



# SAICA

THE SOUTH AFRICAN INSTITUTE  
OF CHARTERED ACCOUNTANTS

**MARKERS' AND UMPIRES' COMMENTS  
INITIAL TEST OF COMPETENCE  
(PREVIOUSLY KNOWN AS PART I OF THE QUALIFYING EXAMINATION)  
JUNE 2014**

## **OBJECTIVES OF THIS REPORT**

This report has been compiled from the analysis of examiners on candidates' performance in the Initial Test of Competence (ITC) – previously known as Part I of the Qualifying Examination, which was written in June 2014. Its objectives are to –

- assist unsuccessful candidates in identifying those areas in which they lost marks and need to improve their knowledge and/or presentation; and
- assist future exam candidates, by providing a commentary for them to use when working through past papers.

To accomplish these objectives, the report provides background information on how the examination questions are chosen, marked and adjudicated, comments on general shortcomings in answers and specific comments on each question of the four examination papers.

The purpose of the ITC is to test the integrated application of technical competence, preferably as soon as possible after the prescribed academic requirements have been met.

The remainder of this report is discussed under the following headings:

- Statistics for the ITC June 2014;
- Background information on the setting, marking and adjudication of SAICA examinations;
- General comments on the ITC June 2014; and
- Detailed comments by question in each of the professional papers (1–4).

**STATISTICS FOR ITC JUNE 2014**

	<b>% Pass</b>	<b>Passed</b>	<b>Failed</b>	<b>Total</b>
<b>All candidates</b>	<b>58%</b>	<b>381</b>	<b>279</b>	<b>660</b>
<i>*only repeat candidates</i>				

**Average marks per question (all candidates)**

	<b>Question 1</b>	<b>Question 2</b>	<b>Total</b>
<b>Paper 1</b>			
<b>Total marks</b>	<b>100</b>		<b>100</b>
Average marks	47.41		47.41
<b>Paper 2</b>			
<b>Total marks</b>	<b>40</b>	<b>60</b>	<b>100</b>
Average marks	17.99	24.54	42.54
<b>Paper 3</b>			
<b>Total marks</b>	<b>37</b>	<b>63</b>	<b>100</b>
Average marks	20.69	33.96	54.65
<b>Paper 4</b>			
<b>Total marks</b>	<b>47</b>	<b>53</b>	<b>100</b>
Average marks	29.64	21.69	51.33

More detailed statistics can be found on the SAICA website at [www.saica.co.za](http://www.saica.co.za).

## **BACKGROUND INFORMATION ON THE SETTING, MARKING AND ADJUDICATION OF SAICA EXAMINATIONS**

The Examinations Committee (Examco) constantly strives to improve its ability to determine whether candidates demonstrate a readiness to continue with their accounting education and training. This is done by means of an ongoing process of evaluation and improvement of the way in which it selects questions for inclusion in the examination and decides on the final mark plans.

### **1 Source of the questions**

Examco is a sub-committee of the SAICA Initial Professional Development Committee (IPD Committee), and takes overall responsibility for the setting of the examination papers. Examination questions are drawn from different sources:

- Questions may be submitted by practitioners, accountants in commerce and industry, as well as academics. These questions are added to a question pool that has been built up over the years and from which questions may be selected; or
- Questions on a particular subject may be commissioned from persons in commerce and industry or public practice or from academics.

Academics or former academics are also involved in reviewing exam questions in each of the core subject areas. Academics who have any involvement whatsoever in the presentation or otherwise of Board courses may NOT act as reviewers. These academics or former academics are appointed by core subject area and their role is to –

- review questions for conceptual problems and consistency in use of terminology;
- give an indication as to whether the relevant examination questions are set at an appropriate level;
- provide comments on whether the number of marks and time limit are appropriate; and
- provide comments on the validity and reliability of such assessment.

In addition, two external examination sitters, who are independent of the exam setting process, are appointed to review the entire set of questions. The examination sitters provide independent comments on the examination paper, suggestion solutions or mark plans which are reported to the Examco.

SAICA would like to acknowledge and thank all the people involved in the examination setting process. An alphabetical list of all the people involved in various roles, including members of the Examinations Committee, question composers, subject specific reviewers and external examination sitters, is as follows:

Greg Beech  
Graeme Berry  
Helen Bimbassis  
Alex Brettenny  
Karien Coates  
Johnathan Dillon  
Neville Dipalle  
Reghardt Dippenaar\  
Anton du Toit  
Sherri Giraudeau  
Marielienne Janeke  
Thinus Hamman  
Pieter Landsell

Ferdinand Mokete  
Goolam Modack  
Piet Nel  
Mandi Olivier  
Greg Plant  
Jo-Ann Pohl  
Frans Prinsloo  
Kobus Swanepoel  
Amanda Singleton  
Dirk Steyn  
Johan Steyn  
Francois van der Berg  
Nico van der Merwe

Francois Liebenberg  
Zweli Mabhoza  
Ben Marx  
Ahmed Mohammedali- Haji

Johanna van Staden  
Craig Wallington  
Alex van der Watt  
Carmen Westermeyer  
Pieter van der Zwan

## **2 Security and confidentiality of examination papers**

The examination papers for each year are compiled, printed and sent to each examination centre under very stringent conditions of security. The only persons who know the contents of a particular paper are the members of the Examco. They are all selected with great care regarding their integrity and professional standing and are sworn to secrecy.

## **3 The marking process**

The Examco devotes a great deal of time to the review and refinement of mark plans to ensure that the plans are consistent with its expectations for each question.

Before marking of the scripts commences, copies of the examination papers and suggested solutions are forwarded to all participating universities for comment. The markers and umpires decide on a suggested solution and mark plan once all these comments have been considered and a test batch of scripts has been marked. The suggested solutions, mark plans and test batch results are then reviewed by the Examco, which authorises the final suggested solutions and the mark plans that will be used in the marking process.

Marking is undertaken by teams, with each team consisting of a number of markers (comprising academics, practitioners and representatives from commerce and industry) and an umpire, who are on the whole fully bilingual and equally capable of marking both English and Afrikaans scripts. Markers and umpires are assigned to specific questions based on their fields of expertise.

All markers and umpires sign a declaration of secrecy regarding the handling of scripts, questions, solutions and mark plans. SAICA holds the copyright of the solutions and mark plans.

Marking of ITC June 2014 again took place at a central mark centre. An administration hub was set up, from which administrative personnel controlled which scripts were signed out, to whom and when the marked scripts were returned. Each script was marked independently by two persons who recorded their marks on separate mark sheets. Only once the double blind marking of each batch of scripts had been completed did the markers confer and jointly decide on the final raw mark to be awarded for a particular answer. Thereafter each marker's mark, as well as the final mark, was noted down on the cover of the script. If the markers were unable to agree upon the number of marks to be awarded for a particular answer, the script was referred to the umpire, who then awarded the final mark. The SAICA secretariat was responsible for capturing and final checking of the marks of all candidates.

Consistency marking was introduced in 2012, which entails that a pack of ten scripts (consisting of six scripts selected from first-timer and four from repeat candidates) are selected on a random basis by SAICA's Examinations Unit, and the exam numbers removed. These scripts are then numbered from 1 – 10 and photocopied. Every person on the mark team has to mark the question to which they have been assigned in the batch of ten scripts. This takes place on the first two days of the main marking process and the umpire, together with his/her mark team, then discusses how the individual markers award the marks point by point for each question. The aim of this process is to identify any concerns, differences and discrepancies in interpretation that the marker(s) may have in awarding of marks as per the final mark plan before actual marking commences. The main objective is to achieve consistency in the way the different markers within a mark team award marks.

## 4 Adjudication

Adjudication is a process during which the IPD Committee considers all relevant evidence, including the following, to determine the final marks to be awarded for each question:

- Whether candidates encountered any time constraints;
- The level of difficulty for each question;
- Possible ambiguity in the wording or translation; and
- Any other problems that may have been encountered relating to the examination.

The members of the Committee do not know the candidate details (including the raw pass mark) at the time the adjudication process takes place.

Adjudication is done by the full IPD Committee as soon as possible after the marking process has been finalised and checked by the SAICA secretariat.

It is important to note that no person from the academe who is a member of SAICA's IPD Committee is allowed to serve on the Examco, and that candidates' anonymity is preserved until the final adjudication has been completed.

In order to ensure that the whole marking and adjudication process remain anonymous, the instructions to candidates clearly state that their names should not appear anywhere on their scripts.

## 5 Borderline review

In 2013 SAICA introduced a further process to ensure that individual candidates who just fail the exam are not prejudiced in any way. Once the adjudication is finished, candidates who just failed (based on a range determined by the IPD Committee) are selected and a third and final review is undertaken on such candidates' scripts. This review is undertaken by the umpire or assistant umpire being the most senior and experienced members of the mark team. The marks during this process may either go up or down and is again done on a question by question basis so the final result is not contrived. A sub-committee of the IPD Committee then meets to discuss the outcome of the borderline review and thereafter the pass percentages and other details statistics for the examination are prepared. Candidates who are selected for the borderline review are not awarded the secretaries mark (1 per paper) because they have had the benefit of a further and more detailed review of their papers.

***In view of the above stringent marking process no request for re-marks will be entertained (also refer to our examination regulations for ITC in this regard).***

## 4 GENERAL COMMENTS ON ITC JUNE 2014

### 1 Objective

In view of the primary objective of ITC, namely to test the integrated application of technical competence, candidates are tested on their ability to –

- apply the knowledge specified in the subject areas set out in the prescribed syllabus;
- identify, define and rank problems and issues;
- analyse information;
- address problems in an integrative manner;
- exercise professional judgement;
- evaluate alternatives and propose practical solutions that respond to the users' needs; and
- communicate clearly and effectively.

### 2 Analysis of topics – June 2014

	Accounting & External reporting	Strategy, risk management & Governance	Audit & Assurance	Tax	Fin Man	Management decision making & control	Ethics	Comms
Required ranges in terms of the SAICA guidelines (2013 onwards)	100 – 120 marks	40 – 60 marks	60 – 80 marks	60 – 80 marks	40 – 60 marks	40 – 60 marks	0 – 20 marks	20 – 40 marks
	25 – 30%	10 – 15%	15 – 20%	15 – 20%	10 – 15%	10 – 15%	0 – 5%	5 – 10%

	Accounting & External reporting	Strategy, risk management & Governance	Audit & Assurance	Tax	Financial Management	Management decision making & control	Ethics	Comms	Total
P1 Q1	86		9					5	100
P2 Q1	19			18				3	40
P2 Q2					48		10	2	60
P3 Q1A		35						2	37
P3 Q1B			59					4	63
P4 Q1				45				2	47
P4 Q2						50		3	53
<b>TOTAL</b>	<b>105</b>	<b>35</b>	<b>68</b>	<b>63</b>	<b>48</b>	<b>50</b>	<b>10</b>	<b>21</b>	<b>400</b>
% of TOTAL	26%	9%	17%	16%	12%	13%	3%	5%	

### 3 Overall comments on the papers

Overall comments received from universities indicated that the papers were of an appropriate standard for the ITC.

- The **accounting and external reporting** question's level of difficulty was generally described as 'moderate' to 'difficult' and of a high standard. There were two accounting and external reporting question. Both questions were integrated, testing a variety of topics. A student's knowledge has been questioned to ensure that he/she is aware of the overall picture and not just certain topics that can be taken out one by one and make a complete paper. The integration with auditing was appropriate and information from the entire scenario had to be pulled to be applied in the solution. There was also good integration between discursive vs calculation and journal type questions.

The first question appeared to be more difficult due to the number of standards and issues being tested, as well as the technicality of certain discussions and calculations, but there is a good balance between easier, moderate and the more difficult, technical marks.

The available marks are large in comparison to what certain of the subsections required and good exam technique could contribute greatly to achieving good results. Overall the question is fair and appropriate for ITC level.

- The **strategy, risk management and governance** question was fair and the candidates' performance reflected this.
- The **audit** question was moderate to fair. The question was reasonably well answered by candidates, with candidates displaying adequate knowledge of the disciplines and competency being assessed. Candidates scored well in most sub-sections with an evident lack of examination technique and description of substantive procedures.
- The **tax question** was straight forward, an easy to moderate question. The question was a combination of easy calculation and moderate discussion requirements. Overall the candidates performed extremely well, as can be seen in average above.
- The **financial management** question was moderate to easy. There were many marks for core finance concepts that candidates should have acquired by having a basic knowledge of finance. One sub-section required a detail understanding of valuations and the ability to interpret the values calculated. This has not been asked for in ITC before and considered challenging for candidates.
- The **management decision making and control** question was easy to moderate, considered to be fairly clear and unambiguous. The question required was balanced between easier calculations, but combined with discussion that required a high level of insight and application.
- **Pervasive skills** were also assessed extensively in this exam, and marks for communication skills were given additional prominence in that such marks were awarded for specific skills, and in specific sections of the required of questions, where relevant.

### 4 Specific comments

From a review of candidates' answers to the six questions (seven required sections) for the ITC June 2014 examination, the general deficiencies set out below were identified. These problems affected the overall performance of candidates, and it is a matter of concern that candidates make the same mistakes year after year. Although these aspects seem like common sense, candidates who pay attention to them are likely to obtain better marks, and it may even turn a low mark into a pass.

#### **4.1 Application of knowledge**

A serious problem experienced throughout the examination was that candidates were unable to **apply** their knowledge to the scenarios described in the questions. Many responses by candidates were a 'shopping list' of items in the form of a pure regurgitation of what candidates may have learnt about the theory at university, but with no real relevance to the question in hand. Candidates also do not appear to be able to identify the correct issues in the scenario provided.

This is a major concern, because by the time candidates qualify for entry to these examinations, one would expect them to have assimilated the knowledge, at least to the extent of being able to apply it to simplified facts as set out in an examination question. Obviously, candidates who are unable to identify the correct issues did not do well in the examination.

#### **4.2 Workings**

It is essential that candidates show their workings and supply detailed computations to support the figures in their answers. Marks are reserved for methodology, but can only be awarded for what is shown. **Workings should, like the rest of the paper, be done in blue or black ink to ensure legibility.** In many instances workings were performed by candidates but not cross-referenced to the final solution. Markers could not award marks as they were unable to follow which working related to which part of the final solution. Candidates must ensure they show their workings and that these are properly and neatly cross-referenced to the final solution.

#### **4.3 Communication**

Candidates fared better in questions requiring calculations than in discursive questions. This is a disturbing trend as the ITC is a stepping stone in the qualification process where the final assessment of professional competence (APC) requires that significantly more focus and attention is given to these important skills. It is important that candidates bear in mind that written answers are a large component of the Qualifying Examination, because written communication is a key competency required in the workplace. Candidates should learn to answer discursive questions properly. This can be done by practicing exam-type answers under exam conditions in preparation for the examination.

In addition markers found that candidates used their own abbreviations (sms messaging style) in their answers. Marks could not be awarded here as it is not up to the markers to interpret abbreviations that are not commonly used. **Candidates should pay specific attention to the way in which they write their answers, and bear in mind that this is a professional examination for which communication and presentation marks are awarded.**

#### **4.4 Journal entries**

A fundamental part of financial accounting is an understanding of debits and credits. A means of assessing whether a candidate understands these fundamental principles is to require the candidate to prepare the relevant journal entries. Candidates often do not understand what journal entries they need to process. In many instances basic journal entries are processed the wrong way around. In addition, account descriptions are poor and abbreviations are used.

This is inexcusable and candidates must ensure that they understand what impact transactions would have on specific account balances, by showing that they know which account in the income statement or balance sheet has to be debited or credited. It is not sufficient for a candidate with Accounts IV to be a technocrat – understanding of the fundamental principles of accounting is critical to the success of a candidate at the ITC level.

#### **4.5 Time management**

Candidates are advised to use their time wisely and budget time for each question. The marks allocated to each question are an indication of the relative importance the examiners attach to that question and thus the time that should be spent on it. Candidates should beware of the tendency to spend too much time on the first question attempted and too little time on the last. They should never overrun on time on any question, but rather return to it after attempting all other questions. By not managing time appropriately it was evident that candidates left out many marks, often easier marks, whilst the difficult marks were attempted and clearly taken more time to address, but resulted in no marks.

#### **4.6 Layout and presentation**

Candidates should allocate time to planning the layout and presentation of their answers before committing thought to paper. Very often, candidates start to write without having read the question properly, which invariably leads to, for example, parts of the same question being answered in several places or restatement of facts in different parts. Marks are awarded for appropriate presentation and candidates should answer questions in the required format, that is, in the form of a letter, memorandum or a report, if this is what is required.

The quality of handwriting is also an ongoing problem and was of particular concern in this year's examination. **The onus is on the candidate to produce legible answers.**

Separate books are used to answer each question of the ITC. Each book is clearly marked and colour coded. Candidates are given explicit instructions to write the correct answer in the correct book. Despite this some candidates did not write the correct answer in the correct book, the secretariat did ensure that candidates who wrote answers in the incorrect book were marked by the correct mark team.

#### **4.7 Irrelevancy**

Marks are awarded for quality, not quantity. Verbosity is no substitute for clear, concise, logical thinking and good presentation. Candidates should bear in mind that a display of irrelevant knowledge, however sound, will gain no marks.

#### **4.8 Drilling down**

Responses, particularly in the Financial Management, Management Decision Making and Control and the Strategy, Risk Management and Governance areas are often provided by simply repeating the information given in the question. Candidates are unable to drill down to assess what the underlying problem areas are and do not put any effort into going beyond what is stated in the question. Candidates need to draw on their entire knowledge base in order to provide more deep and meaningful insight, particularly in analysis type questions.

#### **4.9 Recommendations / interpretations**

Responses to these requirements are generally poor, either because candidates are unable to explain principles that they can apply numerically or because they are reluctant to commit themselves to one course of action. It is essential to make a recommendation when a question calls for it, and to support it with reasons. Not only the direction of the recommendation (i.e. to do or not to do something) is important, but particularly the quality of the arguments – in other words, whether they are relevant to the actual case and whether the final recommendation is consistent with those arguments. Unnecessary time is wasted by stating all the alternatives.

Candidates should communicate reasons for calculations, if required. Ad discussion of a case study should always have a conclusion. Or if it requires a decision, a conclusion alone is not sufficient, discussion beforehand is required.

#### **4.10 Examination technique**

Examination technique remains the key distinguishing feature between candidates who pass and those that fail. Many candidates did not address what was required by the questions and, for example, provided a discussion where calculations were required or presented financial statements where a discussion of the appropriate disclosure was required.

#### **4.11 Open-book examination**

Candidates are reminded that they **MUST** familiarise themselves with SAICA's open book policy and be aware that this may differ from that of their CTA university. Candidates are also reminded that only SAICA has the authority to interpret its own open book policy. To this end candidates are advised of the following:

- **No loose pages** (of any kind) may be brought into the exam.; and
- Writing on flags – As per section 4.4 of the SAICA examination regulations:  
*'Candidates are only be allowed to highlight, underline, sideline and flag in the permitted texts. Writing on flags is permitted for reference and cross-referencing purposes only, that is, writing may only refer to the name or number of the relevant discipline, standard, statement or section in the legislation'.*

**Any contravention of regulation 4 will be considered to be misconduct.**

- Candidates are advised to familiarise themselves with SAICA's exam rules prior to writing the examination.

Another problem relating to the open-book examination was that candidates did not state the relevant theory and/or definitions in their answers. One cannot build a logical argument without using the theory as a base and starting point. Reference to theory and definitions is essential to create the perspective from which the question is answered and is required to enable markers to follow the argument. However, since candidates have this information at hand, marks are not awarded for stating detailed definitions only. This type of examination does affect the answer that is expected and *application* and demonstration of insight into the use of the definition have gained in importance.

Candidates should also remember that one has to be very well prepared for an open-book examination. There is not enough time in the examination to look up *all* information from the texts. With regard to certain aspects one would be expected to offer an immediate response based on embedded knowledge. Complex information needs to be fully understood before the examination. Candidates who enter the examination hoping to look up data that they have not processed in advance will be at a disadvantage as they are unlikely to finish the papers.

#### **4.12 Paying equal attention to all the competency areas**

It is disappointing to note that candidates still appear to be most prepared to respond to accounting and external report questions and do considerably poorer in some of the other disciplines – most notably Financial Management and Management Decision making and Control. Candidates are reminded that the accountancy discipline is a broad one and the other disciplines are equally important. We draw your attention to the following regulation:

“4.2 A minimum of 200 marks (thus 50%) are required to pass the ITC.

4.3 Candidates need to demonstrate an appropriate level of competence in ALL areas and disciplines, and therefore the overall pass mark of 50% shall be subject to the candidate achieving a sub-minimum of 40% in at least three of the four professional papers.”

For the first time this year we were in a position where we unfortunately had to fail a candidate because they did not achieve the 40% subminimum in two of their four papers. This is really unfortunate and candidates are advised to pay equal attention to all the competency areas in order to obtain an overall pass in the ITC.

In conclusion, a message to those who were unfortunately not successful in the examination:

***Please start preparing for the next examination in good time.*** Don't give up - sufficient preparation and a review of the basics will stand you in good stead for you next exam!

*Best of luck!!*

## PROFESSIONAL PAPER 1

**Paper 1** consisted of one question that dealt with the following aspects:

### Question 1

- (a) (i) required a discussion whether a candidate agrees with the manner in which the entity accounts for the DoE's LPG Gas licence fee resulting from the customer rebate. This required students to identify that a portion of the sales price of LPG to customers above the DoE's gazetted selling price, should not form part of revenue, but should be recognised as a liability.
- (a) (ii) required a discussion regarding the appropriate recognition and measurement of the deposit received from customers regarding the returnable cylinders. This required students to identify that a portion of the sales price (i.e. 10%) should not form part of revenue, but should be recognised as a liability. Specific reference was required to the footnote to paragraphs 2 of IAS 37, which refer to a 2008 IFRIC agenda decision.
- (b) required a calculation of the cost of LPG inventories and required a methodical calculation and discussion of inclusion or exclusion of specific costs given in the scenario.
- (c) required a discussion regarding call options on the parent company's shares that were issued by a foreign subsidiary and required the appropriate classification on group level.
- (d) required pro-forma journals relating a foreign subsidiary with intragroup transaction, an intragroup loan and a sale of 25% interest which did not result in a loss in control.
- (e) required a listing of the audit procedures relating to the existence and valuation of the returnable cylinders.

**Presentation marks were available for this questions. These marks were clearly and separately stated in the 'required' sections of each question.**

## QUESTION 1

Maximum mark	Average mark	Marks > 50% (Pass)	Marks < 50% (Fail)
100	47.41	40% (266)	60%(394)

### Level of difficulty of the question

There is good integration in the question on testing a variety of topics. A student's knowledge has been questioned to ensure that he/she is aware of the overall picture and not just certain topics that can be taken out one by one and make a complete paper. The integration with auditing was appropriate and information from the entire scenario had to be pulled to be applied in the solution. There was also good integration between discursive vs calculation and journal type questions.

The question appears to be more difficult due to the number of standards and issues being tested, as well as the technicality of certain discussions and calculations, but there is a good balance between easier, moderate and the more difficult, technical marks.

The available marks are large in comparison to what certain of the subsections required and good exam technique could contribute greatly to achieving good results. Overall the question is fair and appropriate for ITC level.

### General comments

The candidates did try to attempt all of the subsections, with only a few that left out certain subsections. Time management was important in this question, as candidates could have scored really well in part (b) and (e), but often had to rush part (e), or didn't have enough time to write proper procedures.

Students seem to struggle with financial instruments and determining whether instruments are equity or a financial liability from the issuer's perspective, specifically applying the definition relating to equity when "fixed number of equity instruments is exchanged for fixed amount of cash" or financial liability when "other than by the exchange of a fixed amount of cash for a fixed number of equity instruments".

Students should also let the mark allocation be an indication to them how much to discuss, as often students will fall short of discussing the amount of marks worth the required.

### Areas the candidates handled poorly

- Students did not perform well in the discussion under part (a), mostly because they were not discussing the amount of marks worth the required marks, as well as poor application and incoherent discussions.
- Students did not perform well in the application of the financial instruments in part (c) and the discussion of the IFRIC footnote.
- Students did not perform well in the calculations and pro-forma journals relating to the sale of a 25% interest in the subsidiary (i.e. 80%-55%).
- Certain students did not formulate their audit procedures properly, and did not apply it to the specific scenario.
- Time management by some students were poor and many marks were left out, sometimes the easier marks, whilst the difficult marks under part (d) were attempted, but resulted in no marks as it was incorrect.

## Areas the candidates handled well

- The students performed well in part (b) of the question, partly because it was rather straight forward and if they followed a methodical approach, they could score well.
- The students performed fairly well in the basic sections of the consolidation, i.e. at acquisition main elimination journal, allocation of retained earnings, profit or loss and FCTR to NCI, as well as intragroup transactions.
- Students that applied the scenario in part (e) also performed well in listing the audit procedures.
- In the calculation parts of the question (part (b) and part (d)), the students referenced well to their workings and mostly followed a logic and methodical approach.
- Communication skills marks were generally obtained well by the students, i.e. writing a memo, having journal narrations and logical layout and arguments.

## Specific comments on sections of the question

### Part (a)(i)

- Students did not discuss 15 marks worth of points. The majority students discussed approximately only 10 points, of which many points were not valid.
- A large part of the students' discussion related to students repeating/re-writing information from the scenario.
- The students' discussions were incoherent with only discussing 2-3 marks of revenue and only 2-3 marks of liability, and no specific viewpoint was followed.
- If a liability was discussed, it was usually a fairly superficial discussion of the liability with limited application and not breaking it down to the specific elements of the definition and recognition criteria.

### Part (a)(ii)

- Many students discussed this subsection from a revenue approach, but often application was not specific enough to the scenario. When a revenue approach was followed (i.e. disproving it is revenue), a liability was barely discussed, and again not enough marks worth 12 points were discussed.
- If a liability was discussed, it was usually a fairly superficial discussion of the liability with limited application and not breaking it down to the specific elements of the definition and recognition criteria
- Very few students discussed a financial liability.

### Part (b)

- If a student followed a methodical approach, they performed fairly well in this question, by looking at each cost element in Table 1, including/not including it and providing a reason.
- Although students addressed certain of the items in table 1, very few addressed all of the costs mentioned.
- The students that did not do well did not discuss the reasons for including/not including/allocating the amounts in very much detail and some ignored most of the discussion part of the question.

### Part (c)

- The students did not perform well in this discussion part of the question. Although they did identify that it is the group's own equity instruments, and generally considered the definition of a financial liability/equity, the application of the definition was poor.

- Very few students discussed the pro-rata offering to all existing shareholders. Financial instruments seem to be an area where the students perform poorly with even some basic application of fixed for fixed.
- Some students completely identified the issue incorrectly and discussed share-based payments; or they did discuss financial instruments, but from an asset perspective.

**Part (d)**

- The students performed average in this question and obtained the easier marks relating to the main elimination journal, calculation of goodwill and allocating retained earnings and profit to NCI.
- Generally the correct exchange rates were used by the students for the analysis and calculation parts of the solution.
- Areas where the students performed poorly:
- The sale of the 25% interest are not done properly and the students seem to be unclear on how to go about with this calculation.
- Very few students calculated exchange differences on the goodwill
- Very few students regarded the foreign currency loan between parent and subsidiary as being denominated in the foreign currency (KES) and hence lost the marks relating to the translations on this loan.

**Part (e)**

- It was expected that students will perform well in this question due to the generic nature of some of the procedures and all the available marks. However, some students did not obtain good marks for this subsection due to some of these factors:
  - The auditing procedures were worded poorly not using the correct terms
  - Short procedures listed without application, i.e. “obtain management representation letter” and “perform analytical procedures” without giving examples.
  - Only 5-6 points discussed and not 9 marks discussed. This could partly be due to timing problems and rushing of answers in the end of the question.

## PROFESSIONAL PAPER 2

**Paper 2** consisted of two questions that dealt with the following aspects:

### Question 1

This question integrated external financial reporting with taxation, and totalled 40 marks. The question dealt with:

(a) External financial reporting

- Part (a(i)) – discussion of the amounts that should be recognised with respect to a group-settled share-based payment transaction in profit before taxation of the subsidiary. This required discussion of the appropriate classification, recognition and measurement of the share-based payment transaction for the purposes of the subsidiary's separate financial statements, in conjunction with the preparation of supporting calculations.
- Part (a(ii)) – discussion of the amounts that should be recognised in the consolidated profit before taxation with respect to a group-settled share-based payment transaction in profit before taxation from a group perspective. This required discussion of the appropriate classification, recognition and measurement of the share-based payment transaction for the purposes of the consolidated financial statements, in conjunction with the preparation of supporting calculations.

(b) Taxation

- Part (b(i)) – discussion of the tax implications of share appreciation rights, the accounting treatment of which was discussed in part (a), and shares which were granted to employees, from the perspective of one such employee. This discussion required identification of the sections of the Income Tax Act applicable to restricted equity instruments, as well as a discussion regarding the normal tax and capital gains tax consequences (if applicable) which arise on vesting date and on the date of exercise / disposal.
- Part (b(ii)) – discussion of the tax implications of the share appreciation rights and shares granted to the employees, from the perspective of the employer. This discussion required identification of applicable case law, and application of the pertinent principles in determining whether the employer should be allowed a deduction.

### Question 2

The question is an integrated governance and finance question.

- (a) Included 10 marks requiring identification of conflicts of interest in an investment oversight committee of a private equity fund. This included aspects of personal relationships, review of own work, review of spouses work, conflict arising from the same individual occupying the CEO and chairman roles, performance related self review issues, as well as conflicting equity holdings in a related party.
- (b) Included the preparation of a valuation using 3 methods, a discounted cashflow, a net book value approach, and an earnings multiplier approach (EBITDA). This

included calculation of a weighted average cost of capital for the DCF valuation, consideration of levered risk and appropriate beta, re-levering of a beta, and calculating the cost of equity using the capital asset pricing model. The DCF valuation required candidates to identify working capital movements, non-cash flow items, tax cash flows, calculation of capital expenditure, and calculation of a terminal value.

The earnings based approach required the use of an EBITDA multiple, adjusted for non-economic items, and various risk adjustments to the multiplier. The net asset value approach required candidates to include the revaluation of two assets, and the write off of a receivable, including the tax and capital gains tax implications of each of the adjustments.

- (c) Required candidates to interpret the values obtained from the valuations performed in part (b), and to recommend to the committee an appropriate valuation method and value for the investment valued. This required an interpretation of the numbers calculated, together with a consideration of the most appropriate valuation technique in the context.

**Presentation marks were available for both questions. These marks were clearly and separately stated in the 'required' sections of each question.**

## QUESTION 1

Maximum mark	Average mark	Marks > 50% (Pass)	Marks < 50% (Fail)
40	17.99	38% (253)	62% (407)

### Level of difficulty of the question

The level of difficulty was generally described as “moderate” or “fair”, with some universities describing the taxation as challenging.

### General comments

Whilst candidates’ understanding of share-based payments was illustrated through their calculations, candidates found it difficult to motivate and discuss the principles in support of their calculations. This is effectively a step-by-step and logical application of their principles in reaching the apparent calculation choice.

Candidates were quick to reach conclusions about the relevant section of the Income Tax Act affected, but fell short on expressing and motivating the requirements of the section (for example to information from the question and with the use of case law).

### Areas the candidates handled poorly

- The question was largely discursive in nature. Candidates lost out on marks due to lack of articulation of the step-by-step application of principles, i.e. candidates knew the final answer but did not write enough in support of their calculations. This was illustrated by a number of candidates who did not discuss why the transaction should be accounted for in terms of IFRS 2 Share-based Payments, and simply started with a discussion surrounding classification in terms of IFRS 2. Further, there were candidates who did not provide an adequate discussion regarding the appropriate classification and measurement, and merely provided calculations.
- There were candidates who concluded that classification as an equity settled share-based payment transaction was appropriate yet the calculations performed and the workings provided, supported classification as a cash settled share-based payment transaction.
- There were candidates who did not indicate which part of the question (part (a) specifically) was being answered, and to which part of the question their workings related.
- Candidates provided a discussion, but no conclusion as to whether the expense should be deducted from the employer’s perspective in part (b(ii)). Alternatively, some candidates merely concluded as to whether the expense should be deducted without a motivating discussion.

### Areas the candidates handled well

- Candidates generally attempted all subsections which indicates that time allocated to the question was appropriate.
- The majority of candidates were able to identify that the transaction was one within the scope of IFRS 2 Share-based Payments, and that this was specifically a group-settled share-based payment. Such candidates made effective use of the IFRS 2 definition of an equity-settled and cash-settled share-based payment, and were able to discuss the subsequent measurement appropriate to each type of transaction.
- The majority of candidates identified the appropriate Income Tax Act sections in part (b(i)), and made use of case law in part (b(ii)).
- Candidates effectively combined discussion relating to the appropriate accounting treatment in part (a) with tax consequences in part (b), with supporting calculations.

## Specific comments on sections of the question

### Part (a(i))

In this section, candidates were required to discuss the amounts that should be recognised with respect to a group-settled share-based payment transaction in profit before taxation of the subsidiary. This required discussion of the appropriate classification, recognition and measurement of the share-based payment transaction for the purposes of the subsidiary's separate financial statements, in conjunction with the preparation of supporting calculations.

Candidates who performed well in this sub-section were able to present a logical, structured argument in which the aspects of classification, recognition and measurement were addressed, and in which the definitions and requirements of IFRS 2 *Share-based Payments* were applied. Furthermore, such candidates demonstrated an ability to apply accounting principles and concepts to the specific scenario presented.

Candidates who did not perform well commonly made the following errors or omissions:

- Candidates did not discuss why the transaction was within the scope of IFRS 2 Share-based Payments. Furthermore information from the scenario presented was not used and appropriately applied when determining whether the share-based payments transaction was cash-settled or equity-settled in nature i.e. the fact that the subsidiary had no obligation to reimburse the holding company, was not used in determining the appropriate classification. Alternatively it was used and yet the conclusion reached was incorrect;
- Candidates did not adequately discuss the measurement of the share-based payment transaction in the separate financial statements of the subsidiary. Once classification had been discussed, candidates merely provided supporting calculations;
- Candidates who concluded that the share-based payment transaction met the equity-settled classification requirements, did not use the grant date fair value when accounting for the share-based payment expense in part (a(i));
- Candidates re-measured the share appreciation rights using the fair value at the end of the reporting period and on exercise date in part (a(i)); and
- Candidates calculated the total amount to be recognised in equity yet did not indicate the amount to be expensed in the current period.

### Part (a(ii))

In this section, candidates were required to discuss the amounts that should be recognised in the consolidated profit before taxation. This required discussion of the appropriate classification, recognition and measurement of the share-based payment transaction for the purposes of the consolidated financial statements, in conjunction with the preparation of supporting calculations.

Candidates who performed well in this sub-section were able to present a logical, structured argument in which the aspects of classification, recognition and measurement from a group's perspective were addressed, and in which the definitions and requirements of IFRS 2 *Share-based Payments* were applied. Furthermore, such candidates demonstrated an ability to apply accounting principles and concepts to the specific scenario presented.

Candidates who did not perform well commonly made the following errors or omissions:

- Candidates did not discuss why the transaction was a cash-settled share-based payment and more often than not, merely concluded that classification alternate to that recommended in part (a(i)) would be applied;
- Candidates did not adequately discuss the measurement of the share-based payment transaction in the consolidated financial statements of the group. Once classification had been discussed, candidates merely provided supporting calculations;

- Candidates did not account for the exercise of a portion of share-appreciation rights and therefore re-measured all the share-appreciation rights at year end; and
- Candidates calculated the fair value of the liability yet did not indicate the amount to be expensed in the current period.

### **Part (b(i))**

In this section, candidates were required to discuss the tax implications of share appreciation rights, the accounting treatment of which was discussed in part (a), and shares which were granted to employees, from the perspective of one such employee. This discussion required identification of the sections of the Income Tax Act applicable to restricted equity instruments, as well as a discussion regarding the normal tax and capital gains tax consequences (if applicable) which arise on vesting date and on the date of exercise / disposal.

Candidates who performed well in this sub-section were able to present a logical, structured argument which identified the Income Tax Act sections applicable to the restricted equity instruments and were able to distinguish between the tax consequences arising on vesting date and/or those arising on the date of disposal / exercise date.

Candidates, who did not perform well, were those who made the following errors or omissions:

- Candidates did not state that the instruments were 'restricted equity instruments' as defined and did not indicate the date of vesting;
- Candidates did not identify that separate tax consequences arise on the vesting date and the date of disposal of the shares, and merely discussed the capital gains tax consequences arising on disposal; and
- Candidates were not able to correctly calculate the gain arising on vesting of the shares or the gain arising on the vesting of the share appreciation rights.

### **Part (b(ii))**

In this section, candidates were required to discuss the tax implications of the share appreciation rights and shares granted to the employees, from the perspective of the employer. This discussion required identification of applicable case law, and application of the pertinent principles in determining whether the employer should be allowed deduction.

Candidates who performed well in this sub-section were able to present a logical, structured argument which identified relevant case law and were able to apply the case law in conjunction with the general deduction formula.

Candidates, who did not perform well, were those who made the following errors or omissions:

- Candidates discussed the possibility of a deduction in terms of s 11(IA) as opposed to s 11(a);
- Candidates did not discuss the relevant case law and therefore did not apply the principles arising from case law; and
- Candidates did not discuss the tax consequences of the share appreciation rights and the tax consequences of the shares separately, and provided a generic discussion for both instruments.

## QUESTION 2

Maximum mark	Average mark	Marks > 50% (Pass)	Marks < 50% (Fail)
60	24.54	22% (147)	78% (513)

### Level of difficulty of the question

The question was considered to be moderate to easy overall.

By section:

Part (a)	Moderate
Part (b)	Moderate to easy
Part (c)	Moderate to challenging

Valuations and weighted average cost of capital are core sections of the competency based framework for financial management, and the level of application required in part (b) was moderate. The interpretation required in part (c) required higher order thinking and therefore was more challenging. Part (a) required the identification of conflicts of interest which would be classified as easy, however some of the relationships and context thereof were slightly more complex, raising this to a moderate level.

### In what respect candidates' answers are considered to fall short of requirements

#### Part (a)

Candidates general identified most of the conflict issues in the scenario.

#### Part (b)

Lack of knowledge of asset based valuations and earnings based valuations, including risk adjustments.

Candidates showed a lack of knowledge with respect to the issues relating to the re-levering of the beta for equity, as well as the application of the capital asset pricing model. There was also a misinterpretation related to the debt equity ratio definition. Candidates showed a poor understanding of the adjustments to the asset based valuation, as well as the EBITDA multiplier. Candidates also showed poor exam technique by missing easy marks such as multiplying the net result by 60% to get the value of the investment, and the deduction of debt from the overall company value.

#### Part (c)

Inability to interpret the calculated value of the investment relevant to the context of the company valued.

### Areas the candidates handled poorly

Candidates commonly did not set out properly or show all calculations. The solutions did not walk the marker through the valuation, assumptions, reasons for adjusting, or workings of calculations, and were rather a listing of line items. Structure and explanations are particularly important for a valuation, but were lacking.

Care was also not taken when working out the directions of movements, and indicating these movements correctly. This included the directions of movements for risk factor adjustments to the cost of equity and the EBITDA multiple.

For the conflict of interest section, candidates often confused the individuals in the scenario, and there was little evidence of planning of a solution, or mapping out who the individuals were, and their roles in the organisation.

### **Areas that the candidates handled well**

Candidates commonly performed well on the identification of conflicts of interest, and the discounted cash flow valuation section of the valuation required. This included identification of non cash items, and cash flows arising from the balance sheet.

### **Specific comments on sections of the question**

In part (b), many candidates were not able to re-lever the Beta, use the formula given correctly, and many made errors in the simple CAPM formula. The attempts at the WACC question in general were poor.

The net present value section was handled well for the most part. This included working capital adjustments, identification of risks, and reversal of non-cash items.

The attempts at the earnings based valuation and the adjustments to the net book value were poor.

Part (c) of the question was handled particularly poorly. Candidates battled to make a meaningful interpretation of the results of the 3 different valuation methods, or in arguing which of the approaches was most appropriate in the circumstance. A simple consideration as to why a value turned out unexpectedly higher (net asset value approach), or lower (discounted cash flow) was not delivered, nor was the fact that an asset based approach may have been appropriate for a company in difficulty. This did however require a high level of understanding.

### PROFESSIONAL PAPER 3

**Paper 3** consisted of two questions (Part I & II) that dealt with the following aspects:

**Part I**

The question focused on the identification of the strengths, weaknesses, opportunities and threats, by means of a SWOT analysis, of a renewable energy producer, who currently held a dominant position in the renewable energy production market. The question also however required candidates to explain or describe the strengths, weaknesses, opportunities and threats identified.

**Part II**

- (a) Pre-engagement procedures and Code of Conduct (ethical issues)
- (b) King Code on Corporate Governance for South Africa 2009 and Companies Act 71 of 2008
- (c) Substantive audit procedures on capital expenditure

**Presentation marks were available for the question. These marks were clearly and separately stated in the 'required' sections of each question.**

#### QUESTION 1 Part I

Maximum mark	Average mark	Marks > 50% (Pass)	Marks < 50% (Fail)
37	20.69	67% (445)	33% (215)

#### Level of difficulty of the question

Fair

#### General Comments

Although candidates were able to identify the strengths, weaknesses, opportunities and threats embedded in the scenario, they were not able to identify the strengths, weaknesses, opportunities and threats not included in the context but inherent to the company and/or industry.

#### Areas the candidates handled poorly

Two key issues need to be stressed. Read the required section carefully before answering a question – candidates needed to identify and explain the strengths, weaknesses, opportunities and threats of SAGE. The explanation required explaining how the factor identified was a strength/weakness/opportunity/threat for SAGE.

The second issue is equally serious – the required expected candidates to in terms of a SWOT analysis, separately identify the strengths, weaknesses, opportunities and threats of SAGE. As strengths and weaknesses are generally internal, exist already and are normally within the control of the enterprise, these need to be delineated from the opportunities and threats of an enterprise which are generally external, very often lie in the future and are very often factors or issues beyond the

control of the enterprise. It was not only poor communication by not setting out the answer into the four categories identified, but conceptually a problem as well.

**Areas the candidates handled well**

Candidates generally identified the issues embedded in the scenario successfully. This question again stressed the importance of candidates carefully reading through the scenario, engaging with the scenario and understanding the issues in the scenario.

**Specific comments on sections of the question**

No specific comments.

**QUESTION 1 Part II**

Maximum mark	Average mark	Marks > 50% (Pass)	Marks < 50% (Fail)
63	33.96	70% (459)	30% (201)

**Level of difficulty of the question**

The question was moderate/fair.

**General Comments**

The candidates did not fall short on any requirements.

**Part (a)**

The candidates were knowledgeable about pre-engagement procedures, ISQC 1 ISA 550

**Part (b)**

The candidates displayed a good knowledge of the King Code of Governance for South Africa 2009 and the Companies Act 71 of 2008.

**Part (c)**

The candidates displayed fair knowledge about substantive procedures on capital expenditure. There did not appear to be any gaps in knowledge. However, it did appear that the candidates' exam technique on substantive procedures is poor.

**Areas the candidates handled poorly**

The candidates fared very well in part (a) and (b). However, in part (c) the candidates did not describe the substantive audit procedures well. Most candidates failed to adequately address the easy, "general" audit procedures and focused on the more difficult procedures. Overall the exam technique displayed was poor in comparison to parts (a) and (b)

## **Areas that the candidates handled well**

The candidates handled part (a) regarding the quality of the audit and identified all the issues adequately. The candidates handled the Companies Act and King issues very well in part (b). The candidates displayed an ability to make the “theory” applicable to the given scenario.

## **Specific comments on sections of the question**

### **Part (b)**

Candidates performed well in part (b). They identified the issues that would impact the quality of the audit and were able to adequately describe the issues. The candidates fared very well in this section as it was the highest scoring section of Q3 Part II with a 77.66% average.

### **Part (c)**

The candidates also fared well in part (c) with an average score of 61.66%. Candidates adequately identified and discussed the Corporate Governance and Companies Act issues evident in the scenario. The majority of the candidates also answered the question in the desired format of a memorandum.

### **Part (d)**

The candidates did not fare as well in part (d), substantive procedures on capital expenditure. Most candidates failed to describe the substantive procedures adequately and missed out on the easier “general” audit procedures, however, described the substantive procedures on more complex capital expenditure well. Candidates also did not consider all the capital expenditure and lost marks but not dealing with all the amounts.

## PROFESSIONAL PAPER 4

**Paper 4** consisted of two questions.

### **Question 1**

- a) Discussion of a small business corporation (SBC);
- b) A calculation, with supporting reasons, of a SBC income tax liability for its 2013 year of assessment;
- c) A discussion, with supporting calculations, of the VAT implications for a vendor with cessation to trade and to deregistered as a VAT vendor;
- d) A discussion of the income tax treatment of the cumulative tax losses and
- e) A discussion of the income tax implications in respect of the net rental income it earned from the two properties outside the Republic of South Africa (double tax agreement)

### **Question 2**

- a) The scenario involved the mining of phosphate rock and the subsequent processing thereof.
- b) Candidates were asked to calculate and allocate the joint costs of producing two products.
- c) Required candidates to discuss the application of section 31 (transfer pricing) to a transaction between a SA holding company and its Mauritian subsidiary.
- d) Required candidates to discuss the key considerations in determining the price of selling product within the group.

**Presentation marks were available for both questions. These marks were clearly and separately stated in the 'required' sections of each question.**

## QUESTION 1

Maximum mark	Average mark	Marks > 50% (Pass)	Marks < 50% (Fail)
47	29.64	90% (595)	10% (65)

### Level of difficulty of the question

The question was straight forward and easy to moderate.

### General Comments

#### Part (a)

Most candidates applied the old rules of a SBC included in their legislation despite the fact that the new monetary values were provided in the question.

A number of candidates simply listed the requirements of the legislation without applying it to the scenario or only discussed a few requirements.

#### Part (b)

Most candidates did not understand the rules that apply when trading stock is taken by shareholder (section 22(2) and section 22(8)). Most candidates did not provide reasons for calculation although the question required reasons or required a discussion supported by calculation. Candidates use 66,67 as the taxable capital gain tax inclusion rate instead of **66,6%**. Despite the fact that the required asked candidates to start their answer with the net profit before tax a number of candidates ignored this and recalculated the taxable income with the information provided.

#### Part (c)

Candidates did not provide reasons for adjusting figures; several students calculated the amounts correctly but did not provide any reasons for their calculation. Candidates use 'deemed disposal' instead of deemed supply. A number of candidates treated the value of the supply to be the higher cost or market value instead of the lesser of cost or market value in terms of the provisions of s 10(5) of the VAT Act.

#### Part (d)

Many candidates applied the provision of section 20A, which is only applicable to natural persons on the company. A number of candidates left this part of the question unanswered or simply write one or two sentences and did not take the mark allocation into account in the planning of their suggested solution. Candidates did mention that the provisions of the Act does not allow a company to carry an assess loss forward should such company cease to trade but on application of the information provided candidates failed to indicate that the company lost the assessed loss pre-2012 as a result of not trading in 2012 and thus need to pay tax on the income. This is a clear indication that candidates do not read the information properly or with understanding. Most candidates did not refer to the legislation relating to assessed losses

#### Part (e)

The majority of candidates did not understand the basic principles of double tax agreements. Several candidates discussed that the section 6quat rebate will only be allowed if a double tax agreement was in place and could therefore a section 6quat rebate could not be claimed for rental income from Gambia. Candidates discussed that the company will be able to claim a section 6quat deduction instead of a rebate. Candidates provided contradicting arguments, the candidates discussed that the amounts will be taxed in Lesotho and not in South Africa in terms of the double

tax agreement, but then continued to discuss why the rental income from Lesotho will be included in gross income and a deduction will be allowed. Candidates did not consider the limitation in terms of section 6quat or applied it incorrectly.

### **Areas the candidates handled poorly**

Candidates should communicate reasons for calculations, if required. A discussion of a case study should always have a conclusion. If a question requires a calculation to start off with the 'profit before tax' (Part (b), no other method can be followed.

### **Areas the candidates handled well**

#### **Part (a)**

Candidates applied the requirements of the small business corporation definition to the case study. They did write a conclusion based on their evaluation of the requirements.

#### **Part (b)**

Candidates correctly linked the provisions relating to the capital allowances and the capital gains tax. The majority of candidates applied the correct capital allowances to the different assets. The candidates correctly applied the new tax table provided in the question.

#### **Part (c)**

Candidates identified that there is no output tax on motor vehicles if input tax has been denied. Most candidates could identify the deemed supply rule in the VAT Act.

#### **Part (d)**

Candidates that were able to identify the relevant section 20 in the Act were able to correctly apply the provision of the Act.

#### **Part (e)**

Majority of candidates were able to identify that section 6quat should be considered. Most candidates made the statement that a resident as defined, is subject to income tax on its worldwide income

### **Specific comments on sections of the question**

No specific comments – see above.

## QUESTION 2

Maximum mark	Average mark	Marks > 50% (Pass)	Marks < 50% (Fail)
53	21.69	22% (146)	78% (514)

### Level of difficulty

The question was easy to moderate and overall considered to be fair.

### Areas the candidates handled poorly

#### Part (a)

Disappointing to note how many candidates confused themselves and the markers by failing to comprehend the information given. The scenario involved the mining of phosphate rock and the subsequent processing thereof. Many candidates incorrectly calculated the unit cost of phosphoric acid due to confusing tonnage of base material with final product.

#### Part (b)

Proved to be challenging for candidates. Candidates were asked to calculate and allocate the joint costs of producing two products. I suspect that they had not focused on joint and by-product costing in their undergraduate studies or subsequently. This topic is in the ITC syllabus at a knowledge level 3. If candidates did not panic, they could have easily completed the calculations by using common sense.

#### Part (c)

Despite having their Tax Acts with them, most candidates did poorly in this section.

#### Part (d)

This question was difficult and required higher level thinking and would have challenged most candidates. Given that there were 25 'easy' calculation marks out of 53 in the question, a more testing section was appropriate.

Candidates overall performance in the question was disappointing.

### Specific comments on sections of the question

#### Part (a)

Candidates were required to calculate the gross profit margin arising on the sale of phosphoric acid and it was generally well answered. However, many candidates were inconsistent in their workings. Many confused the unit cost per tonne of phosphate rock concentrate with the final product (phosphoric acid). For example, candidates calculated the cost per tonne of phosphate rock concentrate and then omitted to convert this cost into the cost per tonne of phosphoric acid (simply multiplication by 4 would have sufficed).

#### Part (b)

This part required the allocation of production costs prior to the split off point to 'joint' products. Too many candidates included costs incurred after the split off point (depreciation, boiling costs & disposal costs) in the allocation which was incorrect. The discussion of the results of the calculations was poor generally. Granted this required a higher level of application however, comments were either scant or too theoretical.

#### Part (c)

This question was a simple application of section 31 of the Income Tax Act to the circumstances. Candidates had the Act with them however, many failed to list the key elements of the section. Also, some provided the tax adjustment without discussing 'why' and 'how'. The question clearly asked for a discussion which requires some elaboration. Simply stating the answer is not addressing the required.

**Part (d)**

Part (d) required candidates to discuss the key considerations in arriving at a transfer price between Crushtide and its Mauritian subsidiary. Parts (a) to (c) provided useful inputs into this discussion yet many candidates failed to refer to the costs of production and tax implications of the transfer price. Too many answers were a dump of theory as opposed to the application thereof to the facts in the question. Candidates generally performed poorly in this section.

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