



**Pakistan Institute of
Public Finance Accountants**

**EXAMINER'S
COMMENT**

Summer Exam-2014



**Pakistan Institute of
Public Finance Accountants**

FINANCIAL ACCOUNTING

(Intermediate Level)

Examiners Comment

Summer – 2014

Financial Accounting

General Comments on Examinees Performance

- The overall performance of the examinees was very poor.
- Their write up depicts their non-seriousness with their studies.
- Examinees lack conceptual knowledge of Financial Accounting.
- Selected studies of the topic are another major reason of failure which must be avoided by the examinees.
- Inadequate practice.
- Poor reading habits.
- Poor presentation. Lacking clarity in presentation.

Question Wise Comments

Q. No.	Comments
1	<p><u>FINANCIAL STATEMENT:</u></p> <p>In this question, examinees were required to prepare:-</p> <ol style="list-style-type: none">I. Statement of Comprehensive Income.II. Statement of Financial Position. <p>Majority of the examinees attempted this question but the overall performance in this question was not satisfactory.</p> <p><u>I. STATEMENT OF PROFIT OR LOSS:</u></p> <p>A good number of examinees could not calculate the correct figure of “Administrative Expenses” due to following reasons:</p> <ul style="list-style-type: none">• Not taking into account the ‘Prepaid Amount’ of rent.• Wrong calculation of Depreciation and Amortization Expenses. <p>Similarly, majority of the examinees not calculated correct amount of “Financial Expenses” as they failed to take into account the accrued, marked for the six months on long term loan.</p> <p><u>II. STATEMENT OF FINANCIAL POSITION:</u></p> <p>Almost, all the examinees attempted this question but the overall performance in this question was not satisfactory. The following mistakes were observed:</p> <p>A good number of examinees did not present the assets and liabilities i.e., examinees should have given heading for non-current assets first followed by current assets. Similarly under equity and liabilities category, examinees should have given heading in the sequence of equity, non-current liabilities and current liabilities. That shows inadequate practice:</p> <p>(I) <u>ASSETS:</u></p> <p>The good number of examinees could not calculate the correct amount of land and building, motor vehicle and computer software due to wrong calculation of depreciation.</p>

(II) EQUITY AND LIABILITIES:

The good number of examinees showed “Advance against shares (Share Deposit Money) as long term liabilities instead of showing in equity.

Majority of the examinees not calculated the amount of non-current liabilities properly as they failed to classify the current portion of long term loan which clearly shows that they have no idea for the same due to lack of studies.

2

CASH FLOW STATEMENT:

In this part of the question, examinees were required to prepare Cash Flow Statement. Majority of the examinees attempted this question but overall performance was not satisfactory.

Some of the examinees attempted the question without separating the activities into operating, investing and financing activities, which was the essence of the question. Following were the common mistakes as given under each statement:

(a) CASH FLOWS FROM OPERATING ACTIVITIES:

While calculating cash flows from operating activities a majority of examinees not calculated Net loss for the year as they did not taken into account the negative figure of Reserves for the year 2013.

(b) CASH FLOWS FROM INVESTING ACTIVITIES:

While calculating cash flows from investing activities a majority of examinees not taken into account the proceeds of plant and equipment.

(c) CASH FLOWS FROM FINANCING ACTIVITIES:

A few of the examinees did not calculate the amount received from Director as loan.

3

a) DEFINITIONS AS PER IAS-16:

In this part of the question, the examinees were required to define the term (i). Property, Plant and Equipment (ii) Impairment Loss as per IAS-16. The answer left a lot to be desired and exposed the examinees “Lack of interest towards relevant IAS”. The definitions were poorly worded.

b) COMPLETE SET OF FINANCIAL STATEMENT:

In this part of the question, the examinees were required to list down the complete set of Financial Statement as per IAS-1. Majority of the examinees attempted this question and the performance was quite good. However, majority of the examinees missed to identify notes to Financial Statement.

c) DEFINITIONS AS PER IAS-37:

In this part of the question, the examinees were required to define the term Contingent Liability and Contingent Assets with reference to IAS-37. Majority of examinees provided incomplete definitions or tried to explain the concept with their self-invented definitions rather than those from the said IAS. Some of them gave examples of the above terms only rather than defining them.

<p>4</p>	<p><u>COST OF INVENTORY DESTROYED DURING FIRE:</u></p> <p>In this part of the question, the examinees were required to calculate the cost of inventory destroyed during fire. This question appeared difficult for the examinees and their performance was very poor. The following shortcomings, nevertheless, came under observations:</p> <ul style="list-style-type: none"> • They did not use the word cost of goods sold, although they correctly computed the amount. • Some of them made mistakes in calculation.
<p>5</p>	<p><u>INVENTORIES (IAS-2):</u></p> <p>In this part of the question, the examinees were required to calculate inventory cost due to closure of the business. This question was attempted by the majority of the examinees and the performance was satisfactory. However, some of the examinees had no idea that the inventories were to be recorded as per IAS-2 on cost or NRV whichever is lower.</p>
<p>6</p>	<p><u>FINANCIAL RATIOS:</u></p> <p>In this part of the question, the examinees were provided with the extract of Income Statement and Financial Statement of a limited company and they were required to comment and calculate Financial Ratios for (i) Earnings per share (ii) Dividend Cover (iii) P/E Ratio (iv) Dividend Yield (v) Interest Cover. Overall performance of the examinees was very poor in response to this question and those who attempted correctly were unable to comment. Following short comings were noticed:</p> <ul style="list-style-type: none"> • They did not apply the correct formula. Ratios calculated incorrectly. • Some candidates applied the correct formula but could not write the answer correctly i.e., the answer for Dividend Cover and Interest Cover was 1.75 and 10 times instead they wrote the answers in % terms.
<p>7</p>	<p><u>CHARGE OF EXPENSE TO PROFIT AND LOSS ACCOUNT:</u></p> <p>In this part of the question, the examinees were provided with the details of telephone expenses for the year starting from June quarter till March 2009 and they were required to calculate the expenses to be charged to Income Statement for the year ended 28th February, 2009. Majority of the examinees attempted this question and overall performance of the examinees was very good in response to this question. However, some of the examinees not deducted the prepaid expense for the month as the amount was provided on quarterly basis.</p>
<p>8</p>	<p><u>INTANGIBLE ASSETS - IAS 38:</u></p> <p>In this part of the question, the examinees were required to explain how the three research projects A, B and C will be dealt with in Y Co's Income Statement and Balance Sheet keeping in view the term of IAS-38. This question appeared difficult for the examinees. Majority of the examinees not attempted this question. Those who attempted this question their answer was irrelevant and based on their general knowledge. This question totally exposes the examinees and the performance of the examinees clearly reflects the inadequate knowledge and lack of interest towards IAS.</p>



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PERFORMANCE MEASUREMENT

(Intermediate Level)

Examiners Comment Summer Exam – 2014 Performance Measurement

General Comments on Examinees Performance

The students did not prepare seriously for this paper, as it seems. Most of the students got below par marks. It has been noted that the students do not cover the full syllabus because they do not have the full awareness of the subject. They have very poor knowledge of transfer pricing, Flexible budgeting, limiting factor & Mix and Yield Variance.

Question Wise Comments

Q. No.	Comments
1	Not attempted or wrongly attempted by most examinees, especially the entire company part. Seems that examinees don't possess fair knowledge of topic.
2	Mostly either not attempted or wrongly attempted, not a single examinee could find / calculate the volume / price & cost variance correctly.
3	Mostly examinees could not properly put variable & fixed costs correctly in income statements prepared through absorption / marginal costing. It was a very simple absorption/Marginal costing question to assess the knowledge of examinees.
4	Little conceptual but easy to understand limiting factor theory & how to maximum utilization of resources. Half of the examinees could secure better marks in this question, however many could not calculate the CM correctly.
5	It was a simple ratio analysis question. Examinees mostly secured at least half of total marks in this question. However part (iii), (iv), (vi) & (vii) were mostly calculated wrong.
6	Material Variance analysis question to check the standard costing concepts of students. No examinee could get full marks in this question. However part (i) was mostly attempted correctly, Part (iv) was mostly calculated wrongly.



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BUS. COMM. & BEH. STUDIES

(Intermediate Level)

Examiners Comment
Summer Exam – 2014
Bus. Communication & Beh. Studies

General Comments on Examinees Performance

The overall performance of students was very poor. However, one very important factor is that majority of students had no idea as to how to differentiate between a 'report format' and 'letter format'. Similarly a large number of students did not know format of an essay.

A large number of students did not know about Herzberg's two factor theory and mixed it with theory X and Y.

Question Wise Comments

Q. No.	Comments
1	A large number of students followed cut and paste policy and reproduced the same text instead of replying as per requirement of the question.
2	Students scored good marks because they performed well in this question.
3	Majority of students did not know "What is a report format". They wrote 'letters' not 'report' and lost marks.
4	A large number of students were confused and mixed this question with theory X and y and lost marks.
5	Few students replied correctly and scored marks. Students gave 'general answers' instead of being 'specific' and lost marks. It clearly shows lack of comprehensive study.
6	Students were well prepared for this question and scored good marks.
7	Student scored average marks. Some of the answers were very good. However majority of students were not aware of proper format of letter.
8	Generally students scored good marks in this question.
9	Very few students knew about organizational development. Those who knew scored good marks.
10	Majority of students scored good marks because they had studied well and it was reflected in their answers.
11	Majority of students did not know the format and style of essay writing. A large number of students provided bulleted answers only.

Any Other Comments/Suggestion:

- Students are advised to use question numbers as given in question paper.
- Students are advised to solve all parts of a question at one place instead of spreading it all over Answer Script.



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BUSINESS LAWS

(Intermediate Level)

Examiners Comment
Summer Exam – 2014
Business Laws

Question Wise Comments

Q. No.	Comments
1.	The performance remained average. Very few students could list down all the relevant rules of precedents. In some cases students mentioned the complete legal system in Pakistan which was not asked for. In some cases students mentioned various types of courts which were again totally wrong.
2.	In Part (a) the performance remained below average. Hardly any student could score full marks. Students appeared to be totally ignorant of the relevant laws in this regard. Students in a large number of cases mentioned retirement, death of existing partner etc which was totally wrong. In Part (b) the performance remained mixed. A very small number of students could score full marks in this question and in rest of the cases student mentioned 1 or 2 alterations which require registration with the Registrar of Partnership Firms.
3.	A very small number of students could score marks in this question. This was a question of sale of specific goods in deliverable state whereby the property in the goods passes when the contract is made irrespective of delivery and payment, however, students answered this question by making this a case of agreement to sale, future goods etc and hence they gave wrong conclusion i.e. Seema is not liable to pay.
4.	Part (a) required definition of a prospectus and subsidiary company. Very few students could define prospectus, however, definition of subsidiary company was given by a large number of students but they did not mention the correct percentage i.e. more than 50% voting security. In Part (b) the performance remained average. In large number of cases students seemed to be aware of time period for holding first AGM and statutory meeting however they did not know that 7 days notice is required for holding BOD meeting and 21 days notice is required for holding AGM and they mentioned 14 days, 15 days, 1 month, 3 months etc.
5.	Part (a) was not correctly attempted by any of the student and instead of giving the circumstances as per law which may require change in the status of a single member company, they gave commercial and logical reasons for example shortage of manpower, shortage of capital etc which was totally wrong. In Part (b), the students instead of giving the procedure for conversion of single member company in to a private company, gave the procedures for formation of a private company which was not asked for.
6.	The performance remained mixed and large number of students could score 2-3 marks.
7.	In this question also a large number of students could score 5-6 marks and they seemed to be aware of the relevant legal provisions.

<p>8.</p>	<p>Part (a) was based on Partnership Act whereby a person was admitted as a minor and he decided not to become a partner on attaining majority, however, students instead of giving the relevant answer, mentioned the rights and the liabilities of a minor partner in general terms.</p> <p>In Part (b) the question was asked for rights and restrictions to a retiring partner for carrying on a similar business however very few students understood the requirements and instead of confining their answer to carrying on a similar business, they mentioned rights and liabilities of a retiring partner in general items.</p>
<p>9.</p>	<p>The students could hardly score any mark in this question. They only gave irrelevant stuff and could not specify the document required to be filed by a company for shares issued otherwise than for cash and for issuance of bonus shares.</p>
<p>10.</p>	<p>The students appeared to know the relevant legal provisions, however, they could not apply this properly to the conclusion. According to the law the AGM should be held at least once in every calendar year within the period of 4 months following the close of its financial year and not more than 15 months from the last AGM. The students could not apply this information correctly and some students mentioned that the AGM should held in December, some calculated 3 months period from December and some even mentioned that the AGM would be held in July or August etc. considering 18 months period which is the time period holding the first AGM.</p>



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TAXATION

(Intermediate Level)

Examiners Comment Summer Exam – 2014 Taxation

General Comments on Examinees Performance

The overall performance in this subject was below average although the paper was very easy and simple, basic concepts were tested in theory and case studies. It was observed that many students did not pay attention to understand the basic requirement of the question and produced irrelevant answers especially in theory questions. Overall, the students were seemed very casual and ignorant of the basic concepts.

Question Wise Comments

Q. No.	Comments
1	This case study required the students to compute sales tax liability. The overall performance of the students in this question was quite satisfactory but some students failed to solve such an easy question. Many students did not calculate input tax on import and hence lost valuable marks. Majority of the students correctly calculated the tax liability but the presentation of the question was not satisfactory.
2	This question required the students to define the two basic definitions Input Tax & Tax Fraud. The overall performance in this question was very disappointing. Ninety nine percent students produced the irrelevant answers and just beat about the bush hence lost valuable marks.
3	This question required the students to compute tax liability and many students calculated the input tax on total purchase and did not know that the input tax had to be apportioned on taxable supplies only and hence lost valuable marks. Overall performance in this question was average.
4	This question required the students to define the terms with reference to Income Tax Ordinance 2001. Students were not expected to explain the terms exactly as defined in Income Tax Ordinance but were expected to cover all the points of the term as per the Ordinance. Majority of the students were not able even to define the basic term of employment & tax payer. Only few students covered all the points of the terms as per Ordinance. The overall performance in this question was very disappointing.
5	<p>This question required the students to calculate Taxable Income & Tax thereon. It seems that students did not know the basic rules and were only solving the question on guess work. The common mistakes made by students are as under;</p> <ol style="list-style-type: none"> 1. Fee to consultant was disallowed and added back to profit. 2. Brokerage paid without deduction of tax was allowed and not added to the profit. 3. Reserve for bad debts was allowed and not added back to profit. 4. Difference between Accounting Depreciation and Tax Depreciation was not understood by the students. 5. Dividend income was added to accounting profit and was not treated as separate block of income. <p>The overall performance in this question was below average.</p>



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FINANCIAL REPORTING

(Final Level)

Examiners Comment Summer Exam – 2014 Financial Reporting

General Comments on Examinees Performance

- Some scripts were found very well answered by candidates reflecting effective preparation of the course contents
- However, many of the candidates' scripts reflected insufficient preparation. The students have good knowledge at very few areas while the concepts for major part/ areas of syllabus are not very clear.

Question Wise Comments

Q. No.	Comments
1	This question examined the basics about the initial cost of Plant purchased and was worked well by most of the students.
2	This question was about the application of IAS-10, although it was attempted good enough by most of the students, but some candidates confused it with IAS-37.
3	This question examined the student knowledge about operating lease but unfortunately most of student confused with finance lease and lost easy marks.
4	This question was attempted pretty good by almost all of the candidates.
5	This was a bit easier part of the exam questions enabling the candidates scoring well in this part.
6	This was a multi-standard question requiring the candidates to deal with multi-issues, though was attempted not very well, reflecting only few candidates have knowledge about deferred tax.
7	This was worked well by only few candidates, and most of them answered it using general concepts rather than application of IAS-8
8	This question was attempted very good by almost all of the candidates.



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MANAGEMENT ACCOUNTING

(Final Level)

Examiners Comment Summer Exam – 2014 Management Accounting

General Comments on Examinees Performance

Overall paper was attempted well by majority of the candidates but few candidates has shown very poor performance by not attempting all questions and have not studied all the relevant areas of syllabus. Question No. 3 was attempted by very few candidates. Candidates should prepare share valuation methods. Question No. 4 which was from theory area was not well prepared by the candidates.

Question Wise Comments

Q. No.	Comments
1	Attempted well. Candidates should bear in mind that decision of project should be mainly based on NPV.
2	It was attempted by well majority of candidates who gained maximum marks in it.
3	It was easy question but poorly attempted by candidates.
4	Poorly attempted by candidates especially Part B which is a very important area.
5	It was attempted well by majority of the candidates with high scores.
6	Candidates were poor in commenting the ratio, which they calculated in Part A.
7	It was an average question, attempted well by few candidates, remaining scored below average marks.
8	Almost all candidates attempted this question well.



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AUDITING

(Final Level)

Examiners Comment Summer Exam – 2014 Auditing

General Comments on Examinees Performance

- The examination of the copies revealed that a large numbers of students were not adequately prepared for the examination, lack of presentation skills and limited grasp on Auditing standards. Generally, the students do not seem to read the requirement of the question carefully. Consequently, they end up giving irrelevant answers. The answers of a significant number of students were out of context.
- It has been observed that by giving irrelevant and unnecessary details in a question, students feel that they have achieved the target of getting some marks from here or there. They must realize that this does not work in the professional exams. They need to be quite specific and precise to obtain good score.

Question Wise Comments

Q. No.	Comments
1	<p>a) This was a very simple part of the question which was well attempted by most of the candidates.</p> <p>b) This was an easy question and a large number of students were unable to correctly demonstrate their knowledge relating to Code of Ethics for Chartered Accountants. Many of them wrote in detail which was not the requirement of the question.</p>
2	<p>a) This was quite a simple question, overall performance of the students in this part of the question was found satisfactory.</p> <p>b) Mostly students do not seem to read the requirement of the question carefully. Consequently they end up giving irrelevant answers.</p>
3	Majority of the students did not perform well all parts of this question. From most of the answers it was evident that the student did not have any knowledge of Auditing.
4	<p>In this question, a practical scenario was given. The students were required to identify the important issues that they as an auditor, would need to consider and to elaborate as to how they could address these issues during the course of audit.</p> <p>Further, this question required substantive procedures for verification of cash and bank balance of ABC Limited. Although only few candidates scored full marks, a significant number managed to do well.</p> <p>Lot of duplications were witnessed in the students responses which were a sheer waste of precious time which could have been better utilized in thinking and writing the missing points (procedures).</p>
5	This question was attempted by most of the students. Lack of concept and poor practice were the main hurdle in solving the application problems. Solving approach be strengthened through more and more practice. There seemed to be some confusion amongst candidates as to what exactly was required of them in this question. A significant number of them gave the answers to part (a) in part (b) of this question and vice versa.

6	<p>According to the situations given in this question, the auditor was required to report on prospective financial information. The students were required to comment on the assumptions on which the forecast was based. A significant number of candidates managed to explain why the assumptions seemed unreasonable and how the auditors should satisfy themselves in this regard. However, majority of the candidates did not mention the effect on the audit opinion in case the basis of the assumptions was not appropriate.</p> <p>Further, students discussed issues such as management's integrity, impact of fraud and modification of the opinion without appreciating that at most, it was a case of error. A mixed response was seen in this question.</p>
7	<p>This was a knowledge based question direct from the Auditing Standards. Initially it seemed an easy question which required the students to discuss various issues related to the use of an expert. A large number of students restricted their discussions to assessing the competence of the expert and assessing as to whether the auditors can rely on the work of the expert. If the auditor cannot place reliance on the work performed by the expert, he will reassess the initial risk assessment and consider the need for involvement of an independent expert.</p>
8	<p>This was a straightforward question based on ISRE-2410. The requirement was to explain the matters that an auditor should perform before review of interim Financial Statement. Though many candidates were able to list the points yet the explanations were not up to the mark. Students were unable to apply their knowledge and could not answer well and properly. Lack of study was clearly apparent.</p>