

EXAMINERS' COMMENTS ON THE PERFORMANCE OF EXAMINEES

PAPER – 1 : FINANCIAL REPORTING

1.(a) Most of the examinees were able to calculate the carrying amount of investment in the Separate Financial Statements. However, they made mistake in calculating the carrying amount of investment in the Consolidated Financial Statements.

(b) Some of the examinees erred in the calculation of unearned finance income and segregation of finance income.

(c) A few of the examinees made mistakes in recognising the value of assets replaced by the insurance company.

(d) Majority of the candidates were not able to allocate the impairment loss between goodwill and identifiable assets. Also they showed lack of knowledge on guidance stated in AS 28 on reversal of impairment loss.

2. Many examinees failed to calculate the correct bank balance as on 1st October, 2016 because of which their net asset value and intrinsic value of Sheep Ltd. and Bear Ltd. went wrong. At some places, examinees had committed certain other mistakes also like calculation of depreciation and profit and loss balance which resulted into deduction of marks.

3. Mostly the examinees faulted in the analysis of Reserves and Surplus of Dark Ltd. due to acquisition of shares of Dark Ltd. in two lots. Therefore, all the calculations related to pre and post-acquisition profits like cost of control and consolidated reserves and surplus went wrong. Hence, they were not able to score good marks. Some erred in the presentation of consolidated financial statements in the proper format.

4.(a) Some of the examinees were not able to correctly calculate the ESOP cost to be amortised for the financial year 2016-17. This resulted into wrong calculation of Basic and Diluted EPS. Also potential equity was not calculated correctly by few examinees.

(b) Almost all the examinees who attempted the question were able to present the value added statement correctly. Some made mistake in calculating the 'Gross value added to capital employed ratio'. However, the examinees were not able to provide proper comments on the utility of the ratios calculated in comparison to the industry.

5.(a) Handful of the examinees were not able to adjust correctly the profit of the past years for certain rectifications. This resulted into wrong calculation of future maintainable profit and ultimately goodwill. Also tax adjustment on reversal of provision was not done by many examinees. Hence, the number of shares to be issued to finance the new project went wrong.

(b) Most of the examinees left this part of the question. It appears that they had not prepared the topic or were not well versed with the differences between Ind AS and AS.

Even those who attempted had answered poorly and showed poor understanding of the differences between accounting and valuation, especially the concept of fair value.

6.(a) Almost all the examinees who attempted this question were not able to answer it correctly. They showed very poor understanding of the concepts behind accounting for financial instruments.

7. Overall performance was good in this question. However, at places explanations provided by the examinees were general and required more clarity.

PAPER – 2: STRATEGIC FINANCIAL MANAGEMENT

1.(a) The overall performance was very good in this question as most of the examinees have answered correctly all parts of the question.

(b) In this question, overall performance was below average. Most of the examinees have not correctly calculated the value of option by using any of the models i.e. Binomial Model or Risk Neutral Model.

Even some examinees did not know the concept of option being at-the-money and hence could not compute the value of option. Some examinees have tried to give justification in general comparative terms.

(c) In this question, overall performance was above average. Except few, most of the examinees have been able to answer the question correctly. However, some examinees did not have conceptual understanding of Spot Rate, Forward Rate and their relationship with Interest Rate. Even some examinees have arrived at forward rate premium as 3.47% instead of 6.94% p.a.

(d) Overall performance in this question was much above average. Some examinees made mistakes in calculations. However, few exceptions were there where the calculation of second year was altogether skipped and first year rate was used to arrive at for the third year end.

2.(a) In this question, examinees have performed fairly well. Most of the examinees have appreciated and understood the question and attempted it correctly. However, some of the examinees have not considered the tax rate while calculating year wise rental. Some examinees have shown lack of knowledge of concept of depreciation tax shield.

(b) In this question, overall performance was satisfactory. Though some examinees have calculated NPV of the project correctly but could not properly calculated 'Sensitivity Analysis'.

3.(a) In this question overall performance was very good. The question has been well attempted by most of the examinees. However, few mistakes have been committed which are as follows:

- Some examinees have added ₹ 417. It should be deducted as bank received the amount on settlement as per floating rate of interest as against fixed rates.

➤ Further, some examinees have calculated interest on base amount (₹ 1 crore) instead of compounded amount.

(b) Overall performance in this question was of average level. Most of the examinees have attempted the question very well though some examinees could not calculate NAV for all 3 years correctly. Few examinees calculated NAV incorrectly for 31.03.2015 @ ₹ 21.50 but calculated correctly NAV for 31.03.2016.

4.(a) In this question overall examinees have performed poorly. The projected rate of interests were just to indicate the necessity of hedging to Cap the interest rates but several examinees calculated gain/loss with reference to Projected Interest rates and not against Actual Interest rates. Further, most of the examinees do not know that hedging can be done by cap option.

(b) Overall performance of the examinees in this question was good. However, few examinees were not able to calculate exchange ratio which would not diminish the EPS of Fost Co. Ltd. after its merger with East Co. Ltd. Moreover, some of the examinees have also not able to cross tally.

5.(a) In this question overall performance was below average. Most of the examinees failed to answer correctly all steps of currency futures method especially in calculation of variation margin and interest on margin.

(b) In this question overall performance was of average level. Some of the common mistakes noted in the answers are as follows:

- Most of the examinees could start correctly the cost of equity at 20% and reduced dividend at 7.50 per share but lost track to conclude the answer for increased share price and increased dividend with additional profit of ₹ 50,00,000.
- Few examinees did not calculate correctly cost of equity, dividend per share in year 1 and 2 and the new share price.

6.(a) Overall performance in this question was good.

(b) In this question, overall performance was very good. Most of the examinees have answered both the desired return and break even return in terms of months or days or fraction of a year. However, few of the examinees fail to consider the expense relating to investment in their calculation.

7.(a) In this question, overall performance was average as they could not explain properly the process of strategic decision making. Further, some of the examinees have not explained the specific decision making processes at Middle Level & Line Level which are crucial to support Strategic Decision Making at Top Level Management.

(b) In this question, overall performance was good. Most of the examinees answered correctly by explaining the need of Financial Restructuring in case of loss making enterprises. Only few examinees explained that financial restructuring can be for Balance sheet improvement and to cultivate financial discipline to make the organization resist financial contingencies and competitions.

(c) Overall, examinees have performed well in this part of the question. Most of the examinees answered describing the Chop Shop method of valuation of segments or part of enterprises. However, only few examinees explained precisely that Chop Shop method of valuation lead to buy business assets at least replacement value with Capital ratios and theoretical market value of the segments and of the firm as well.

(d) The overall performance was average because only few examinees could explain the reasons and advantage to such foreign investors who are keen to invest without disclosing their identity and registration with SEBI and other Regulatory Agencies and opt the route of Participatory Notes. Even some candidates wrote irrelevant points.

(e) Most of the examinees attempted to answer in very general terms for off shore funds as Foreign Funds and investment in Mutual Funds. However, few examinees mentioned how off shore funds though subject to regulatory control of govt. of India and RBI and Mutual Funds are playing vital role channelizing domestic small savings to invest in domestic market. Therefore, overall performance was average.

PAPER – 3 : ADVANCED AUDITING AND PROFESSIONAL ETHICS

1.(a) Applicability of Ind AS: Examinees did not discuss the requirements of section 133 and section 129 of the Companies Act, 2013, that Companies registered under Section 8 are not exempted from the complying with Ind AS while preparation of their financial statements. Only selected examinees mentioned that the auditor is required to ensure the applicable monetary limits with respect to applicability of Ind-AS. Few examinees answered wrongly in the pretext on applicability of the Accounting standards to Charitable organisation whereas the question is on the applicability of Ind-AS to section 8 companies.

(c) **Branch Audit:** Examinees lacked knowledge in applying the required provisions of the Companies Act, 2013 to the given question. Few examinees have misunderstood the question and explained SA 600 on 'Using the Work of Another Auditor'.

(d) **Disclosure of Earnings Per Share:** Many examinees gave working of EPS and explanation part correctly however they failed to explain AS 20 on Earning per Share (EPS) that the number of equity shares outstanding before the event of a bonus issue to be adjusted for the proportionate change in the number of equity shares outstanding as if the event had occurred at the beginning of the earliest period reported.

2.(a) Contravening Provisions of the Act: Few examinees failed to mention the contravention of Regulation 48 for failure to pay stipend every month whereas few others misunderstood the question and wrongly referred Clause 2 of part 1 of First schedule to the Chartered Accountants Act, 1949.

(b) **Bringing Disrepute to the Profession:** Examinees answered the question referring to the relevant clause, but only few examinees explained that as per Negotiable Instruments Act 1881, where a cheque is dishonoured for insufficiency of funds the drawer of such a cheque shall be deemed to commit an offence.

(c) Making Roving Inquiries: Majority of the examinees made correct reference of the relevant clause but few examinees wrongly concluded that the firm and its partners are not guilty. Some examinees failed to discuss the council's opinion that "where the existence of such a panel is within the knowledge of the member, he is free to write to the concerned organization with a request to place his name on the panel".

(d) Furnishing Audit Report of a Co-operative Society: Even though many examinees have given correct conclusion, few examinees failed to refer Section 288(2) of the Income tax Act, 1961 and its explanation while some of them mistakenly related with Professional misconduct under Chartered Accountants Act, 1949.

3.(b) Classification of Frauds by NBFC: Though examinees pointed out the various classification of frauds by NBFC but few examinees failed to explain the manner of reporting in cases where fraudulent intention is suspected and proved. Some examinees wrongly mentioned general types of frauds committed by corporates.

(c) Uncorrected Misstatements identified during the Audit: Few examinees failed to explain the audit considerations to determine whether the uncorrected misstatements are material in relation to classes of transaction, account balances or disclosures. Some of the examinees failed to discuss how the auditor shall assess materiality aspects as per SA 320 in evaluating the effect of uncorrected misstatements. They erred in referring to SA 315.

4.(a) Steps on a Due Diligence Audit: Many examinees explained major steps involved in the due diligence audit but they failed to discuss the additional steps which are specific to the question to be considered for acquiring the existing business like reason for sale of business, length of lease, unexpired period of patents, age of managerial staff, bulk sales, valuation of Goodwill etc., Few examinees unnecessarily explained the various areas/ types of due diligence mechanically without looking at the requirement of the question.

(b) MAT – Eligible to Claim the Credit: Majority of examinees referred AS 22 and gave correct conclusion. Reasoning is properly given by few examinees. Many examinees failed to explain the criteria for recognition of an asset, that an asset is recognized in the balance sheet when it is probable that the future economic benefits associated with it will flow to the enterprise and the asset has a cost or value that can be measured reliably. Many examinees stressed upon the disclosure requirements of Schedule III of the Companies Act, 2013 which is irrelevant.

(c) Evaluating Going Concern Assumption: Most of the examinees explained only the Financial indications properly and few examinees could not highlight the operating and other indications while examining and evaluating the Going concern assumption as per SA 570. Few examinees could not give the breakup of indicators and mixed up the indicators to produce the general answer.

5.(a) Disclosures and Adjustments to be incorporated in the Financial Statements included in the Offer Document: Majority of the examinees have not attempted this question and those who attempted were not aware of the topic. Examinees were not aware of the adjustments to be

incorporated in the Financial Statements included in the Offer Document as per SEBI Guidelines. Few examinees have misunderstood the question and answered in the context of SAE 3420 on 'Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus'.

(b)(i) Borrowing of ₹ 50 Lakhs: Examinees failed to explain with reference to clause 31 of Form 3CD for reporting on the mode of amount borrowed. Few examinees have discussed generally on vouching and verification aspects instead of mentioning the reporting requirements of Tax auditor. Few examinees mixed up section 40A(3) of the Income tax Act, 1961 on disallowance of cash payments exceeding ₹ 20000 instead of explaining the provisions of section 269SS.

(ii) Payment of Rent: Examinees have discussed generally on vouching and verification aspects instead of mentioning the reporting requirements of Tax auditor. Some examinees failed to explain with reference to Clause 23 of Form 3CD for reporting the particulars of payments made to persons specified under section 40A(2)(b) of the Income Tax Act, 1961. Instead of explaining Tax audit requirements few examinees wrongly discussed AS 18 and SA 550 on "Related parties".

6.(a) Specific Risk to an Entity's internal Control: Many Examinees have not enumerated properly the specific risks that IT system poses to an entity's Internal Control. Only few examinees made a better presentation of the topic. Some examinees wrongly explained the various types of audit risks namely Inherent Risk, Control Risk and Detection Risk while some other examinees wrote general answers like lack of audit trail, segregation of duties, safeguarding of assets, backup, storage etc.

(b) Type of Operational Audits: Examinees have explained the functional audit but could not explain the other types of operational audits namely Organizational Audits and Special Assignments. Some examinees unnecessarily explained the objectives of operational audit and various types of audits viz., management audit, internal audit, cost audit, environmental audit, energy audit, compliance audit etc.,

(c) Other Comprehensive Income as per Ind-AS and its Components: Examinees were lacking knowledge on the topic. Examinees were neither aware of the meaning of "Other Comprehensive Income" as per Ind-AS nor its Components". Many examinees mixed up "Other Comprehensive Income" with income from other sources Viz., interest, dividend and capital gains etc. It seems that examinees have made poor preparation on Ind-AS.

7.(b) Areas not to be Examined in Peer Review are: Some examinees were able to highlight only few of the areas that are outside the purview of Peer Review. Few examinees wrongly mentioned that tax audit and internal audit are also not to be examined by Peer Reviewer. While few other examinees discussed wrongly on the areas to be examined by Peer Reviewer.

(c) Format of Audit Report for a Stock Broker: Examinees exhibited poor knowledge on the subject. Examinees failed to mention that auditor has to comment that books of account

and records as specified in Rule 15 of the Securities Contracts (Regulation) Rules, 1957 have been kept. Examinees failed to mention that the auditor has to comment on whether the stock broker has complied with the requirements of the stock exchange on maintenance of accounts and regular in submitting the required accounting information to the stock exchange. Instead of discussing the format of audit report of stock Broker few examinees explained the contents of Contract note which was not required.

(e) Contents of Audit Report given by Comptroller and Auditor General: Majority of the examinees instead of explaining the contents of Report presented by C & AG on the public sector undertakings required in the question, wrongly discussed the Contents of General audit report like title, opening paragraph, responsibility of auditors etc., besides wrongly explaining supplementary audit and Test audit.

PAPER – 4: CORPORATE AND ALLIED LAWS

1.(a) Performance of the examinees was good. Most of the examinees have answered correctly stating the provisions of Section 164(2) read with Section 167(1) (a) of the Companies Act, 2013.

(b) Performance of the examinees was good. Most of the examinees have answered correctly stating the provisions of Section 123(3) & Section 127 of the Companies Act, 2013 relating to revocation of interim dividend after its declaration by the Board of Directors and also the provisions relating to transfer of profits to reserves.

(c) Performance of the examinees was good. Most of the examinees have answered correctly stating the provisions of Section 141(3) (d) (ii) of the Companies Act, 2013 regarding the validity of the appointment of a statutory auditor when he or his relative or partner is indebted to a company or its holding or associate or a subsidiary of such holding Company or a combination thereof.

(d) Performance of the examinees was average. The answer given by most of the examinees was of general nature. Many examinees did not know the provisions of Section 4(2) (d) of the Competition Act, 2002 relating to abuse of dominant position if an enterprise or a group(s) make conclusion of contracts subject to acceptance by other parties of supplementary obligations.

(e) Performance of the examinees was above average. Most of the examinees have stated in brief the limits of remittance of foreign exchanges pursuant to the provisions of Schedule III of the FEMA, 1999 relating to remittances of foreign exchanges for studies abroad and for medical treatment.

2.(a)(i) Performance of the examinees was above average. Most of the examinees have covered the provisions of Section 165(1) of the Companies Act, 2013 regarding number of Directorship a person can hold including any Alternate Directorship in Private Company that is either Holding or Subsidiary Company of a Public Company and have arrived at correct conclusions.

(ii) The question was dealing with the provisions of Section 226 of the Companies Act, 2013 as to whether an investigation can be stopped or suspended for the reason that a special resolution has been passed for voluntary winding up. The answer given by most of the examinees was of general nature and the performance of the examinees was average.

(b) Performance of the examinees was average. Most of the examinees did not attempt part of the answer relating to formalities that a foreign company should observe pursuant to Section 380 of the Companies Act, 2013.

(c) Performance of the examinees was good. Most of the examinees have answered correctly the provisions of Section 212(6) of the Companies Act, 2013.

3.(a)(i) Performance of the examinees was good. Most of the examinees have answered correctly the provisions of Section 143(5) and 143(6) of the Companies Act, 2013 relating to the powers of C & AG to authorize a supplementary audit of a subsidiary company of a government company.

(ii) Performance of the examinees was good. Almost all the examinees have answered correctly the appointment of auditors in different situations in a government company.

(b) Performance of the examinees was average.

(1) This question dealt with the "Rules" relating to the admission or rejection of application by adjudicating authority under the Insolvency and Bankruptcy Code, 2016 (IBC).

(2) Very few examinees have attempted the above question in general.

(c) Performance of the examinees was good. Most of the students answered correctly the provisions of Section 12 of PMLA, 2002 regarding obligation of Banking Companies, Financial Institutions, and Intermediaries regarding the period up to which records are to be maintained.

4.(a)(i) Performance of the examinees was found below average. Most of the examinees were not able to answer whether a director of a company can appoint a power of attorney holder or an agent or a representative to inspect the books of accounts of the Company on his behalf. However, many examinees answered correctly the provisions relating to inspection of books of accounts if such a person is a shareholder of the Company.

(ii)(A) Performance of the examinees was found below average. Most of the examinees could not answer the further process if the DIN application shows as "Put under Resubmission" pursuant to Rule 10 of the Companies (Appointment and Qualifications of Directors) Rules, 2014.

(ii) (B) Performance of the examinees was found below average. Most of the examinees could not write the process and relevance of Back office in MCA-21 program.

(b) Performance of the examinees was poor. Most of the students could not answer correctly the provisions of Section 222(2) of the Companies Act, 2013 relating to blocking of transfer of shares of a Company in case there is serious apprehension of cornering the

shares of the Company by a group of unscrupulous persons likely to result in a change in Board of the Directors which may be prejudicial to public interest.

(c) Performance of the examinees was above average. Most of the examinees have clearly distinguished between mandatory and directory provisions while interpreting a statute. However, some of the examinees have resorted to give a generalised answer without substance.

5.(a) Performance of the examinees was average. The answer to this question was based on provisions of the Section 197 of the Companies Act, 2013 read with the conditions specified in Schedule V relating to payment of managerial remuneration in case of no profits or inadequate profits. Many of the examinees could not write the above provisions correctly.

(b) Performance of the examinees was below average. The answer to this question was based on the provisions of Regulation 78(4) of SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009 relating to lock in period for the shares allotted on preferential basis.

For the 2nd part, the answer was based on the provisions of Regulations 72 of SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009 relating to persons not entitled for allotment of shares on preferential basis. It was observed that many of the examinees were not having adequate knowledge of the above subject matter.

(c) Performance of the examinees was poor. The question required drafting of a Board Resolution authorizing the General Manager (Finance and Accounts) entrusting him with the duty of ensuring compliance with the provisions of the Companies Act, 2013 relating to maintenance of books of accounts. Most of the examinees have not drafted the Board Resolution properly which showed a lack of writing practice on drafting resolutions. The examinees have also not answered the consequences in case of default when such a resolution is passed.

6.(a)(i) Performance of the examinees was below average as most of the examinees have resorted to give their answers in a general manner. Most of the examinees could not answer correctly the provisions of Section 218 of the Companies Act, 2013 relating to whether an employee is entitled for any protection against dismissal by the Company if he discloses misdeeds during the course of examination by an Inspector.

(ii) Performance of the examinees was below average as they could not mention the provisions regarding Mediation and Conciliation Panel under the Companies Act, 2013 and rather chose to give their answers in a generalised manner.

(b) Performance of the examinees was good. Most of the examinees have correctly answered the question referring to the provisions of Section 181 of the Companies Act, 2013 relating to powers of the Board of Directors of a Company to contribute to bona-fide and charitable and other funds.

(c) Performance of the examinees was above average. Most of the examinees have correctly answered the question referring to the provisions of Section 5 of the SEBI Act,

1992 and Rules framed thereunder for ascertaining the period of holding of office by the Chairman of SEBI and whether he can be re-appointed on the same post after expiry of the original tenure and also whether it was possible for him to relinquish his office before the expiry of his tenure.

7.(a) Performance of the examinees was above average. Most of the examinees have correctly written the provisions of Section 186 (2), 186(5) of the Companies Act, 2013 relating to the legal position of the proposed inter-corporate investments under the Act.

(b) The answer given by most of the examinees was of a general nature. The examinees could not deal with the legal position of Section 3(10) read with Section 9 of the IBC, 2016 as to whether a petition filed by a foreign Company is permissible, when it being a foreign trade creditor, not having any office or bank account in India, and therefore, it could not submit a certificate from a financial institution as required under the IBC Code. The performance of the examinees was average.

(c) Performance of the examinees was average. Most of the examinees have not correctly dealt with the provisions of Section 581Q(1)(c) of the Companies Act, 1956 relating to vacation of office of a Director when he has made a default in repayment of any advances or loans taken from the producer companies of which he is a Director. The second part of the question was answered by most of the examinees correctly on the legal position of a Director as to whether he has to vacate his office of directorship when an AGM of the Company could not be called up due to natural calamity that occurred three days before the scheduled date.

(d) Performance of the examinees was average as the examinees resorted to answering the question in a generalized manner.

(e) Performance of the examinees was poor. This question was not attempted by many examinees in view of an internal choice provided in the question. The examinees who have attempted this sub-question has not written correctly the provisions of Section 18(1) of SARFAESI Act, 2002 relating to appeal preferred by the Company before the Appellate Tribunal and its success in its petition.