

# Pakistan Institute of Public Finance Accountants

(Established under Section 42 of the Companies Ordinance, 1984)

Constituted by: ICAP, ICMAP, AGP

Identification, development and imparting knowledge to provide a structure for the training of accounting professionals in the specialist areas



# Newsletter

Vol. 28 Reg. No. : SS-1112

February 2008

## PIPFA Board of Governors

### PRESIDENT

Mr. Muhammad Sharif

### VICE PRESIDENT

Mr. Khalid Ali Shah

### SECRETARY

Mr. Mirza Munawar Hussain

### TREASURER/JOINT SECRETARY

Mr. Syed Shahid Husain Jafri

### MEMBERS

Mr. M. Azam Khan Shad

Mr. Zulfikar Ali Kadri

Mrs. Farah Ayub Tarin

Mr. Shaikh Saqib Masood

Mr. Sajid Hussain

Mr. Mian Muhammad Shoaib

### HEAD OFFICE:

Office # 907, 9th Floor, Park Avenue,  
24-A, Block 6, P.E.C.H.S.,  
Shara-e-Faisal, Karachi-75400  
Tel.: (021) 4380451-52

### LAHORE OFFICE:

42 Civic Centre, Barkat Market,  
New Garden Town, Lahore.  
Tel.: (042) 5838111-5866896

### FAISALABAD OFFICE:

Ajmal Centre-1, 289-1,  
Batal Colony, Faisalabad.  
Tel.: (041) 8500791

### ISLAMABAD OFFICE:

SKANS School of Accountancy,  
Firdous Plaza, F-8, Markaz,  
Islamabad. Tel: 051-2529708

### PUBLICATION COMMITTEE

Mr. M. Azam Khan Shad Chairman

Mr. Muhammad Junaid Member

Mr. Mian Muhammad Shoaib Member

### EXECUTIVE DIRECTOR

Mr. Muhammad Arif Nara

## Financial Sector

**State Bank remains committed to bring down inflation:** The State Bank of Pakistan issued its Monetary Policy Statement for the second half of FY08, which was approved by the Central Board of Directors of SBP at its meeting held in Karachi on 31st January, 2008, with Governor, Dr. Shamshad Akhtar in the Chair.

The State Bank Governor briefed the newsmen about the salient features of the Monetary Policy at a press conference held after the Board meeting.

Dr. Akhtar said that the monetary stance adopted since April, 2005 has had a visible impact. Core inflation came down during FY06 and FY07, albeit slowly and with the standard lag typically observed in developing countries. The Governor explained that the progress achieved in reducing core inflation has to be judged in context of the (i) significant and lingering monetary overhang brought about by earlier easing; (ii) excessive growth in reserve money in FY07 due to exceptional requirements of the textile industry for re-financing and budget's continued recourse during the fiscal year on central bank borrowings; and (iii) supply management problems affecting key food items and the significant rise in global commodity prices that has been generating new inflationary pressures in most economies. Due to the sizeable impact of the latter two items in particular, there has been a reversal, since May 2007, in core inflation. Trend headline inflation (Consumer Price Index) has stayed around the same level of the last two years, but this is much higher than the target of 6.5 percent.

## Corporate Sector

**SECP Panel of Auditors :** The Securities and Exchange Commission of Pakistan (SECP) had invited applications on 8th January 2008 from Chartered Accountancy firms so as to create a SECP 'Panel of Auditors'. The applications were initially called for up to 31st January 2008, a date which was subsequently extended to 29 February 2008.

On this initiative of the SECP some constructive proposals were received but there also appear to be some apprehensions expressed in the print media and/or in written submissions to the Commission. It is apprehended by some that creation of panel of Auditing firms is probably designed to favor some big audit firms. This apprehension is not correct. On the contrary the intentions are otherwise and are an effort to create a premium for professionalism and knowledge.

The Panel of Auditor is proposed to be developed by the SECP for listing audit firms for auditing of companies in different sectors like NBFC, insurance, non-banking listed companies and non-listed companies having paid up capital exceeding Rs 7.5 million. This development of Panel is primarily intended to create compatibility between the capacities of the Auditors and the requirements of the audit of a particular company. This creation of Panel and its periodic revision will promote more professional work.

There is nothing absolutely new in the initiative taken by the SECP. State Bank of Pakistan (SBP) already issues a 'Panel of Auditors' which it maintains under Section 35 of Banking Companies Ordinance, 1962. SBP requires scheduled banks and DFI's to appoint their auditors from amongst this approved panel. The panel is periodically reviewed by SBP to accommodate new applicant firms and also to upgrade/downgrade the firms on the basis of emerging evidence regarding them.

SECP has decided to create approved 'Panels of Auditors' primarily so that:

- o The choice of the companies to appoint qualified and experienced auditors gets expanded to a fairly reasonable number of auditors which is not too restricted.
- o The auditors appointed by a company have the knowledge of the specific sector of the business of which he is going to conduct audit.

## IFAC News

**IAASB Amends International Standards on Review Engagements to Clarify their Applicability to Specific Engagements:** The International Auditing and Assurance Standards Board (IAASB), an independent standard-setting board under the auspices of the International Federation of Accountants (IFAC), has agreed to amend the following International Standards on Review Engagements (ISREs) to clarify to which engagements each respectively is to be applied:

- o ISRE 2400, Engagements to Review Financial Statements; and
- o ISRE 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity.

The issue that had been brought to the IAASB's attention is that ISRE 2410 applies in the case of a review by the entity's auditor of interim financial information only, while ISRE 2400 applies to all reviews of historical financial information excluding those conducted by the entity's auditor. Thus, there would appear to be no directly relevant standard for reviews by the entity's auditor of historical financial information other than interim financial information.

The amendments to ISREs 2400 and 2410 can be downloaded from (<http://www.ifac.org/store/>).

**IAASB Issues New Auditing Standard on Accounting Estimates and Fair Values:** New requirements designed to enhance the rigor applied to auditing accounting estimates, including fair value accounting estimates, were released by the International Auditing and Assurance Standards Board (IAASB), an independent standard-setting board under the auspices of the International Federation of Accountants (IFAC). International Standard on Auditing (ISA) 540 (Revised and Redrafted), **Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures**, requires the auditor to focus attention on areas of higher risk, accounting judgment, and possible bias, thereby assisting the auditor to form appropriate conclusions about the reasonableness of estimates in the context of an entity's financial reporting framework.

## PIPFA Affairs

**New Corporate Logo, Vision & Mission Statement of PIPFA:** The Board of Governors is considering to have new dynamic corporate logo along with Vision, Mission and core values of PIPFA. Further, BOG has approved development of **Focused Study Material, Computer Based Examination (C.B.E)** of Foundation Level and approved Computer Centers for conducting and invigilation of the examinations.

**Refresher Course:** PIPFA has planned to conduct a refresher course for the students in **2nd week of April, 2008**, to benefit those who have still not passed the examination. Students are advise to contact PIPFA own centers for further details.



**Members Directory-2008:** PIPFA is planning to print its members' photograph along with his / her details in members directory. In this connections valued members are requested to update the changes (Up-date form is available at PIPFA website) and send two recent snaps to members departments.

**Availability of Examination Grade Sheet on the Website:** Grade Sheet is available at PIPFA website with login by using Registration Number and Date of Birth as a password.

**PIPFA Employees Services Rules:** The BOG in its meeting held on 25 and 26 January, 2008 at Lahore had approved the PIPFA Employees Services Rules.

### Admission of New Members

#### Fellow Members

1. Khalid Mahmood	(FPA-97)
2. Muhammad Ayaz	(FPA-691)
3. Mohammad Habib Ahmed Khan	(FPA-805)
4. Tanveer Ismail Allarakha	(FPA-1430)
5. Asim Mushtaq	(FPA-1853)
6. Muhammad Nadeem Ahmad	(FPA-1859)
7. Syed Mohsin Gilani	(FPA-1885)
8. Naveed Zafar Sethi	(FPA-1932)
9. Syed Abid Moiz	(FPA-1964)
10. Fiaz Ahmed	(FPA-1970)
11. Muhammad Saleem	(FPA-1972)
12. Nayyar Ashraf Farooqi	(FPA-2048)
13. Karim Merchant	(FPA-2071)
14. Jehan Zeb Amin	(FPA-2137)
15. Syed Amanat Imam	(FPA-2169)
16. Saulat Abbas	(FPA-2358)
17. Ahsan g. Mehanti	(FPA-2365)
18. Zafar m. Burney	(FPA-2405)
19. Saleeq Ahmed	(FPA-2462)
20. Muhammad Faraz	(FPA-2511)
21. Farzand a. Shergill	(FPA-2549)
22. Muhammad Shahzad Farooq	(FPA-2565)
23. Shaikh Ovais	(FPA-2567)
24. Muhammad Imran	(FPA-2597)
25. Iftikhar Ahmed	(FPA-2607)

#### Associate Members

1. Iqbal Kaleem	(APA-4241)
2. Saba Akbar	(APA-4242)
3. Shirjeel Naseem	(APA-4243)
4. Asif Iqbal	(APA-4244)
5. Muhammad Shahid	(APA-4245)
6. Syed Zaheer Ahmad Jafari	(APA-4246)
7. Amin Muhammad Iqbal	(APA-4247)
8. Nida Salahuddin	(APA-4248)
9. Furqan Salabat	(APA-4249)

10. Muhammad Sarmad Seemab	(APA-4250)
11. Muhammad Zafarullah Khan	(APA-4251)
12. Muhammad Irshad	(APA-4252)
13. Farrukh Muhammad Ali	(APA-4253)
14. Ashfaq Abdul Razzak	(APA-4254)
15. Waqas Babar	(APA-4255)
16. Muhammad Badar Ul Munir	(APA-4257)
17. Abdul Rehman Saeed	(APA-4258)
18. Muhammad Noman Naseeb Rana	(APA-4259)
19. Zahid Sarfraz	(APA-4260)
20. Iftikhar Ahmad	(APA-4261)
21. Irfan Abbas	(APA-4262)
22. Osama Ahmad Osmani	(APA-4263)
23. Syed Haider Mahmood Zaidi	(APA-4264)
24. Ambreen Zehra	(APA-4265)
25. Muhammad Atif Salman	(APA-4266)
26. Muhammad Kaleem	(APA-4267)
27. Manzar Makhmoor	(APA-4268)
28. Muhammad Nasim Khan	(APA-4269)
29. Guljee	(APA-4270)
30. Syed Abdullah Jamal Ahmed	(APA-4271)
31. Farhan Usman	(APA-4272)
32. Shahzad Mahmud	(APA-4273)
33. Amir Shehzad	(APA-4274)
34. Muhammad Kashif Butt	(APA-4275)
35. Syed Zeeshan Ali Warsi	(APA-4276)
36. Zia-ul-Haq	(APA-4277)
37. Mahmood Alam Shah	(APA-4278)
38. Muhammad Sohail	(APA-4279)
39. Amer nazar Shah	(APA-4280)
40. Ahmed Saleem	(APA-4281)
41. Sadat Ali	(APA-4282)
42. Muhammad Saqib Rao	(APA-4283)
43. Ammar Bin Majid	(APA-4284)
44. Wajha Danish	(APA-4285)
45. Muhammad Shayan Alavi	(APA-4286)
46. Muhammad Ali Husain	(APA-4287)
47. Muhammad Ali Ansari	(APA-4288)
48. Karim Ahmed Jan	(APA-4289)
49. Umamah Nawab	(APA-4290)
50. Sohail Anjum	(APA-4291)
51. Shahid Khan	(APA-4292)
52. Syed Najam Ul Hassan Naqvi	(APA-4293)
53. Iftikhar Ali Awan	(APA-4294)
54. Hafiz Ejaz Ahmad	(APA-4295)
55. Muhammad Sarfraz	(APA-4296)

## Examiners' Comments Winter Examinations 2007

### FINANCIAL ACCOUNTING - 1

The students are not preparing for the examinations keeping in view the standard of professional examinations. The main causes of failure of the candidates are as follows;

1. Lack of in-depth study of the subject.
2. Lacking in planning of timings while attempting the questions.
3. Lack of knowledge to understand the real requirements of the question
4. Poor presentation and language
5. Non-serious attitude of the students.

The general performance of the student in MCQ's was found satisfactory. Majority of students attempted and secured good marks but thorough study is suggested instead of selective study to get 100% result.

In subjective paper students' performance was very poor. They did not have any grip on basic concepts e-g in Q. 1 which was about Sales and Sales Return Journals most of the students were not able to identify which transaction relate to which journal. Similarly in Q.2 most of the students were unaware of manufacturing account and they prepared simple income statement and balance sheet instead of manufacturing account and secured very poor marks. They were not even able to prepare the balance sheet in the classified form. Many students just made the total of assets on one side and capital and liabilities on the other side. The format of Income and Expenditure Account was also not upto the mark however computation and calculation were found correct. In Q.5 which was attempted by 50% students correctly to the extent of computation, the format of Account Sale and Account of consignment inward were not upto the mark.

All the examinees are advised to adopt the habit of systematic study of text books and materials. They should solve and practice all exercises from the text books and from other study materials. The students should try to improve English language to understand the subject in a better way. Concise and self-contained answers be prepared keeping in view the time and the marks allocated to the question. They should learn the presentation techniques as well.

### BUSINESS COMM. & BEH. STUDIES

1. It is observed that both the Public Sector and the Corporate Sector candidates were not well prepared for this paper.
2. The knowledge of English grammar, spellings, etc. was not found up to the mark. The grammatical and spelling mistakes were very common and the expressions were very poor. It might be due to the fact that the candidates do not have command over English language.
3. Most of the candidates failed to produce satisfactory replies particularly to Q.3 (i.e. proverbial phrases) and Q.5 (i.e. formation of verbs and adjectives from the Nouns) of objective part and Q.1 and Q.5 of the subjective part.

The objective section was consisted of testing of knowledge of terms used in business communication, behavioral studies, proverbial phrases, formation of verbs and adjectives from nouns to test the grammar but the answers produced by the candidates shows that the candidates are very weak in this area.

In Q.1 of subjective part of the paper the theoretical knowledge of the candidate was tested but most of the candidates did not have fair idea of how an 'analytical report' is to be structured and produced. Its structure depends upon the audience reaction, i.e. receptive audience and skeptical audience. The candidates discussed the report generally. It might be due to lack of proper preparation.

Q.2 was consisted of short notes and three of them were to be attempted by the candidates. Being a straightforward theoretical question, most of the candidates offered adequate material concerning short notes for examination

Q.3 required writing of a refusal letter from the information given in the question. Almost all of the candidates attempted this question. Except some candidates, most of the candidates presented weak reasoning without a proper alternative to maintain interest of the client in the product and loyalty to the company. The expressions were also not up to the mark. The candidates who presented connected or relevant material got marks.

Q.4 being a straightforward theoretical question, was attempted by majority of candidates but was discussed generally.

In Q.5 students were asked to formulate the guidelines to fight problem of leftover employees in downsized organizations and confidence building measures among leftover employees. From the answers produced it is gathered that the candidates did not understand the spirit of the question. Most of the candidates criticized the action of downsizing and, as such, presented poor and irrelevant material.

### BUSINESS MATHEMATICS & BUSINESS STATISTICS

#### Mathematics

Overall performance of the student was very poor in this section. Only few students attempted clearly with proper concept. Majority of the students showed lack of basic finance concepts and ideas which effected their result.

#### Statistics

The students' performance in this area shows that they have no idea of counting techniques and hypothesis even they do not have the proper concept of probability.

The paper was very easy and was about the basics but students performance was hopeless and their lack of knowledge indicates their less interest in the subject.

### MERCANTILE LAW & ECONOMICS

The overall performance of the candidates was very poor. Majority of the candidates did not attempt all questions from both sections of question paper. It appears from their answers that they did not even have basic conceptual knowledge of Economics and Mercantile Law. Furthermore, many candidates did not read the questions carefully, so time was often wasted in presenting irrelevant information. For instance, in Q. 1 of Economics paper, the candidates were not asked to prepare diagram but, even though, most of them did so. There were the candidates who did not attempt even a single question. The aforesaid hopeless situation arose due to the following reasons:



- o Lack of appropriate subject knowledge because of insufficient time devoted towards the study of the text books,
- o Lack of examination technique,
- o Questions were not read properly and thus incorrect answers were supplied,
- o Disproportionate amounts of time were spent on some questions and as such the required number of answers could not be attempted,
- o Poor construction of written answers,
- o Bad and illegible handwritings,
- o Careless attitude of the examinees,
- o Weak communication skills,
- o Poor presentation.

#### Mercantile Law

**Q.1** was an easy question and majority of the candidates had attempted three parts of this question. Most of the candidates did not define (a) void contract, (b) unenforceable contract (c) executed contract, correctly. In **Q.2**, the examinees were required to explain Agency by Estoppel, but most of them did not attempt it and it happened due to the fact that mostly candidates do not give more importance to the profounder of any theory. **Q.3** was poorly answered by majority of the candidates. It indicates that they were not well prepared to answer this type of question so they could not provide correct answer. **Q.7** was an easy and score gaining question but majority of the candidates supplied incorrect answers. Poor performance in this question which shows their poor study and dearth of knowledge.

#### Economics

**Q.1** was attempted by majority of the candidates but few of them followed the requirement of the question and supplied the correct answers. Mostly they supplied the descriptive answers instead of listing down the causes of changes in demand. In **Q.2**, the candidates were required to provide only the definition of indifference curves, but most of them prepared diagrams of the indifference curves. In this way they wasted their valuable time. In **Q.4**, only a few candidates who attempted this question had supplied substantial answers. **Q.6** and **Q.7** were the score gaining questions and those who have clear concept and grip over the subject may become gainers. Indeed most of the students attempted these questions but failed to attempt properly.

#### FINANCIAL ACCOUNTING II

In **Q.1** the performance of the students was good most of the students got passing marks. Some students felt difficulty in calculating reserve on stock and goods sent to branch. They calculated reserve on sale price basis instead of cost.

Performance in **Q.2** was average. Many students were unable to calculate operating ratio. They did not include operating expenses in the cost while calculating operating ratio. Some students used the figure of net profit before tax for calculating net profit ratio. Students did not use the word % (percentage) for showing the profitability ratios.

Students showed average performance in **Q.3** and most of them were unable to adjust correctly C's share of goods in the accounts of A and B. This has affected the preparation of new balance sheet of the business. Some student could not calculate the revalued amount of stock and plant correctly.

In **Q.4** the performance of the students was very poor and mostly irrelevant answers were produced by them. The answers were not with reference to IAS 37. Some students considered construction obligation relevant to the construction industry which was wrong. Some students gave abnormally lengthy answers. Many students were confused about provision and liability.

However the performance in **Q.5** was good and most of the students got the passing marks. Some students could not calculate the exact amount of dividend. Many students wrongly calculated the amount of depreciation. Some students used the diminishing balance method of depreciation while it was specifically given in the question that depreciation shall be calculated on the basis of cost.

#### INFORMATION TECHNOLOGY

Poor Expression of language was frequently noticed. Most of the students scored above average in objective part of the question paper.

**Q.1** was an easy question, well performed by majority of students scoring maximum marks. **Q.2** was attempted by most of the students but majority was unable to answer it properly even they could not differentiate between Database, Database System and Database Management System. Students seem to be unaware of the fact that a Database System includes the both, DB and DBMS. Most of them finished it by just defining what a database is. Others gave example of Oracle and described the advantages of DBMS.

The part (a) of **Q.3** was about the problems of Water Fall Model of Software Development and most of the students were proved ignorant in this area and they gave real stupid description of the topic. Very few could score in this part. Part (b) was attempted well by those who prepared it but a significant number could not attempt and seemed unprepared. In **Q.4** very few could answer correctly most of the students confused it with 4GL and described accordingly.

In Part (a) of **Q.5** some students have ridiculously started answering this part with sentences like 'E-commerce is very essential for our country' etc. A great number of students were found ignorant of this area which is very famous now-a-days. Only a few could score well in this part of question.

In **Q.6** students were unable to differentiate among 'levels of MIS', 'Types of Computer based Information Systems (CBIS)' and 'Types of MIS'. Most of the students discussed 'Types of CBIS' i.e. TPS, DSS, ES, EIS, etc. The conceptual dilemma ruined students' real lengthy answers.

In **Q.7** very few students gave the actual answer. Part (b) was attempted by majority of the students and they scored average marks. Repetition of same points was a general norm others gave single line definitions only. Few confused it with bad debt recovery too.

In **Q.8** part (a) most of the students described Antivirus under the heading of firewall. The students generally scored below average. The same performance was shown in other parts of this question.

#### COST ACCOUNTING

The students have rarely taken care of clarity of exposition, logic of arguments, presentation, and language. Many students attempted the questions without quoting question number or mentioning wrong question number. Some examinees attempted part "a" of a particular question at one place and part "b" some where else. The following points were also observed:

- o Grammatical mistakes
- o Irrelevant details
- o Incomplete answers
- o Spelling mistakes

Almost all the examinees attempted **Q.1** well. However, the following points were observed;

- a) Many students were not able to understand what is LIFO and what is the difference between LIFO & FIFO.
- b) A few students attempted the questions considering it as FIFO.
- c) The proper format of inventory ledger card i.e date, purchased, issued and balance was not observed.
- d) The inventory valuation was not totaled/shown.
- e) The "Balance" on the inventory ledger card was shown after actioning purchased and issued transactions simultaneously. Although purchased and issued transaction took place on different dates.

Similarly in **Q.2** students were not able to differentiate between average method and FIFO method of

cost of Production Report. Many students were not even able to find out the unit put into process (Balancing Figure) which ultimately caused wrong calculation of equivalent units and per unit cost. Even those students, who correctly prepared the quantity schedule, did not calculate the equivalent production units and cost per unit correctly. The main reason was not having basic concept of preparation of cost of production report specially treatment of normal loss as well as abnormal loss.

**Q.3** was attempted by majority of students but the competence level was not attained by many examinees. Many students did not correctly work out the budget allowance which ultimately caused wrong calculation of spending variances, idle capacity variances and total variance. A few students tried to attempt this question on the basis of "guess work"

Almost all the examinees tried to attempt **Q.4** but there were comparatively less number of students who attempted it in a fairly good manner and secured good marks. Most of the examinees did not demonstrate full grip on the subject. In this connection the following points were also observed.

- (a) In marginal costing, some examinees were not having any idea that variable selling cost is to be included in the variable cost for calculating the contribution margin.
- (b) In marginal costing, some students also included wrongly the fixed cost in the production cost and ending inventory.
- (c) Some students deducted from "manufacturing margins" fixed production overhead and then variable selling expenses were deducted incorrectly under marginal costing.
- (d) A few students also included the variable selling cost in the production cost as well as cost of ending inventory.

Hardly any student attempted **Q.5** satisfactorily. Instead of defining the cost system, the examinees narrated cock and bull stories. They were not having any fair idea of a cost system. In part (b) of this question, instead of listing the classification of cost, the students mentioned the techniques of costing and methods of costing.

#### COMPANY LAW & TAXATION

99.5% of the examinees were not having the concept of both the subjects. The questions asked were on the basics of the subject, and answers should have been specific for what have been asked in the question. The examinees response was poor and the reason seems to be not having proper preparation of the subject. The examinees response to technical issues asked in question paper was on General Knowledge.

#### Company Law:

**Q.1** was on the basics of steps required by a company to perform after incorporation. The examinees misinterpreted the statutory and replied the question in context of Statutory meeting and steps of incorporation. **Q.2** was asked very straightly for the concept of transmission. The examinees misinterpreted the topic as normal share transfer. Some of the examinees, having knowledge of share registrar working, attempted the question correctly. **Q.3** was very specific and supposed to be replied in 3 points. The examinees replied to some extent but were not clear and specific. **Q.4** was on dividend declaration, distribution and Ordinance's requirements. Examinees were not having knowledge about restriction for declaration of dividend as required by Ordinance. The other parts were also not properly replied due to lacking of basics of the topics. **Q.5** was on statutory meeting and its contents. The examinees were comparatively efficient in responding the same.

#### Taxation:

**Q.1** was on basic concept of filing income tax returns. Most of the examinees replied on general knowledge basis. The reply was on the basis of tax ceiling rather than the eligibility of Pakistanis to file the return. In addition to the ceiling, number of examinees interpret the filing of tax return with tax refund, which is beyond imagination. **Q.2** was on definition and response was very poor, especially for definition of Debts and Permanent Establishment. **Q.3** was on listing of Income exemption, in context of Income from Business. The response was somehow better as compared to **Q.1**. **Q.4** was of simple calculation of tax liability. The response was poor for both understanding of topic as well as presentation. **Q.5** was on claiming for bad debts, in taxation. The examinees' response was again on the basis of accounting knowledge rather than specific tax treatment.

#### AUDITING

Students generally have a poor expression of concept. It seems that they do not read and understand the question properly and give irrelevant answers. Students do not even have the concept of materiality which is the basic of Auditing. They lack the knowledge of ISA "Events Occurring After the Balance Sheet Date". Students should clear their concepts and should try to practice how to attempt the questions in an examination.

#### ADVANCED FINANCIAL ACCOUNTING

- a) The students lack in examination technique; they are unaware to how to select and attempt a particular question.
- b) The question number is not properly marked in the answer sheet.
- c) The students did not start the next question on the new page.
- d) The presentation skills are very poor i.e. currency sign and proper headings are not marked / provided.
- e) The students are not aware of the fact that the step by step marking is followed in all professional examinations and they usually leave the questions un-attempted.

None of the students got full marks in Objective Paper; a very few number of students managed to get 15 marks. This is also a major reason of failure in the paper as this section covers 25 marks.

**Q.1** was on consolidation of balance sheet and was very basic question requiring adjustments relating to un-realized profit on stock, goods in transit and intra-group balances in which the response was very poor. The question specifically mentioned that the subsidiary was acquired at the date of incorporation of subsidiary and capital was taken at par value but many of the students tried to calculate goodwill which was nil in any case. The students also taken the cost of investment appearing in the holding company balance sheet and subsidiary company share capital in the consolidated balance sheet which shows the students have very little knowledge of consolidation topic. Only few students got full marks in this question. Lot of students also missed the proper heading of balance sheet which also has certain marks.

**Q.2** was relating to employee benefits i.e. on IAS -19. Surprisingly none of the students properly attempted this question. This was very easy question all the figures were given in this question except the figure of recognition of any portion of un-realized gain/loss and the students were required to produce the relevant extract of balance sheet and income statement. The students were entirely missing the concept of figures to be included in the income statement and balance sheet. Surprisingly many students tried to prepare income statement and balance sheet. In other words students have not prepared this topic/question at all.

**Q.3** was relating to construction contracts i.e. IAS 11. Hardly few students had prepared this topic. Many students produced contract account which was not required. The students were only required to provide extracts of income statement and balance sheet but many tried to produce the full income statement and balance sheet. Many students were even unaware of calculating the stage of completion. Only few students got full marks and attempted the question in the pattern in which the answer was required.

**Q.4** was on revenue recognition i.e. IAS 18 and the basic concept that how an agent recognize the revenue from the sales on behalf of principal and how that is different from sales where he is acting as a buyer. Only few students got the basic point and produced answer and got full marks. Majority of the



students treated the sales i.e. as an agent and as principal in the same manner. Unfortunately the students were unable to apply the basic concept of markup and margin.

**Q.5** was on ratio analysis. The first part was of five marks requiring formulae of ratios and the second part was to discuss the results of the company in comparison with the industry averages. A good number of students were not even able to give the correct formula for a ratio. The answer to the second part of the question was pathetic; the students provided the meanings of ratios and were not able to discuss the impact of ratios on the financial position, financial performance and changes in financial position of the company.

The poor response to such an easy paper shows that the students are not equipped with proper understanding of the subject.

### COST & MANAGEMENT ACCOUNTING

1. Overall performance of the examinees was not up to the mark.
2. Ineffective presentations, lack of study, lack of technical knowledge and inability to understand the requirements of questions and the issues involved were the main reasons for failure.
3. Most of the examinees produced incomplete or incorrect answers.
4. Instances were noted where examinees left blank answer scripts without attempting the questions or scored less than 10% marks, which shows that the students are not serious in their studies and also showed a very casual attitude towards examination.
5. Most of the examinees had very bad hand writing.
6. Students did not take pain of reading the 'INSTRUCTIONS' printed on the top of question paper and answer scripts.

**Q.1** was on 'decision making' and required to ascertain differential revenues, differential costs and opportunity costs. Majority of the students could not understand the concept of differential costs and opportunity costs and as such confused with the treatment of revenue figures with costs.

**Q.2** was set on 'PERT network'. The students were required to identify critical path from PERT network. It was observed that most of the examinees had no concept of PERT network although the question was set from the core topic of the course. It exposed to lack of serious study.

**Q.3** was on 'Cash Budget'. The requirement was to prepare a cash budget. It was a simple question however a good number of students could not correctly attempt the question. Most of the examinees failed to differentiate the treatment of expenses from income statement and cash budget approaches. The computation of purchase through traditional method was also not performed by a number of students.

**Q.4** was about 'Accounts Receivable Management'. This question was also not correctly attempted by the majority of examinees although the question was very simple and clear. It again showed the casual attitude of the students towards studies. The students should go through the relevant study text for success.

### ADVANCED TAXATION

The major causes of bad failure of the students were;

1. Poor language
2. Bad and illegible handwriting
3. Without any assumption, as per the requirement of the question
4. The questions were attempted in a scattered form i.e. one part of the question on one page and the other on any other page of the answer sheet
5. Giving the replies without reference & knowledge of the levy
6. Discussing the financial and other concepts of the question
7. Reference to wrong enactments
8. Unwanted lengthy answers

In **Q.1** very few of students were aware of the recent major change introduced in section 8B which restricts the allowance of input to 90%, although it has exception to the rule also. The students did not reply the question objectively rather they were mistaken that the length of the answer without any substance could help them. Only a few replied in the context of sales tax law and the rest discussed the general & financial accounting concepts of the samples & its treatment. This approach, of course, did not help them rather it gave a bad impression to the examiner about their being non-imperative and disoriented of the subject.

Reply to **Q.2** was unexpectedly different; mostly the students gave the names of different organization whereas the question was designed to check the knowledge of items of assets on which Zakat is required to be deducted. The other part of the question was designed to check the knowledge on the recently enforced 1% excise duty on import and manufacturing of certain items, except a few, which were offered exception to the levy. Except a few, mostly the students replied in a generalized way without any specific reference to the enactment.

The answer to **Q.3** was desired to be given with reference to section 13 read with sixth schedule to Sales tax Act, 1990 containing 70 items, mostly the students gave the answer either in general or only reference to the section and the schedule. The second part of the question was about Rules of refund of Excise Duty. Despite the question was clear in its wording and easy in nature but mostly the replies to the question were not very objective.

Students who attempted the first part of **Q.4**, gave good answers and replied objectively however some of them instead of giving the answer gave the names of the institution i.e. Shoukat Khanam, Edhi & other welfare organization. It appears that such type of replies were ex-tempo and result of unnecessary attempt application of general knowledge having no nexus of the Zakat and Ushr Ordinance, 1980. Some of the students discussed Nisab and Islamic concepts & Quranic version of this levy which was not in any way desired answer. The second part of the question was attempted by a minority of students and the quality of reply was also general in nature and without reference to the excise laws.

**Q.5** was actually designed to check the approach of the students with reference to the period and calculation of taxable income. Despite the fact that the question was very easy in its nature, the solution offered except a minor percentage, was not very encouraging. Some of the students calculated the taxable income on monthly basis, which is never taken as a basis for salary taxation. assumed that the taxable income is always on yearly basis.

**Q.6** was based on two different withholding concepts; the one introduced in income tax long time back and the other recently introduced through SRO 660 (1) of 2007 in the sales tax. Except a few, mostly the answer to the question was either assuming inclusively and exclusively sales tax in the sales value. Actually, in such type of question the students with sufficient knowledge of income tax & sales tax should have offered their own assumption followed by their own solution. Unexpectedly the solution offered by the students were almost without any assumption and mostly failing to reply the amount of cheque and amount withheld by the organization.

### CORPORATE LAWS & PRACTICES

The general performance of candidates was not upto the mark. Majority of the students were inadequately prepared. Their knowledge of the subject were limited therefore could not perform well. Apart from lack of study the following shortcomings were also observed;

- o Lack of time management
- o Illegible hand writings
- o Inability to give answer according to marks allocation

Most of the students produced wrong answers to **Q.1**. The candidates had no idea what was being asked from them, they gave general and vague answers which had little or no relevance to the subject matter. In part (b) candidates did not understand the term "Service of Documents" and gave list of documents to be submitted to the registrar.

In part (a) of **Q.2** students were required to list down the stipulations of the law regarding buy back of shares by a company. Those who had prepared this question answered well others only mentioned "Yes or NO". Part (c) was a very simple question regarding "Effect of Irregular allotment" although many students know what irregular allotment is but very few could answer it completely.

**Q.3** was attempted by only few students who could not answer it correctly. Most replies of the students were "Yes or No", not bothering to explain further.

**Q.4 & 5** were based on other laws given in the syllabus which comprises 25% of the syllabus. But students preparation for these laws were not up to the mark and it seems that it was not given importance while preparing for exam. Q4 & 5 were their least favorite questions, Majority of the answers were incorrect.

In **Q.6** some students were able to give partially correct answers, others just managed to write "Yes or No" Part (b) was a very simple question not understood by the examinees.

## PIPFA Summer Examinations 2008

PIPFA Summer Examinations 2008 will be held from **May 05, 2008 to May 13, 2008 (Corporate and Public Sector)**. The details of papers and dates will be communicated to students with their admit cards. The Examination Forms submission schedule has already been displayed on PIPFA's website.



**Post Office Reg. No. : SS-1112**

To,



If undelivered, please return to:

### Pakistan Institute of Public Finance Accountants

Office # 907, 9th Floor, Park Avenue, 24-A, Block 6, P.E.C.H.S.,

Shara-e-Faisal, Karachi-75400, Pakistan.

Tel.: (021) 4380451-52, Fax: (92-21) 4326588

Email: pipfa@cyber.net.pk, Website: www.pipfa.org.pk