

EXAMINERS' COMMENTS ON THE PERFORMANCE OF EXAMINEES

PAPER – 5 : ADVANCED MANAGEMENT ACCOUNTING

Question 1.(a). Performance of the examinees was average in this question. The examinees failed to appreciate the limited availability of imported raw material, which information was vital to arrive at correct solution.

(b) Performance of the examinees was average in this question.

(c) Performance of the examinees was average in this question. Applications of 'Learning Curve' technique were not clear to many examinees and quite a few failed to work out the penalty amount.

(d) Performance of the examinees was not good in this question and most of the examinees could not provide all correct answer, especially for part asking revised life cycle cost.

Question 2.(a) Generally, well answered by most of the examinees. A small number of examinees failed to state about 'Degeneracy'.

(b) Generally, well answered by the most of examinees.

Question 3.(a) Performance of the examinees was generally good. The question specifically asked to show per unit cost, which many examinees did not work out and only showed total costs. Examinees should be more careful to read the requirement of the question.

(b) Performance of the examinees was generally good.

Question 4.(a) The examinees failed to perform well in this question. Only a few examinees could work out the profitability under current level. This clearly showed their lack of practice.

(b) Performance was below average. Examinees failed to arrive at the number of days involved in high and low season based on specific number of days in each month.

Question 5.(a) Performance of the examinees was average although the question involved calculation of various standard variances from data given in the question only.

(b) Most of the examinees failed to find out the budgeted sales quantity from the given figures. This needed application of analytical skill, which was found missing. Overall performance of the examinees was poor in this question.

Question 6.(a) This question requiring application of transfer pricing technique. Most of the examinees avoided this question. Overall performance of the examinees was poor in this question.

(b) Performance of the examinees was poor in this question. At final level, examinees are expected to have clear knowledge of cost concepts.

Question 7.(a) Average Performance was observed in this question. It appeared that the examinees did not possess adequate theoretical knowledge on 'Pricing Strategies'.

(b) Poor Performance was observed. Examinees lacked conceptual knowledge of simplex method of 'Linear Programming'.

(c) Performance of the examinees was of average level. Answers of the examinees in most cases were not comprehensive and dealt with part of the issue raised.

(d) & (e) Generally, well answered by examinees.

PAPER – 6: INFORMATION SYSTEMS CONTROL AND AUDIT

Question 1. This was a case study based compulsory question consisting of four sub-parts.

(a) This subpart was based on the "Areas that should be studied by a system development team member to explain in depth to understand the present system". Being a simple question from SDLC, most of the examinees answered well and earned good marks.

(b) This sub-part sought the examinees to discuss the "Activities that deal with the Systems Development Management Controls in the IT set-up". Only few examinees could answer it correctly and many examinees provided generalized answer related to SDLC.

(c) Many examinees very well attempted this subpart on "Issues while drafting the contract with third party for a backup and recovery site". Most of the examinees described the issues correctly and overall performance in this question was above average.

(d) In this subpart, the examinees were asked to "How to evaluate the Data Resource Management Controls and Security Management Controls". Most of the examinees could not perform well as they wrote about general security procedures. The performance was below average.

Question 2.(a) The question was based on "Key Management Practices to be implemented for evaluating business value from the use of IT". Only few examinees performed well, however overall performance was average in this part.

(b) The question was based on "Objectives of National Security Policy 2013". Most of the examinees discussed general issues of security without specifically referring to National Security Policy 2013 and thus overall performance was below average.

(c) This was a straight forward question based on "Features of Electronic Mail". Examinees out of their real experience could attempt this question very well and fetched good marks. The overall performance was above average in this part.

Question 3.(a) Most of the examinees could specify the points "Required to be reviewed by Internal Auditors as a part of the review of GRC". However, the explanation provided under each point was not satisfactory and the overall performance was just average.

(b) This part sought examinees to “List down the components of Information Security Policy”. Being a general question about security policy; most of the examinees could give the various points covered under the policy.

(c) This was a general knowledge based question on “Core Banking System (CBS)”. Most of the examinees answered well and performed satisfactorily.

Question 4.(a) The question specifically asked about the “Key tasks covered under Vulnerability Assessment and General Definition Requirements for Developing BCP”. Examinees could not understand the question properly and failed to fetch marks in this.

(b) Many examinees attempted this question based on the “Definitions of different terms Under IT Act” but provided definitions in the most generic ways.

(c) This question was based on “Risk Based approach to make an Audit Plan”. Most of the examinees could perform well. Some of the examinees gave general audit program instead of risk based approach.

Question 5.(a) Many examinees attempted this question based on “Audit Trail to Support Security Objectives”. Most of the examinees could answer it correctly, however some of them simply described either audit tools or generic use of audit trail.

(b) Most of the examinees answered the question on “Role of IS Auditor in Planning, Organizing, Leading and Controlling”. Instead of discussing specifically the role of IS auditors in planning, organizing, leading and controlling activities; sizeable number of examinees wrote about general role played by IS auditors and thus overall performance was below average in this.

(c) Most of the examinees could very well answer about “Business Continuity Planning (BCP) and the three areas it could cover” and fetched good marks.

Question 6.(a) This part based on “Rapid Application Development (RAD) and its features” could not be answered reasonably by most of the examinees. Many of them answered in a generic way and provided jumbled answers on other models of software development method.

(b) Many examinees answered the “Application controls regarding their performance and reliability” correctly. Though very few examinees could not answer explicitly about Application Controls and explained about controls in general.

(c) Most of the examinees could correctly write about “Output Controls” and obtained good marks.

Question 7. This was a question based on short notes. The examinees were given five questions out of which they were supposed to do any four parts.

(a) Most of the examinees could answer this subpart on “Components of COBIT”. However, some examinees mentioned about its enablers, whereas some others wrote about its features.

(b) This was a simple question that sought examinees to mention about “Constraints in Operating MIS”. Most of the examinees answered all the points correctly.

- (c) This was a simple question based on "Fact Finding Tools and Techniques". Most of the examinees could answer correctly and got good marks.
- (d) Although very few examinees attempted this subpart based on "Services Provided by SaaS Model", but those who attempted performed reasonably well.
- (e) Sizeable number of examinees attempted this question on "Back-end Architecture of Cloud Computing" and provided correct explanation of the question, thus fetched good marks.

PAPER – 7: DIRECT TAX LAWS

Question 1. (a) Most of the examinees were not clear of the tax treatment on buyback of shares in the hands of the company and the shareholders. They were not aware of the difference in tax treatment on buyback of listed shares and unlisted shares.

(b) Some of the errors committed by examinees while computing the total income of Mr. Rishabh are:

- (i) While computing income from house property, several examinees omitted to claim interest of ₹ 25,000 paid on borrowings from a friend.
 - (ii) Some examinees were not aware that the period of holding for unlisted shares to be treated as a long-term capital asset is "more than 24 months".
 - (iii) While computing long-term capital gain on sale of plot, most of the examinees have failed to ascertain the indexed cost of acquisition by considering ₹ 55 lakhs as the cost of acquisition. As a consequence, the exemption claimed under section 54F was also incorrect.
 - (iv) Most of the examinees were not aware that in respect of the stamp duty and registration charges for house property, deduction under section 80C is available.
- (c)** Most of the examinees have not computed profit "derived from" Unit A, for the purpose of computation of exemption under section 10AA, correctly. Some examinees have not computed export turnover of Unit A and total turnover of Unit A correctly since they have not reduced the freight and insurance included therein.

Question 2. Many examinees were not aware of the correct tax treatment of certain items of adjustment, like damages, marked to market losses and dividends received from REIT. Deduction under section 80JJAA was also not computed correctly by most of the examinees.

Question 3.(a) Most of the examinees were not aware of the treatment of freight subsidy received and brought forward notional loss for arriving at the profit eligible for deduction u/s 80-IA.

(c) Most of the examinees were not aware of the safe harbor rules and hence, could not answer the question correctly by applying such rules.

Question 4. There are five sub-parts in this question based on interpretation of case laws and examinees were required to answer any four. Some examinees were not aware of the relevant judicial decisions and hence, were not able to answer these sub-parts correctly. Though the question clearly states that the answer should cover the issue involved, the relevant provision of law, analysis and conclusion, some examinees presented their answers in a general manner. When it came to provisions applicable, some examinees simply mentioned the section numbers, without brief discussion of the related provision. Some examinees who were aware of the relevant judicial decisions seemed to be under the wrong impression that merely by giving the name of the parties involved in the judgments would suffice. Mentioning the name of the parties involved would certainly add value to the answer but that alone is not sufficient to score good marks.

Question 5.(a) Many examinees were not aware of the *Explanation* to section 9(1)(v) providing that in the case of a non-resident, being a person engaged in the business of banking, any interest payable by the permanent establishment in India of such non-resident to the head office or any other part of such non-resident outside India, shall be deemed to accrue or arise in India. Hence, they were not able to answer the question correctly. Some examinees wrongly presented their answer from the angle of whether tax has to be deducted by the Indian branch on interest payments to head office and branch located abroad.

(b) Many examinees have not been able to bring out in their answer, the lack of nexus between the interest-bearing loan taken from a friend few years back and interest bearing loan given to wife in the current year, which is repayable on demand. As far as applicability of clubbing provisions are concerned, some examinees were not able to bring out in their answer that the amount given by Brijesh to his wife, is nothing but a loan given to his wife for interest, and not an asset transferred for inadequate consideration.

Question 6.(a) Many examinees were not able to write, in a satisfactory manner, the various situations in which additional evidence could be produced by them before the Commissioner (Appeals).

(b) For sub-part (ii), some examinees had wrongly mentioned the time limit of rectification of order as 6 months from the date of the order whereas the same has to be reckoned from the end of the month in which the order is passed.

For sub-part (iii), many examinees were not aware of the deletion of clause (aa) of *Explanation* to section 139(9), consequent to which a return which is otherwise valid would not be treated defective merely because self-assessment tax and interest payable has not been paid on or before the due date of furnishing of the return. Hence, their answers were incorrect.

(c) For sub-part (i), many examinees were not aware that no tax needs to be deducted at source under section 194J by an individual where payment of fees for professional services is exclusively for his personal purposes. For sub-part (iii), many examinees failed to identify the payment as “royalty” and hence, their line of reasoning was incorrect.

Question 7.(a) Many examinees were not able to bring out in their answer that, in cases where transactions are covered by DTAAs, where there is no PE in India, business income cannot be brought to tax due to existence of business connection.

(b) Most of the examinees were not aware that the applicant does not have the option to choose the years for which it wants to apply for rollback and that the applicant has to either apply for all the four years or not apply at all. The examinees were also not able to bring out in their answer, the exceptions to the above rule, namely, that roll back cannot be applied in respect of year(s) for which there is some disqualification or in a case, where the international transaction did not exist in that year.

(d) Apart from equalisation levy being 6% and specified services including online advertisement, the examinees were not able to bring out the meaning of the terms "equalisation levy" and "specified services" satisfactorily in their answer.

PAPER – 8: INDIRECT TAX LAWS

Question 1.(a) Majority of the examinees wrongly computed the excise duty on goods sold as they ignored that the sales price was given as inclusive of all taxes except VAT.

(c)(i) Most of the examinees did not explain the concept of dual GST properly. They got confused and ended up writing lengthy vague answers.

(d) The number of days for computation of interest were not calculated correctly by few examinees. Also, some of them considered incorrect exchange rate as also the rate of basic customs duty while computing duty payable.

Question 2.(a)(i) Most of the examinees wrongly computed assessable value per unit of product X by taking 110% of cost of production treating it as captive consumption.

(b) Majority of the examinees computed service tax liability correctly but did not support their answer with adequate reasoning and thus, lost marks.

(c) A few examinees were not aware that the rate of duty prevalent on the date of let export order is to be considered for computing export duty.

Question 3. Most of the examinees provided correct conclusion, but a few of them could not support it with adequate reasoning and explanation.

Question 4.(b) Majority of the examinees got confused between the treatment of CENVAT credit under rule 6(3)(ii) and under rule 6(3B) of CENVAT Credit Rules, 2004, and thereby answered wrongly.

(c) Some examinees were ignorant about the correct composition rate of tax i.e., 1.4% in case of single premium annuity policies and thus, wrongly computed the service tax liability by taking composition rate as 3.5%.

(d)(i) In most of the cases, examinees were ignorant of the omission of section 62 of the Customs Act, 1962 vide Finance Act 2016 consequent to which warehouses are now under record based controls and not under the physical control of the customs officer.

Question 5.(b)(i) Examinees merely mentioned the transaction as “service” or otherwise without making any reference to the relevant provisions under Finance Act, 1994 and hence lost marks.

Question 6.(a)(ii) The course of action to be taken by manufacturer in the case of change in the constitution was not clearly brought out by some of the examinees. They were not aware that change in constitution is linked with PAN and there are different consequences when change in constitution leads to change in PAN or otherwise.

Question 7.(c) Most of the examinees wrongly mentioned the general rule of point of taxation namely rule 3, whereas question involved reverse charge mechanism and hence rule 7 of Point of Taxation Rules 2011 had to be applied.

(d) The examinees lacked knowledge of the duty credit scrips under Merchandise Exports from India Scheme (MEIS). Only few of them could correctly explain the significance of MEIS.