weaknesses observed were:

- Interest expense relevant to the period not being identified.
- Depreciation relevant to the revaluation not being identified.
- Underprovision of tax pertaining to last year not being recognised.
- Lack of knowledge in recording the provision and income statement charge for leave entitlement for the accounting period.
- **Not identifying the** cost of leased assets and lack of knowledge in identifying the long-term/short-term components of the amount payable for a lease.
- Incorrectly identifying the inventory-related adjustment as net realisable value (instead of cost).
- Applying the fair value of the leased vehicle (Rs. 6,552,000) instead of the present value of minimum lease payment (Rs. 6,550,000) for the lorry.

Most candidates did not answer part (b). Some of those who did gave only the stock valuation method. No proper disclosure notes were given.

Candidates are advised to present their answers giving reference to the relevant working, and also to improve their knowledge in accounting standards.

(Total: 20 marks)



KE2 – Management Accounting Information

March 2019

Examiner's Comments

General comments

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

There were also 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 is written, then no marks will be awarded to the illegible section.

SECTION 1

Question 01

Question No.	% of correct/incorrect answers	
	Correct	Incorrect
1.1	38%	62%
1.2	39%	61%
1.3	73%	27%
1.4	75%	25%
1.5	41%	59%
1.6	23%	77%
1.7	31%	69%
1.8	63%	37%
1.9	63%	37%
1.10	46%	54%

Question 1.6 had the least number of correct answers. This showed that many candidates did not have sufficient knowledge on the computation of interest.

Performance on questions 1.1, 1.2 and 1.7 was also not at an acceptable level.

(Total: 20 marks)

Question 02

Questions 2.1, 2.2, 2.3 and 2.10 were satisfactorily answered by most candidates.

The performance on questions 2.4, 2.7, 2.8 and 2.9 was average.

2.5 Performance on this question was very poor. 70% of candidates scored no marks and 23% did not attempt the question. This showed that many candidates did not have any idea of how to compute the cost index applying the correct formula.

2.6 Performance on this question was also poor. 47% of candidates scored no marks and 20% did not attempt the question. This showed that candidates did not have sufficient knowledge on the applicability of the under/over absorption adjustment on inventory valuation.

(Total: 30 marks)

SECTION 2

Question 03

This question tested the learning outcomes of Chapter 4 of the study text – Accounting for Materials.

Almost all the candidates attempted this question and scored an average of 5 – 6 marks.

- (a) Candidates were unable to understand this part of the question properly and as a result their performance was not at an acceptable level. Some candidates just computed the EOQ and failed to *explain* whether the executive's argument was valid or not.

Almost all the candidates knew the EOQ formula, but they failed to substitute the correct figures for cost of holding and cost of ordering.

Some candidates explained the theory of EOQ but did not provide any computation.

- (b) This was a very basic question and almost all the candidates scored the full 2 marks allocated.
- (c) Many candidates scored full marks for this part of the question.

(Total: 10 marks)

Question 04

This question tested the learning outcomes of Chapter 13 of the study text – Project Appraisal Fundamentals.

- (a) Only around 2% of the candidates attempted this part of the question, and most of those who did, did not score any marks.
- (b) Almost all candidates did not attempt this part of the question.

Candidates were either not prepared to answer questions from this area of the syllabus or they did not understand the question and thus failed to build a proper answer.

(Total: 10 marks)

Question 05

This question tested the learning outcomes of Chapter 15 – Variance Analysis and Chapter 17 – Budgetary Control and Budgetary Systems of the study text.

Most candidates attempted this question and obtained reasonable marks. The average mark scored was around 6 marks.

- (a) Most candidates answered this part of the question well but some made the common mistake of not taking the output level as 12,000 when presenting the flexible budget. Fixed costs were also taken proportionately to the output level. These mistakes highlighted the fact that some candidates did not have basic knowledge on flexible budget.

- (b) Most candidates fairly answered this part of the question, but there were several common mistakes made by some such as:
- instead of material price variance and material usage variance calculating the total material variance.
 - instead of labour rate variance and labour efficiency variance calculating the total labour variance.

Many candidates applied the correct formula to compute the respective variances but the correct figures were not substituted into the formula to get the answer.

- (c) Most candidates successfully attempted this part of the question but some provided the features of material usage variance instead of *reasons* for the variance.

(Total: 10 marks)

Question 06

This question tested the learning outcomes of Chapter 18 of the study text – Forecasting and Preparing Budgets. The average mark scored for this question was around 5 marks.

- (a) Many candidates performed well in part (i) and scored 2 marks out of the 3 marks allocated. However, most failed to compute the fixed demand. Some did not formulate the sales function, which was required as the final answer. There were also some candidates who applied different points for high and low.

Candidates did not perform well in part (ii). Some did not apply the correct formula to create the cost function using the least squares method. A few candidates applied the correct formula but they did not solve the function in the correct way to arrive at the answer.

- (b) Many candidates performed well on this part of the question based on the answers they arrived at for part (a).

(Total: 10 marks)

SECTION 3

Question 07

This question tested the learning outcomes of Chapter 1 in the study text – Introductory Mathematics.

The average mark scored for this question was around 9 – 10 marks (out of the 20 marks allocated). However many candidates did not present their answers in a proper way by providing the answers for parts (a), (b), (c) and (d) separately. This indicated they did not pay attention to planning their answers, which is very important to score marks.

- (a) Many candidates correctly answered this part of the question. However there were some who did not correctly identify the cost allocation between the passenger and cargo sections.

Some candidates split the total cargo capacity of 2,500kg into two portions: 1,500kg for passenger cargo and 1,000kg for commercial cargo.

There were some candidates who divided the total cost of the cargo section by 1,500 instead of 2,500 to arrive at the cargo carrying cost per kg.

Some candidates also only applied the cost per passenger in the passenger section to compute total cost.

There were a few candidates who did not eliminate the VAT portion from the selling price.

Many candidates mixed up the mark-up with gross profit margin.

- (b) Performance on this part of the question was poor, and this indicated that candidates did not have adequate mathematical knowledge to compute total revenue. Many candidates took several parts of the cost only.

- (c) Most candidates computed the air ticket revenue correctly.

However, postal cargo revenue and commercial cargo revenue were not computed correctly. This showed that candidates did not have sufficient mathematical knowledge to compute the effect of revenue increases and decreases.

- (d) Most candidates performed well on part (i), but some failed to understand the maximum and minimum ticket sales per day and the maximum and minimum price per ticket.

Max/min ticket sales per day: 300+/-100

Max/min price per ticket: 52,000 +/- 1,000

Most candidates performed well on part (ii).

- (e) Many candidates did this part of the question based on the answers they arrived at in part (d), but some mistakenly computed only the maximum absolute profit per day.

(Total: 20 marks)



KE3(A) – Fundamentals of Taxation

March 2019

Examiner's Comments

SECTION 1

Question 01

- (a)
- 1.1. Most candidates failed to choose the correct option. It should be noted that pension received from the government is exempt under Section 8(4)(c), whilst interest received on the fixed deposit is exempt under Section 9.
 - 1.2. Performance on this part was extremely poor with only about 16% of candidates choosing the correct option.
 - 1.3. Most candidates chose the correct option based on tax administration relating to the notice of tax in default.
 - 1.4. Most candidates chose the correct option relating to the due date for remittance of PAYE deducted on salaries for a particular month.
 - 1.5. Most candidates chose the correct option relating to the turnover threshold for registration for nation building tax (NBT) in respect of a business engaged in purchasing paddy from local farmers and manufacturing rice for the local market.

(Total: 10 marks)

- (b) Many candidates failed to give attention to the action verbs in the question.
- 1.7. The dates of departure from and arrival in Sri Lanka of Saman are clearly stated in the question. Some candidates computed the number of days spent by Saman *outside* Sri Lanka and mentioned that these days were spent *in* Sri Lanka.

A good number of candidates mentioned 180 days, 185 days or 6 months of physical stay in Sri Lanka is required to be considered a resident of Sri Lanka. This showed a shortcoming of technical knowledge as Section 79(2) clearly states that an individual

physically present in Sri Lanka for **183 days or more** shall be deemed to be a resident of Sri Lanka.

The question also required candidates to *explain* whether Saman is a resident of Sri Lanka for income tax purposes. The dates of departure from and arrival in Sri Lanka are clearly mentioned in the question. However, a good number of candidates merely mentioned the provision of Section 79(2) without considering the facts given in the question.

- 1.8 The question required candidates to identify the income that will *not* form part of the assessable income of Amal. However, some candidates mentioned the income that *will* form part of the assessable income.

Although the question required candidates to *identify* the income that will not form part of the assessable income of Amal, a good number of candidates merely *listed* the income that will not form part of the assessable income of Amal, without mentioning the reason for it (final withholding payment).

- 1.9 Some candidates computed value-added tax (VAT) using a wrong base. They computed VAT payable by deducting input VAT from taxable supply.

E.g. Taxable supply	xx
Less: Input VAT	<u>xx</u>
VAT payable	<u>xxx</u>

Some candidates also merely wrote the answers without showing the computation. E.g. Output tax on rental income = Rs. 622,500 (without showing the computation as Rs. 4,150,000 @ 15%).

- 1.10 (b) The question required candidates to state the due date for submitting the NBT return. A significant number of candidates failed to mention the correct due date for submitting the NBT return for a particular quarter. Some candidates also mentioned the due date for *payment* of NBT. This showed that the requirement of the question was not understood by candidates

(Total: 10 marks)

SECTION 2

Question 02

The information given in the question related to the taxation of a company. However, some candidates claimed tax-free allowances and applied progressive rates of taxation, which are related to the taxation of an individual.

Business income

- Computation of adjusted trade profit – a few candidates commenced the computation with the turnover figure instead of net profit per accounts.
- Royalty paid – a significant number of candidates disallowed this and claimed it as a deduction under Section 32. With effect from year of assessment 2014/15 royalty paid is a deduction under Section 25.

Qualifying payments relief

Many candidates applied a limitation to the claim. It should be noted that a donation to the government (in money or otherwise) is claimable in full without limitation.

A few candidates also made the errors below, which were serious in nature.

- Deducting qualifying payments under Section 32.
- Deducting tax credits from taxable income.

Depreciation allowance on motor coach

A lot of candidates merely entered the final answer without showing the build-up as Rs. 2,226,500 @ 20% = Rs. 445,300.

(Total: 10 marks)

Question 03

Most candidates displayed excellent knowledge in constructing the structure of the answer, identifying the statutory contents and presenting the income tax computation of an individual.

However the following common mistakes were observed too.

Employment income

The intention of the examiner was to test Section 8(1)(k) in terms of what value of free transport by motor coach provided by the employer for travel by the employee from her residence to the place of work, or from the place of work to her residence, is exempt from tax. However, a lot of candidates answered in terms of the provisions of Section 8(1)(s). The value of the free transport facility is exempt under Section 8(1)(h). However, many candidates claimed the exemption in terms of Section 8(1)(s).

Income from second employment

A significant number of candidates mentioned that this income is not liable to taxation since PAYE was deducted. Further, some candidates applied the erroneous rate of 10% for withholding tax.

Business income

Adjusted trade profits – a few candidates commenced the computation with turnover instead of net profit per accounts.

Land filling cost – a significant number of candidates treated this cost as capital in nature and disallowed it. It should be noted that Section 25(j)(i) allows this cost as a deduction in ascertaining profits.

Interest on loan to purchase land – a good number of candidates treated this as an allowable expense. This interest is capital in nature and disallowed under Section 26(1)(h).

Lease allowance – some candidates made mistakes in computing the amount allowable for tax.

Deduction under Section 32

Interest on loan obtained for the purchase of land – a good number of candidates were not aware that such interest is deductible under Section 32.

Calculation of income tax liability

Many candidates made mistakes in the application of progressive tax rates (e.g. not limiting the maximum tax rate to 16% when there is sufficient employment income). A few candidates also claimed statutory deductions at improper places (e.g. deducting interest on loss under qualifying payments, deducting tax credits from assessable income or taxable income).

Tax credits

Surprisingly a few candidates did not know that payments/deductions such as self-assessment tax and PAYE (including second employment) are advance payments of the tax liability, and deducted these amounts from assessable income or taxable income.

Life insurance premium

A good number of candidates failed to apply the limitation to determine the extent of the claim as: the lower of $\frac{1}{5}$ th of assessable income or Rs. 75,000

(Total: 20 marks)

Other comments to be communicated to candidates

- Read each question carefully until you clearly understand the information given and the requirements of the question. It may be necessary to read the question more than once. This will help you save valuable exam time by avoiding irrelevant and/or lengthy answers. You are given 15 minutes extra time to read and plan your answers.
- Multiple-choice questions (MCQs) – you should answer the MCQs in the especially formatted answer sheet. A significant number of candidates entered their answers in the normal paper of the answer scripts.
- Computation of adjusted trade profits – always commence the computation with the net profit per accounts figure. Some candidates commenced the computation with the annual turnover figure. This method should be avoided as it is cumbersome and a waste of valuable exam time.
- Improve your handwriting and communication (language) skills. An examiner cannot award marks for an answer that he cannot read or understand.



KE3(B) – Fundamentals of Law

March 2019

Examiner's Comments

SECTION 1

Question 01

The multiple-choice questions were based on areas covered by the study text provided by CA Sri Lanka. Candidates who studied the study text could have answered the questions without any difficulty.

However, it was noted that many candidates did not correctly answer Question 1.4 and Question 1.8.

(Total: 20 marks)

Question 02

Although the study text adequately covers the areas tested, candidates failed to provide correct answers in some questions.

- 2.1 Many candidates failed to mention delegated or subordinate legislation.
- 2.3 Many candidates failed to give implied terms in relation to the Sale of Goods Ordinance.
- 2.5 Knowledge on characteristics of electronic documents was not satisfactory.

(Total: 10 marks)

SECTION 2

Question 03

- (a) The question was on whether a valid contract was formed between Y and K.

The examiner expected candidates to mention that a valid offer and valid acceptance are important for the creation of a valid contract. In the given scenario, the offer was revoked by Y before it was accepted. Acceptance by K is not a valid acceptance as by that time the offer was already revoked. Although Y said she would keep the offer till 10am on Sunday, she has the right to revoke the offer at any time before acceptance.

The important points here were:

1. An offer can be revoked any time before it is accepted
2. A revocation must be communicated to the offeree and must reach the offeree. L knew the offer was revoked through the newspaper.

The study text adequately covers this area.

- (b) (i) In this part the examiner tested knowledge of conditions and warranties.

Candidates were expected to discuss conditions and warranties and know that the words 'of absolute essence' mean that it has to be treated as a condition, and the delay in paying the 5th instalment amounts to a breach of condition.

- (ii) In this part the examiner tested the effects of an exemption clause in a contract. The main rule regarding an exemption clause is that it cannot exclude the fundamental obligation or basic responsibility under a contract. Therefore, Z cannot exclude the liability by introducing an exemption clause.

(Total: 10 marks)

Question 04

- (a) In this question the examiner tested knowledge on when the title passes to the buyer when goods are delivered to a buyer on a sale or return basis.

The title in the goods passes to the buyer when the buyer signifies his acceptance of the goods. In the given scenario the fact that B pawned the chains suggests/implies that he has accepted the chains. Therefore, the title in the chains passed to B at the time he pawned them.

- (b) This was a straightforward and simple question. Candidates were required to state the duties of a principal towards the agent, and the agent's duties towards the principal. The study text covered this area well.



KE4 – Processes, Assurance & Ethics

March 2019

Examiner's Comments

General comments

As in the previous examinations, in order to score well in the exam, candidates had to demonstrate good theoretical knowledge. In this exam well-prepared candidates demonstrated the ability to use their knowledge to relate their answers to the question requirement. Generally, candidates were able to demonstrate good time management and address the required number of questions. However, many candidates appeared to lose focus on the question requirement and thus produced irrelevant answers. Many candidates also demonstrated poor theoretical knowledge in business processes and assurance, and the concept of internal controls.

It was observed that the poor exam performance was due to the fact that candidates were unable to comprehend the question requirement. The examiner expects certain learning outcomes, which are given in the study text. Most candidates wrote general answers, which were not adequate for professional exams.

SECTION 1

Question 01

Candidates did not perform satisfactorily in the multiple-choice questions (MCQs). Marks for each MCQ was obtained as follows.

- 1.1 90% Types of business organisations
- 1.2 80% External environment
- 1.3 80% Two-way risk
- 1.4 90% Procurement cycle
- 1.5 90% Payroll process
- 1.6 50% Ethical behaviour
- 1.7 90% IT controls
- 1.8 80% Sales process
- 1.9 50% Suitable criteria
- 1.10 60% Audit evidence

Knowledge on professional ethics and assurance engagements was poor and many candidates also did not have a clear idea of audit evidence.

(Total: 20 marks)

Question 02

Some candidates wrote lengthy answers ignoring the marks allocated for each part (3 marks). The overall performance of candidates was average. Some candidates demonstrated a lack of understanding of basic principles and concepts in auditing. It is advisable that they study the study text and acquire the knowledge given.

- 2.1 Candidates were required to identify three (03) operational risks that should be considered when deciding a business plan for a restaurant. Most candidates managed to obtain only 2 out of the 3 marks allocated. Some candidates demonstrated poor knowledge in operational risks, which amount to losses resulting from failures in internal processes and operations, or failures in controls over operations. Instead they addressed external risks such as political risks, economic risks, exchange rate fluctuations etc.
- 2.2 Candidates were required to explain the auditor's responsibility for internal controls. Some candidates produced relevant answers. However, there were some who, without comprehending the question (where the chairman wanted to know *who is responsible* for the lapses in internal controls that were reported in the management letter by the external auditor), answered referring to the *responsibilities of the internal auditor*. It was also observed that most candidates did not use specific terms. For example, they used the term **no responsibility at all** instead of stating that there is **no direct responsibility**. Some candidates who did not understand the question requirement wasted time explaining the duties and responsibilities of the auditor without giving any attention to the question requirement. Candidates must remember to give specific answers.
- 2.3 Candidates were required to list three (03) areas of an organisation's objectives that are achieved by the internal control system. Those who had studied the study text wrote relevant answers. There were some candidates who listed incomplete answers such as financial, operational and legal. There were some others who lacked subject knowledge and wrote irrelevant answers such as risk assessment monitoring, information and communication.
- 2.4 The examiner tested knowledge of candidates on appropriate internal controls relating to information and communication to be implemented that enable employees to communicate effectively with senior management. Many candidates were able to identify and explain the whistleblowing system as an appropriate internal control. There were some candidates who, without proper subject knowledge and/or understanding of the question requirement (which was to explain an *appropriate* internal control), wrote about having a complaint box, maintaining good relationships with the management, open door system etc.
- 2.5 Candidates were required to state three (03) reasons to prepare a bank reconciliation statement. Many candidates were able to score full marks on this question. However some wrote instead of the *purpose*, the *reasons* for the difference between the cash book balance and the balance in the bank records such as deposits not realised, cheques issued not presented to the bank etc., which gave two different meanings. Candidates must remember to write specific answers.
- 2.6 Candidates were required to state three (03) possible reasons for selecting a vendor who has not offered the lowest price. Some candidates wrote satisfactory answers. However, there were some who wrote general answers such as political influence, bribes and commissions. Candidates should note that offering bribes is unethical and the examiner does not expect such answers. Most candidates were of the view that selecting a vendor who has not offered the lowest price amounts to fraud and malpractice.

- 2.7 Candidates were required to state three (03) most appropriate control measures that can be established to address the risk of over/under invoicing or duplicate invoicing. This question was on the sales process. It was observed that most candidates had not gone through the additional study support material. Many demonstrated poor knowledge in processes, and as a result wrote irrelevant answers referring to stock such as valuation of stock, coding of stock, computerisation of inventory etc.
- 2.8 This question was on internal controls. Many candidates misunderstood the question with petty cash management and wrote irrelevant answers such as segregating the duties of the petty cashier, numbering the petty cash vouchers, maintaining a petty cash book etc. Most candidates failed to understand the control deficiency in the issue of a cash cheque for Rs. 25,000. They addressed it as a payment out of petty cash exceeding the limit.
- Many candidates took the view that the payment of Rs. 4,000 from petty cash in two tranches was due to the insufficient limit for the petty cash imprest, and suggested to increase the imprest. Most candidates wasted time explaining procedures to overcome the deficiencies. Candidates are advised to read the question properly without being hasty to answer.
- 2.9 The examiner tested knowledge on the ethical principle of confidentiality, which is one of the fundamental principles of professional ethics. There were some candidates who wrote that the scenario did not relate to a breach of confidentiality, as the minority shareholders have a legal right for information. This was not the answer expected by the examiner. Most candidates misunderstood the scenario where the finance director refused to present consolidated financial statements stating that it amounts to breach of confidentiality. They failed to comprehend the question requirement, which is to address *what confidentiality is, and the circumstances when the rule can be breached*.
- 2.10 Candidates were required to explain three (03) factors that will influence the auditor's judgement regarding the sufficiency of evidence obtained. This question was poorly answered. Most candidates ignored the fact that sufficiency is a measure of quantity. They listed relevance, sufficiency and reliability without any reference to the question. It was evident that candidates' subject knowledge on audit evidence is very poor.

(Total: 30 marks)

SECTION 2

Question 03

- (a) In this part of the question candidates were required to identify three (03) controls that can be proposed for the purchase of PPE in the PPE management process.

Some candidates who had the technical knowledge, but not able to apply the scenario to the question requirement, wrote all the controls with regard to PPE management such as physical control over PPE, controls using the assets register, controls over disposal of PPE etc. In the process of answering they missed certain important internal processes pertaining to the purchasing process such as obtaining board approval, and inspection of the quality and functionality of the PPE by the respective heads of department. There were only a few candidates who understood the question requirement and produced satisfactory answers.

- (b) This part of the question was on cash management. Candidates were required to assess two (02) business risks in the cash management process in the given scenario where the goods are sold on cash basis, computer-generated receipts are issued for sales, the shop is open all seven days of the week until 9pm, and the owner is not present all the time in the shop.

Some candidates wrote the controls to be in operation for effective cash management, ignoring the question requirement. Candidates were expected to assess the business risks inherent to the business such as risk of fraud and probable theft, safety of cash collected, maintaining of proper records etc. It was disappointing to note that some candidates failed to assess the risks from the risk event using common sense. The average performance on this part of the question was satisfactory.

(Total: 10 marks)

Question 04

- (a) This question was on inherent limitations in internal controls. Candidates were required to explain five (05) instances where inherent limitations were reflected. Many candidates re-wrote the risk areas without addressing the particular limitation in internal control. Most candidates wasted time analysing the control deficiencies in the scenario. Some candidates who misunderstood the question requirement attempted to explain that control deficiencies were due to design weaknesses. Some others who knew the inherent limitations explained inherent limitation as follows (without giving any attention to the given control deficiencies).
- Collusion as controls being deliberately avoided
 - Management override as controls being ignored
 - Human error as employees being unaware of controls
- (b) Candidates were required to explain the fundamental principle of professional ethics that Malinga needs to consider when carrying out the business valuation. This part of the question was poorly answered. Most candidates wrote all the fundamental principles, and failed to identify the *relevant* principle of professional competence and explain why it is required for the auditor.

(Total: 10 marks)

Question 05

- (a) Most candidates simply listed the elements of an assurance engagement, and did not summarise them other than the three-party relationship. Candidates are advised to follow the action verbs, as they would not gain full marks when they list items (when they are meant to summarise) without a brief statement of the facts.
- (b)(i) Candidates demonstrated poor knowledge on assurance engagements. Almost every candidate answered this part of the question in a tabular form, but they failed to present all the points expected by the examiner. The examiner expected candidates to address:
- level of assurance – lower level or reasonable
 - opinion – risk of giving an incorrect opinion
 - extent of the testing and evaluation carried out – lesser or in detail

Most candidates wrote the opinion. Some candidates wrote instead of the work carried out the extent of evidence to be collected and the time to be spent, which are not specific to the question requirement. Some candidates wrote the types of limited assurance engagements, which are again not relevant to the question requirement.

(ii) The board of directors is in charge of the management of the company's business. In this part the examiner expected candidates to apply their theoretical knowledge to a practical situation. Most candidates failed to state the advantages of obtaining such an assurance report. Many did not understand the question requirement and wrote the following answers, which were not relevant.

- In order to maintain confidentiality of information
- To hide the directors' mismanagement
- To assess the strength of internal controls

(Total: 10 marks)

Question 06

Many candidates decided to skip this question (as they were only required to answer three out of the four questions in Section 2). Perhaps it was due to poor subject knowledge on assurance engagements.

(a) Candidates were required to list five (05) testing procedures. Almost all candidates who attempted this part understood the question and obtained full marks. However, there were some candidates who misunderstood the question with stock verification and wrote irrelevant answers.

(b) Most candidates demonstrated poor technical knowledge in this part.

The examiner expected candidates to identify the source and nature of information with regard to reliability, and external sources and the use of skepticism to ensure reliability. However, most candidates failed to understand the question requirement.

(Total: 10 marks)

SECTION 3

Question 07

(a) The business risk expected by the examiner was the payment of a higher price, which will result in an increase in cost of production. If the company decides to purchase from the alternative supplier there is a risk of not receiving materials as and when required.

Most candidates wrote risks that were not relevant to the scenario. It appears that the majority of candidates did not read the question and facts given. They demonstrated poor subject knowledge in identifying business risks relating to a specific business process. They wrote irrelevant answers such as:

- Risk of depending on a single supplier
- Risk of non-selection of a suitable supplier
- Risk of foreign exchange losses

Per the information given in the scenario the directors got to know that a raw material shipment from the same supplier was rejected by a manufacturer in the Philippines due to it being of low quality. The examiner expected candidates to address the quality of raw materials, which will have an impact on the final product. Most candidates identified the receipt of low quality raw materials as a business risk, but failed to assess the impact on the product or the company. However, there were some satisfactory answers detailing the effect on the production of tools.

It was mentioned that a significant value of imported raw materials was written off as unusable due to time lapse. The examiner expected candidates to address the risk of having unusable raw materials, which was due to ordering of excessive materials. Many candidates failed to identify the risk, which had an impact on the business. They wrote irrelevant answers such as:

- Goods were not properly inspected
- Materials would have got damaged in transit
- Purchased material would have been close to the expiry date

(b) In this part of the question candidates were required to identify the purpose of the given documents relating to the payroll process in the scenario. Candidates could have easily picked up the points from the question itself, but many failed to identify the purpose.

(i) Unclaimed wages report – most candidates failed to identify the exact purpose of this report and mentioned irrelevant points such as:

- to record unclaimed wages
- to get information regarding unclaimed wages
- to credit the unclaimed balance to the bank account

(ii) Overtime list – most candidates failed to identify the exact purpose of the overtime list and wrote irrelevant answers such as:

- to use as a supporting document for payment of overtime work
- to calculate payment for overtime work

(iii) Monthly payroll report – most candidates could not understand the function of the payroll report and wrote irrelevant answers such as:

- to pay salaries
- to identify persons who have left the organisation
- to identify salaries and deductions

(iv) Monthly payroll reconciliation – most candidates failed to understand the purpose of the reconciliation. They wrote irrelevant answers such as:

- to identify the variance between the previous month and the paid salaries
- to identify the variance between the budgeted and actual amounts

(c)(i) In this part of the question the examiner tested knowledge on the implications of a lack of documentation for transfers and returns of material in a manufacturing process.

According to the given information there are three lines for the different designs, for which prices vary. The main material is common. In certain instances materials are transferred from one line to another without being returned to the stores, and there are no documents to support the transfer. The unused materials are returned to the stores but there is no documentation to that effect too.

The examiner expected candidates to address the fact that due to the non-availability of documents, production unit cost cannot be identified accurately and there is a chance for misappropriation of materials. Some candidates identified the implications relating to the unit cost of production, but some others took a different approach and focused on the issues of inventory management such as excess stock, valuation of stock, maintaining of stock records etc.

- (c)(ii) In this part of the question the examiner expected candidates to state the documents that the company may introduce to record the transfers and returns of material. Many candidates wrote satisfactory answers for this part.
- (d) In this part of the question the examiner expected candidates to discuss measures that the management can implement to minimise errors in delivery (up to the point of shipment of goods). Most candidates demonstrated poor knowledge on processes. It was disappointing to note that many candidates misunderstood the question. The examiner tested knowledge on control measures over the process of receiving customer orders (up to the point of shipment of goods).

As given in the scenario there were errors in production types and quantity delivered, and delays in shipments. Many candidates were misled by the word shipment and assumed that the error in delivery was due to lapses in the transport process. They wrote the following irrelevant measures to address the issue.

- Send a copy of the bill of lading to the customer
- Insure the goods
- Use an appropriate mode of delivery

(Total: 20 marks)

Conclusion

The overall impression of the examiner was that a vast number of candidates were unprepared for the exam and had not put enough effort into learning many of the basic concepts and processes. Although many candidates were able to identify some relevant issues in the given scenarios, not all could adequately explain and discuss their points in sufficient depth. Candidates must ensure they answer the specific question requirement, focus their answers and relate them to the scenario given.



KE5 – Commercial Insight for Management

March 2019

Examiner's Comments

SECTION 1

Question 01

The overall performance of candidates in the ten multiple-choice questions (MCQs) was good. Most candidates did not choose the correct answer for questions 1.1, 1.6, 1.9 and 1.10. However, a fair number of candidates selected the correct answer for questions 1.5 and 1.7.

(Total: 20 marks)

Question 02

The overall performance of candidates on this question was good.

- 2.1 Intangibility, inseparability, heterogeneity, perishability and ownership are characteristics of services that distinguish them from goods. Most candidates mentioned these characteristics. However, some incorrectly stated that goods are perishable but services are not so. Further, most candidates who stated ownership as a characteristic were unable to indicate that a service purchase does not transfer the ownership of the property.
- 2.2 (a) $PED = 1.5$ and the product has elastic demand. A few candidates incorrectly calculated the PED.
- (b) Candidates who obtained full marks for this part stated that a reduction in price will increase total revenue. However, some who arrived at the correct PED of 1.5 stated that the PED was inelastic.
- 2.3 (a) Middle managers are responsible for units or sections within an organisation and are accountable to senior management for directing and organising units in line with corporate policies and objectives. Some candidates who did not earn any marks stated that passing the decisions taken by senior managers to junior managers is the role of middle managers.

- (b) Some candidates correctly stated the types of power as expert power, legitimate power and/or negative power. Some incorrectly stated that coercive power is also exercised by middle managers. A few candidates did not specify the type of power, and just said power to take decisions on day-to-day functions, power to control employees etc.
- 2.4 Since the size of the plant is fixed, when the variable factor is added, in the short run, the average cost (AC) curve will have a “U” shape. The reason for this shape is the law of diminishing marginal returns. This was the answer given by some candidates who earned the full allocated marks. Although most candidates drew the AC curve correctly, a fair number of candidates stated the AC curve has the U-shape because AC includes both fixed costs and variable costs.
- 2.5 GDP is derived from economic activities within a country. GNP is the total income generated by the nationals of a country. NNP is derived after deducting the consumption of fixed capital and depletion of natural resources from GNP. Some just defined GDP as the aggregate amount of total expenditure, production or income, without relating it to territory. A few candidates gave incomplete definitions of GNP stating that GNP is GDP after deducting net income from abroad, and NNP is the resultant amount after deducting net exports and depreciation from GNP.
- 2.6 Under a delegated sourcing supply strategy, the possibility of divulging trade secrets (if any) cannot be ruled out. It would be difficult to maintain quality control and a delegated sourcing supply strategy may also lead to difficulty in obtaining competitive advantages. Some candidates incorrectly identified higher costs and delays in supply as disadvantages of a delegated sourcing supply strategy. A fair number of candidates did not understand the question and wrote irrelevant answers (e.g. production possibility will go down).
- 2.7 When there is a mismatch between industry expectations and the labour skills offered to employers, structural unemployment could happen. When the demand for labour fluctuates in seasonal patterns, seasonal unemployment will be created. These were the answers given by some candidates who earned the full marks allocated. However, some candidates had the wrong view that structural unemployment was a percentage of unemployed labour over the labour market. Some others provided incomplete answers for structural unemployment, stating that it was unemployment due to insufficient skills and capabilities. They made no reference to market expectations. A few candidates wrote that seasonal unemployment happens when some factories are closed, which was not marked as correct.
- 2.8 Some candidates stated correct responses such as introducing green products, changing practices to be more eco-friendly, carrying out environmental impact assessments prior to the launch of a new business, and dealing with pollution in an effective manner. Some candidates who were not specific in their answer wrote that since customers are concerned about the environment, business organisations respond accordingly. Most candidates provided examples without the responses being categorised.
- 2.9 Some candidates correctly explained business operations such as the manufacture of machine tools where training, consultancy and after-sales services are provided by the same manufacturer, and the services provided by a restaurant in addition to food and drinks. Some others just stated two examples of business operations that have a mix of both product and service output, without explaining them (e.g. fast food services, educational services, catering businesses, landscaping firms).

- 2.10 A fair number of candidates correctly stated the constraints over conformance to project specifications, and concerns over timely completion of projects. A few just stated government constraints, local constraints etc., which were not elaborated and not relevant too. A few candidates stated that the project plan, project cost and project duration are constraints, and these were not marked correct.

(Total: 20 marks)

Question 03

The overall performance of candidates on this question was good.

- (a) Most candidates managed to obtain the full marks allocated by stating the end products of jobs are one-off, made to customer-specific orders, and are non-standard. Some incorrectly stated tangibility and separability as characteristics.
- (b) Some candidates explained correctly that the speed of delivery, price, and quality of the final product are to be considered to win an order. Some stated that KLM needs to concentrate on threats, weaknesses, strengths and opportunities; and for this no marks were awarded.
- (c) A fair number of candidates calculated MP (12, 14, 12, 10, 6, 2, -2) and AP (10, 11, 12, 12, 11.6, 10.6, 9.4, 8) correctly. A few made calculation errors in arriving at MP and AP, and also mentioned figures relevant to MP against the 1st worker, which resulted in all the figures relevant to MP not being properly indicated.
- (d) Most candidates identified that after recruiting the 3rd employee, diminishing marginal returns began to operate. A few mentioned incorrectly that only after recruiting the 4th employee, diminishing marginal returns began to operate.

(Total: 10 marks)

Question 04

The overall performance of candidates on this question was satisfactory.

- (a) Most candidates explained correctly that human resource planning will help good quality labour to be recruited, avoid sudden people shortages and surpluses, retain skilled employees and reduce staff turnover, and train and develop employees. Some just stated that human resource planning provides promotions to employees without elaborating the point. A few candidates mentioned that human resource planning helps increase productivity, for which no marks were awarded.
- (b) Some candidates just indicated that performance appraisals are required to make employees happy and to also make customers satisfied. No marks were awarded for such answers. A performance appraisal system will help an organisation to have a fair idea of employee weaknesses and also maintain a set of criteria/standards.
- (c) Candidates who earned full marks for this part wrote that management problems, lack of control over staff, increase in operational costs and employees having a fear of being laid off were the main impacts of having surplus employees. However, some candidates repeated the same point (efficiency and effectiveness become less, productivity becomes less, operational costs will go up, waste of time etc.)

(Total: 10 marks)

Question 05

The overall performance of candidates on this question was not satisfactory. Most candidates who attempted the question were unable to score even at least 50% of the marks allocated.

- (a) Candidates who earned the full marks allocated stated that functional departmentation (FD) avoids duplications, pools expertise, and recruits and develops functional specialists. However, some others stated that it allows functions to be easily done and with less cost, without justifying how they become advantages.

FD has disadvantages too since it will result in less focus on customers/products and poor communication and coordination. Some candidates identified these points correctly. However, some others wrote increasing employee turnover and inability to perform given tasks as disadvantages.

- (b) This part of the question was poorly answered.

Some candidates explained virtual organisations as defunct due to loss of business or tax avoidance.

Some stated that modular organisations collect accessories from outsiders and assemble them to produce the final product (only 75% of the marks were awarded for writing this).

(Total: 10 marks)

Question 06

The overall performance of candidates on this question was good.

- (a) A floating exchange rate (FER) policy results in the efficient allocation of resources and automatically corrects balance of payment deficits/surpluses. Further, governments do not have to hold foreign currency reserves. A fair number of candidates stated these advantages. Nevertheless some stated vague answers such as it allows currency depreciations to be avoided and economic growth to be maintained. A few candidates stated that a FER policy would attract more tourists and foreign direct investment, for which no marks were allocated.
- (b) Quing Tel will have to spend more Q dollars to buy USD in order to pay for both the principal and interest in respect of foreign loans obtained. This would result in less profits being earned by Quing Tel. Some candidates just mentioned that the profits of the company will come down, without elaborating on how it happens. Some discussed the implications of currency depreciations, without relating them to the scenario (e.g. inflation of the country will go up, exports will be encouraged and imports discouraged).
- (c) Quing Tel could buy USD forwards or enter into SWAP or futures contracts to mitigate the risk. Some candidates wrongly viewed that the company could reduce its prices. Only a few explained that outsourcing activities to a local firm will reduce the risk; and for this marks were awarded.

(Total: 10 marks)

SECTION 3

Question 07

The overall performance of candidates on this question was good.

- (a) Most candidates arrived at the equilibrium price and equilibrium quantity of A\$300 and 700kg respectively. A few made calculation errors and ended up with wrong answers.
- (b) (i) A shortage of labour supply will increase wages and cost of production, decrease the quantity supplied and lead to a price increase. The supply curve will shift to the left. Some candidates correctly mentioned that a shortage leads to a rise in wages and an increase in cost of production. However, they did not mention that the quantity supplied will reduce and the supply curve will shift to the left. Some candidates drew the graph correctly, but did not explain the impact further.
- (ii) A low price of artificial cinnamon (AC) increases the demand for AC and reduces the demand for natural cinnamon (NC), resulting in the demand curve for NC shifting inward. A few candidates were unable to mention that the demand for AC goes up due to its low price. Some drew the diagram correctly, but did not provide any explanation.
- (c) A new subsidy will lead to an increase in quantity supplied, and the supply curve will shift to the right. The cost of the subsidy and deadweight loss had to be shown in the graph, but some candidates did not do this. A few did not name the curves S and D. Some showed consumer surplus and producer surplus, which were not required by the question.
- (d) Imposing indirect taxes and restrictions on the import of AC, and granting a subsidy for local farmers, will protect the local farmers. This was mentioned by some students who earned the full marks allocated. A few stated that the introduction of a high interest rate and exchange rate will protect the local industry. Some candidates held the wrong view that local farmers would be protected when a maximum price for NC is imposed.
- (e) Most candidates stated that the market situation was perfect competition. There existed a large number of farmers, the product was homogenous, one farmer was not able to influence the price, and there existed no entry/exit barriers. A few held the wrong view and stated that the market situation concerned was a mixed economy.
- Some candidates concluded the structure concerned was monopolistic competition, for which no marks were allocated. A few held the wrong view that the situation was a free market situation, since it is controlled by the price theory.
- (f) Some candidates who obtained the full marks allocated for this part stated that due to the subsidy given to farmers, losses incurred by them reduced and they stopped leaving the market. Some gave reasons for leaving the market rather than reasons for *why the leaving has now stopped*. They mentioned a shortage of labour supply and more competition made farmers leave the market.

(Total: 20 marks)