

EXAMINERS' COMMENTS ON THE PERFORMANCE OF EXAMINEES

PAPER – 1 : FINANCIAL REPORTING

Specific Comments

Question 1.(a) Some of the examinees were not able to correctly calculate the cost of new boiler and machine after two years. A few examinees failed to find out the discounted value of obsolete part ie cost of boiler before 2 years, which ultimately lead to incorrect revised carrying amount of the Plant.

(b) Some of the examinees erred in calculation of amount due from / to the customers. However, many examinees failed to disclose the required details as per AS 7.

(c) The question requires the students to calculate the amount of borrowing cost to be capitalised as per AS 16 in case where the qualifying asset is financed through issue of bonds. Despite the examinees being familiar with the capitalization procedure they failed to calculate the quantum of borrowing cost to be capitalised using the Effective Interest Rate given in the problem.

(d) A small number of examinees failed to correctly calculate the gross investment in lease which resulted in wrong calculation of unearned finance income.

Question 2. The question is on amalgamation of two companies. The examinees faltered in calculation of Goodwill / Capital reserve because of wrong treatment of a statutory liability taken over by the new company and calculation of issue of equity shares to existing preference shareholders.

Question 3. This question requires preparation of consolidated balance sheet in case of acquisition of shares in two different dates. The examinees fumbled with the analysis of reserves and surplus of subsidiary company, which in turn led to wrong calculation of minority interest and cost of control.

Question 4.(a) Examinees were not able to explain the differences between the relevant AS and Ind AS properly.

(b) Many examinees failed to list five steps of revenue recognition as per Ind AS 115 and those who provide the 5 steps could not explain the steps in detail.

(c) Although the examinees computed the present value of deposit and prepaid lease payment at the beginning but they erred in calculating the deemed interest income and lease expenses which were vital to pass necessary journal entries.

Question 5. A few examinees were not able to compute the average capital employed and future maintainable profit correctly after considering the adjustments given which were essential for calculating the goodwill. Examinees failed to calculate the correct leverage effect on/of goodwill.

Question 6.(a) Only a handful number of the examinees were unable to calculate the number of options to be forfeited.

Question 7.(a) Some examinees lacked knowledge of the reporting requirements of relevant AS. Definition of control and nature of relationship was not explained satisfactorily.

(d) Majority of the examinees correctly calculated allocation and distribution of earnings per unit but failed in passing the correct journal entries.

(e) Some examinees calculated the debt and equity components by wrongly considering the principal amount as ₹ 25 lakhs instead of ₹ 2.50 crores.

PAPER – 2: STRATEGIC FINANCIAL MANAGEMENT

Specific Comments

Question 1.(a) Good performance has been observed in this question. However, following common mistakes have been observed in the answers:

(i) Missing the figure of interest in 5th year.

(ii) Using of interest rate other than 10%.

(iii) Not using the given PVFs.

(b) In this question overall performance was above average although following shortcoming were found in some answers:

(i) Wrong calculation of premium.

(ii) Ignoring the impact of withholding tax and premium.

(iii) Ignoring the premium on loan.

(c) Overall performance was below average because of following mistakes were common in most of the answers:

(i) Wrong calculation of Ratios

(ii) Ignoring the computation of simple average of ratios to compute the value of equity.

(d) In this question overall, average performance was observed as majority of examinees have calculated Annual Cash Inflows incorrectly because of following errors:

(i) Not taking tax effect of depreciation.

(ii) Applying inflation rate from 2nd year onward.

Even some examinees were found confused about inflation and adjusted cost of capital.

Question 2.(a) In this question overall performance was average as majority of examinees computed earnings and dividend from 1-5 year correctly but thereafter went wrong and therefore could not compute intrinsic value of share.

(b) Below average performance was noted in this question as only handful examinees could arrive at correct Break Even Lease Rental. The following shortcomings were common in majority of answers:

- (i) Wrong calculation of Short Term Capital Loss.
- (ii) Unnecessary inclusion of Interest element in lease computation.

Question 3.(a) In this question overall performance was good. Although common mistake of using discounting factor @ 12% instead of 18% was apparent in some answers. Even in some it was found that examinees first used 12% discounting and then used 18% leading to unnecessary wastage of time.

(b) Average performance has been noted in this question on Index Futures because of following reasons:

- (i) Lack of knowledge of concept of arbitrage.
- (ii) Some examinees did not considered the Dividend in their computation.
- (iii) Only a handful of examinees could solve the question in its entirety.

Question 4.(a) In this question on Portfolio Management poor performance was observed as majority of examinees skipped to answer it and those who answered could compute average return correctly only and a few of them could solve the question fully in correct manner.

(b) In this question on Security Valuation poor performance was observed as some examinees have not answered. Those who answered could compute EPS correctly and then went wrong.

Question 5.(a) In this question on Mutual Fund overall performance was of average level as first sub part solved by majority of examinees but was not clear about the second sub part.

Examinees were not clear about opportunity cost to be included in the analysis.

(b) In this question on Foreign Exchange Risk Management overall performance was good though some common errors in the answers were as follows:

- (i) The difference between Buying and Selling Rate was not clear.
- (ii) Instead of gain of ₹ 2,500, examinees took it as loss.

Question 6.(a) Overall good performance was observed in this question on Mergers and Acquisitions although following common mistakes have been found in some of the answers are as follows:

- (i) No comment on the impact as required in sub parts (iii) and (v) of the question.
- (ii) Mistake in value of Gain/ Loss from merger to the shareholders of both companies.
- (b) Examinees have performed well in this question on Foreign Exchange Risk Management.

Question 7.(a) In this theoretical question good performance was recorded though some examinees were found confused about the basic concept of impact of buyback on P/E Ratio.

- (b) In this theoretical question overall performance was of average level as majority of examinees though were clear about the term 'Reverse Merger' but not about why it takes place.
- (c) In this theoretical question overall performance was of below average level due to overall lack of knowledge of the theoretical concept of measurement of performance of Mutual Fund.
- (d) In this theoretical question overall performance was of average level as in some cases examinees confused 'Money Market' with 'Foreign Exchange Market'.
- (e) In this theoretical question overall performance was above average though in some cases differences between Bank and NBFC was not found comprehensive.

PAPER – 3 : ADVANCED AUDITING AND PROFESSIONAL ETHICS

Specific Comments

Question 1.(a) Lower level of risk of material misstatement in Accounting Estimates (SA 540): Majority of the Examinees failed to give examples of the circumstances that indicate the areas of accounting estimates that may give rise to lower level of risk of material misstatement.

(c) **Reporting Requirement Under Clause 17 and 29B of Form 3CD:** Most of the Examinees have not understood the requirement of the question properly and simply stated that it should reported in form 3CD without mentioning and explaining the reporting requirement under Clause 17 and 29B of the form 3CD.

Question 2.(b) Emphasis of Matter Paragraph in Audit Reports: Examinees, in general, could cover only few correct points about examples of circumstances where the auditor may consider it necessary to include an Emphasis of Matter paragraph but failed to indicate the circumstances.

Question 3.(b) Areas to be verified in case of embezzlement in supplier's ledger: Majority of the Examinees correctly mentioned the important relevant points for investigating the matters regarding embezzlement in supplier's ledger. However, they mixed their answer with intent of vouching rather than investigation.

(c) **Sharing Professional Fees with Registered Valuer:** Most of the Examinees correctly explained the case with valid conclusion but failed to mention Regulation 53A of the C.A Regulation Act, 1988.

Question 4.(a) Audit Procedure for ensuring correctness of Opening Balances: Examinees, in general, correctly mentioned the relevant SA and the first part of the answer but failed to indicate the audit procedures to be carried out for ensuring correctness of Opening Balances. Some of them mixed their answer with alternate solution also.

(c) **No. of Tax Audit assignments under Section 44 AB of the Income-tax Act, 1961:** Most of the Examinees correctly concluded with the number but failed to refer Chapter VI Council General Guidelines 2008 and exclusion of audits conducted under Section 44AD, 44AE and 44AF of the Income Tax Act, 1961.

Question 5.(a) Clause 27(b) of 3CD- Particulars of income or expenditure of prior period credited or debited to the profit and loss account: Most of the Examinees failed to relate their answer to the requirement of the question and discussed only about verification of different head of income and expenses of profit and loss account.

(b) Unexpired Risks Reserve: Examinees, in general, correctly explained the need for provisions but related their answer regarding maintaining required reserve as per Companies Act, 2013 instead of the Income Tax Act, 1961. They also failed to indicate the audit procedure to be applied for its verification.

(c) Consolidation of Financial Statement: Most of the Examinees mixed their answer with the requirement as per Accounting Standard/ Companies Act, 2013 rather than Consolidation of Financial Statement requirement under IND AS 110.

Question 6.(a) Power of the person authorised by the Central Registrar Under Section 78 of the Multi-State Co-operative Societies Act, 2002: Very few Examinees have idea of the requirement under section 78 and most of them failed to mention the relevant powers correctly.

(c) Consideration of factors in use of CAATs: Most of the Examinees failed to correctly indicate the important points to be considered while using Computer Assisted Auditing Techniques (CAATs) and mentioned only irrelevant points.

Or

(c) Reversal of Income: Average Performance: Examinees, in general, have mentioned the requirement of reversal of income if accounts become NPA but failed to correctly explain the requirement.

PAPER – 4 : CORPORATE AND ALLIED LAWS

Specific Comments

Question 1.(b) The Performance of the examinees was **AVERAGE**. Majority of the examinees have answered correctly referring to the provisions of Section II of Part II of Schedule V to the Companies Act, 2013 relating to payment of managerial remuneration in case of no profits or inadequate profits. However, many examinees did not answer the steps for appointment of Whole –Time Directors.

Question 2.(a) The Performance of the examinees was **AVERAGE**. Most of the examinees did not answer the provisions of Section 236(2) of the Companies Act, 2013 regarding determination of share price by a Registered Valuer and this has penalized the examinees.

(b) The Performance of the examinees was **POOR**. Majority of the examinees have answered this question in a generalized manner without laying emphasis on the crux of the judgement of the Majority Rule as decided in the leading case of *Foss Vs. Harbottle*.

Question 3.(a) The Performance of the examinees was **AVERAGE**. Most of the examinees have not answered correctly the provisions of Section 277 (4) of the Companies Act, 2013 governing the time period for setting up a Winding-up Committee and its Constitution.

(c)(i) The Performance of the examinees was **GOOD**. Majority of the examinees have answered correctly as to whether payment of remuneration to a foreign technician is a permissible transaction under the provisions of the FEMA, 1999. However, many examinees have not stated whether such payment is a current account transaction and hence permissible.

Question 5.(a) The Performance of the examinees was **ABOVE AVERAGE**. The question had an alternative solution. In the second alternative, the answer is based on circumstances to apply for closure under Fast Track Exit Scheme. Majority of the examinees have answered this question satisfactorily. However, some of the examinees have not mentioned the requirement of passing of a special resolution and extinguishment of liabilities which has penalized such examinees.

(b) The Performance of the examinees was **ABOVE AVERAGE**. Though most of the examinees have answered correctly the provisions of the Companies Act, 2013 regarding users of Digital Signature Certificate and e-Form for filing Profit & Loss Account and other documents but many could not answer correctly the e-Form for filing particulars for satisfaction of Charge.

Question 6.(a) The Performance of the examinees was **ABOVE AVERAGE**. Most of the examinees have answered correctly the provisions of Section 149 and 169 regarding appointment of Independent Directors and removal of Independent Directors before the expiry of their term respectively. However, many examinees did not state that for removal of independent directors before the expiry of their term an opportunity of being heard must be provided to them.

OR

Question 6.(a) The Performance of the examinees was **AVERAGE**. Most of the examinees resorted to give answers in a generalized manner without dealing with the exact provisions of Section 185 of the Companies Act, 2013.

(c)(i) The Performance of the examinees was **AVERAGE**. Most of the examinees have answered in a generalized manner and stated the types of anti-competitive agreements instead of stating the factors under section 19 of the Competition Act, 2002 determining appreciable adverse effect on competition as asked in the question.

(ii) The Performance of the examinees was **AVERAGE**. Majority of the examinees have not explained the concept 'Noscitur A Sociis' properly. The answer was given in a generalized manner.