



SAICA

THE SOUTH AFRICAN INSTITUTE
OF CHARTERED ACCOUNTANTS

MARKERS' AND UMPIRES' COMMENTS PART I OF THE QUALIFYING EXAMINATION JANUARY 2012

OBJECTIVES OF THIS REPORT

This report has been compiled from the analysis of examiners on candidates' performance in Part I of the Qualifying Examination, which was written in January 2012. 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 two examination papers.

The purpose of Part I of the Qualifying Examination is to test the integrated application of cognitive knowledge, 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 Part I of the Qualifying Examination 2012
- Background information on the setting, marking and adjudication of SAICA examinations
- General comments on Part I of the Qualifying Examination 2012
- Detailed comments by question
 - Professional paper 1
 - Professional paper 2
 - Professional paper 3
 - Professional paper 4

STATISTICS FOR PART I OF THE QUALIFYING EXAMINATION 2012

	% Pass	Passed	Failed	Total
First attempt	78%	1 679	464	2 143
Repeat candidates	32%	308	661	969
All candidates	64%	1 987	1 125	3 112

Average marks per question

	Question 1	Question 2	Total
Paper 1			
Total marks	50	50	100
Average marks	27	29	56
Paper 2			
Total marks	60	40	100
Average marks	24,10	21	45,10
Paper 3			
Total marks	39	61	100
Average marks	15,60	27,80	43,40
Paper 4			
Total marks	100		100
Average marks	50		50

More detailed statistics can be found on the SAICA website at 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 paper. 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 after the review by the academics has been completed. 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
Peter Bourne
Helouise Burger
Carol Cairney
Karien Coates
Jonathan Dillon
Dennis Deysel
Muneer Hassan
Beverly Jackson
Sean Kennedy
Zanne Koppeschaar
Francois Liebenberg
Zwelo Mabhoza

Osman Mollagee
Mandi Olivier
Gregory Plant
Jo-Ann Pohl
Donne Sephton
Karen Stark
Dirk Steyn
Jessica van Aarle
Sandy van der Walt
Nico van der Merwe
Renshia van Noordwyk
Pieter von Wielligh
Anton van Wyk

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 have to 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 Part I of the 2012 Qualifying Examination 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. All marking took place at the central mark centre. Each script was marked independently by two different persons who recorded their marks on separate mark sheets. Only once the marking was completed did the markers confer and jointly decide on the final mark to be awarded. Thereafter each marker's mark, as well as the compromise mark, was noted down on the cover of the script. In the event of the markers being 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. SAICA secretariat was responsible for capturing and final checking of the marks of all candidates.

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

In view of the above stringent marking process no request for re-marks will be entertained.

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 there were any time constraints encountered by candidates;
- 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 names 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.

GENERAL COMMENTS ON PART I OF THE QUALIFYING EXAMINATION 2012

1 Objective

In view of the primary objective of Part I of the Qualifying Examination, namely to test the integrated application of cognitive knowledge, 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 Overall comments on the papers

Overall comments received from universities indicated that the papers were of an appropriate standard for Part I of the Qualifying Examination.

- The **accounting questions** were of a good standard, as can be expected for this part of the Qualifying Examination. The accounting questions were adequately integrated between accounting topics and also incorporated knowledge relating to taxation and auditing. The questions required candidates to have a good knowledge of and solid foundation regarding the basic principles underlying the topics. Topics examined were relevant and of importance both in practice and in the academic syllabus. The questions tested the candidates' abilities to intra-integrate their knowledge across topics and to plan their answers within the time allocated to each section of the question.

However, a few areas relating to general exam technique need to be highlighted, and may be of use to candidates for purposes of future examinations:

- Discursive sections – many candidates failed to identify the issues and to address all considerations before arriving at a conclusion;
 - Journal entries – many candidates failed to properly describe the specific accounts affected (e.g. did not commit themselves to specific accounts but rather described accounts as 'liability' or 'equity') and/or failed to convey the type of account (e.g. profit or loss versus OCI);
 - Statement of cash flows – candidates did not do well with indicating the direction of cash flow (e.g. by using brackets or minus signs).
- The tax question was adequately integrated, and was set at an appropriate level of difficulty for Part I of the Qualifying Examination. The question was well balanced and contained easier and more difficult marks to distinguish between the good and bad candidates. The question examined both calculations and discussion as a means of assessment. However, candidates did not perform as well as expected in Paper 3 Question 2, as they showed a lack of ability to answer discursive questions.
 - The management accounting and financial management questions were set at an appropriate level of difficulty overall for the two questions. The standard of the questions was considered moderate to easy and medium difficulty for the questions in Paper 1 and Paper 3 respectively. As expected, the candidates performed well overall in Paper 1 Question 2. However, the candidates struggled with Question 1 of Paper 3. The majority of the answers provided by the candidates were a generic dump of standardised approaches, rather than context-specific answers as required by the question. The presentation and layout in general

were poor, both with regard to commentary and calculations. Candidates did not structure their solutions in a coherent manner that showed a logical thought pattern.

- The **audit question** was relevant, topical and considered to be a well-set question with adequate topic coverage of the syllabus. The aspects examined were of importance and relevance, integrating risks, controls and audit procedures. The question was reasonably well answered by the candidates who attempted it and applied themselves to the information provided in the question and the requirements thereof. It was however disappointing to see that, as in previous years, some candidates neglected the auditing component of the Qualifying Examination and did not make an assertive effort to answer it and accordingly received low marks.

Examination technique was again, as in previous years, a problem. Many candidates did not read and consider the information of the question carefully or apply this in answering the question. This often resulted in generic or mind dump type of answers.

3 Specific comments

From a review of candidates' answers to the seven examination questions for the January 2012 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.

3.1 *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 – this being a pure regurgitation of what candidates may have learnt about the theory at university, but of 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.

3.2 *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. Once again, 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.

3.3 *Communication*

Candidates fared better in questions requiring calculations than in discursive questions. 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. The increased use of an sms style of writing in a professional examination it is a major concern. **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 presentation marks are awarded.**

3.4 *Journal entries*

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

3.5 *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 relevant 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.

3.6 *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 Qualifying Examination. 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.

3.7 *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.

3.8 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.

3.9 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.

3.10 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. This includes index pages which were seen by some candidates in this year's exam not to 'supplement texts' and therefore considered acceptable; 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.

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

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

Best of luck!!

PROFESSIONAL PAPER 1

Paper 1 consisted of two questions that dealt with the following aspects:

Question 1

This question was a financial accounting question, counting 50 marks in total. The question examined the following topics:

- Property, plant and equipment (IAS16)
- Employment benefits (IAS 19)
- Income and deferred tax (IAS 12)
- Discontinued operations (IFRS 5)
- Earnings per share

Question 2

This question was a purely management accounting and finance question, counting 50 marks in total. It dealt with the following aspects:

- Capital budgeting and NPV analysis
- Identification and discussion of business risks
- Calculation of effective interest rate

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%	Marks < 50%
50	27	2 024	1 088

Level of difficulty of the question

- (a) Property, plant and equipment (IAS 16): The section was fairly complex due to the fact that the candidates needed to understand the impact of the error to establish the starting point of the calculation.
- (b) Employment benefits (IAS 19): This was a fairly easy section with many candidates receiving full marks for this section.
- (c) Income and deferred tax (IAS 12): This was a very basic tax calculation, combining income and deferred tax.
- (d) Discontinued operations (IFRS 5): This part was fairly easy and most candidates received good marks for this section.
- (e) Earnings per share: Candidates received good marks for this fairly easy section.

Topics examined

This question was financial accounting question, with five marks for taxation, which dealt with the following topics:

- (a) Property, plant and equipment (PPE) (IAS 16): Calculation of the value of an item of PPE with multiple components that included a correction of a prior period error and change in accounting estimate.
- (b) Employment benefits (IAS 19): Preparation of a basic journal entry for a bonus provision.
- (c) Income and deferred tax (IAS 12): Calculation of the tax line required for the statement of comprehensive income.
- (d) Discontinued operations (IFRS 5): Preparation of the note required for a discontinued operation.
- (e) Earnings per share: Calculation of basic and diluted earnings per share for continued and discontinued operations.

General comments

Candidates generally performed well in the question. The markers were, however, still disappointed at the mistakes candidates made which resulted in easy marks being lost.

Specific comments on individual sections of the question

Part (a)

The question was fairly complex due to the fact that the candidate needed to understand the impact of the error to establish the starting point of the calculation.

Markers noted that candidates did not apply a proper structure in answering the question which created some difficulties for the markers with regard to understanding the flow of the calculations performed. This was mainly due to insufficient planning by candidates before attempting the question.

Part (b)

Candidates generally answered this part well by providing well-narrated journal entries supported by detailed calculations.

Part (c)

It appears that deferred tax still remains a complex area for candidates. The majority of the candidates did not properly plan and structure their solutions. The result was that some solutions included combinations of the 'income statement' method combined with the 'balance sheet' method.

Calculations were not properly referenced to where it was used, making it extremely difficult for the markers to follow.

Part (d)

Some candidates attempted to use calculations as disclosures to save time. As candidates did not properly reference the calculations to the disclosure requirements, it made it very difficult for markers to identify the areas to which marks should have been allocated.

In addition, candidates referenced calculations to part (c) of the question. In many of the cases, the referencing was not accurate, which may have resulted in the candidate not receiving marks for those calculations.

Part (e)

It appeared that some candidates did not have enough time for this section, probably because they used up the time allotment in other areas of this paper. This again highlights the importance of strict time management.

Again calculations were not clearly referenced to where it was used.

Although the question clearly requested disclosures, many candidates only presented calculations.

QUESTION 2

Maximum mark	Average mark	Marks > 50%	Marks < 50%
50	29	2 447	665

Level of difficulty

The question was a moderate to easy financial management question which had a good balance between requirements for calculations and discussion.

Main subjects examined in the question

The question was a 50 mark question, including three communication skills marks, which covered the following:

- Calculation of the NPV of a supply contract (27 marks);
- Identification and explanation of key business risks associated with a supply contract (17 marks); and
- Calculation of the effective interest rate implicit in a loan agreement (6 marks).

General comments

Candidates performed well in the question, which was in line with expectations.

Areas the candidates handled well

The majority of candidates scored well in part (a).

Areas the candidates handled poorly

Specific comments are included below.

Specific comments on sections of the question

Part (a)

Some basic errors were made by too many candidates:

- Fixed costs were included in the NPV analysis when these costs were irrelevant for decision making;
- Upfront rent paid was ignored for income tax purposes;
- Fixed overheads were included in the calculation of inventories, again when these should have been ignored;
- Poor layout, with many students including the tax calculations in the main cash flows;
- Depreciation and finance costs were included the cash flow calculation;
- Having random tax and cash flow totals – students lost marks for lack of effort. Also rounded NPV numbers illustrates that the students did not calculate these; and
- Ignoring the recovery of the working capital investments.

Part (b)

Too many candidates simply dumped a 'laundry list' of general business risks without applying their minds to the particular risks associated with taking on the Mandlovu contract. Other areas for were candidates lost marks:

- Some candidates assumed that Apex had the contract with government when in fact it was Mandlovu which did;
- Many candidates listed risks without explaining these. The required was clear that risks needed to be explained; and
- Some candidates spent too much time calculating the debt equity and interest cover ratios. They should have instead simply have indicated that Apex may be in breach of its covenants with the bank.

Part (c)

Some of the candidates were able to calculate the nominal interest rate but most failed to convert this into an effective rate. This was very disappointing given that this is a basic financial calculation. Also, candidates are reminded to show all workings – no marks can be awarded if answer is incorrect and workings not documented.

PROFESSIONAL PAPER 2

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

Question 1

This question was an auditing question, counting 60 marks in total. The question examined integrated risks, controls and audit procedures.

Question 2

This question only examined financial accounting, and specifically IAS 7, *Statements of Cash Flow*, counting 40 marks in total.

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%	Marks < 50%
60	24.10	472	2 640

Level of difficulty

The question was relevant, topical and considered to be a well-set question, with adequate topic coverage of the syllabus. The aspects examined were also of importance and relevance, integrating risks, controls and audit procedures. This view was supported by the various university comments.

Main subjects / topics examined in the question

The question consisted of 60 marks covering risk of material misstatement at the overall financial statement level and at the assertion level for revenue, controls for occurrence and completeness of revenue from music downloads, substantive procedures on related party transactions and additional substantive procedures following the result of an accounts receivable circularisation.

General comments

The question was reasonably well answered by the candidates who attempted it and applied themselves to the information of the question and the requirements thereof. However, it was disappointing that, as in previous years, some candidates neglected the auditing aspects and did not make a concerted effort to answer this question and accordingly recorded very low marks.

Examination technique was again, as in previous years, a problem. Many candidates did not read and consider the information of the question carefully, or apply this in answering of the question. This often resulted in a generic or mind dump type of answers.

Areas the candidates handled well

Candidates handled the section on risks reasonably well.

Areas the candidates handled poorly

Candidates had difficulty with sections (b) (dealing with the controls over music downloads), as well as with the substantive procedures for section (c) and (d).

Specific comments on sections of the question

Part (a)

Part (a) of the question counted 17 marks and dealt with the risk of material misstatement at the financial statement level and for revenue at the assertion level.

This section was reasonably well answered, although some candidates still listed generic risks, without consideration of the information provided of the scenario.

Part (b)

Part (b) of the question counted 25 marks and required controls to ensure occurrence and completeness of transactions for revenue from music downloads.

Candidates battled with this section and did not always apply their minds to the information given of the question and the system that was described. The result was that they often failed to identify the basic controls which should be present in such a system.

Some candidates also listed audit procedures to test such controls, instead of detailing the controls that was asked. This again stresses the importance of sound examination technique applied by candidates.

Part (c)

Part (c) of the question counted ten marks and required of candidates to describe the substantive procedures needed to address the risk of fraudulent financial reporting in respect of the related part transactions. Many candidates went into detail on how to identify such transactions, although this was not required.

Candidates did not always apply their minds to the information provided in the scenario and accordingly did not focus their procedures on testing whether such related party transaction are at arm's length and correctly recorded and disclosed.

This again stresses the importance of sound examination technique applied by candidates.

Part (d)

Part (d) of the question counted eight marks and required of the candidates to describe additional substantive procedures following the result of the accounts receivable circularisation.

Again, candidates did not take into consideration the information given in the question and particularly the information on the accounts receivable circularisation. This resulted in candidates listing generic audit procedures which did not address the risk of material misstatement that should have been evident from the work paper provided.

This again stresses the importance of sound examination technique applied by candidates.

QUESTION 2

Maximum mark	Average mark	Marks > 50%	Marks < 50%
40	21	1 831	1 281

Level of difficulty

The question was relatively easy. Except for the manner in which the information was provided to candidates, the question did not contain significantly challenging issues that would normally be expected when the preparation of a consolidated statement of cash flows is required. Most universities agreed that when candidates got past the initial surprise of the 'unusual manner' in which the information was presented to them, the question was actually easy. The fact that candidates were provided with information that seemed 'different and unusual', was welcomed as this represents the way in which candidates are bound to encounter information in practice. Candidates' ability to **think, plan and adapt** is therefore tested in this question. Candidates who were able to remain calm, would have done well.

Main subjects / topics examined in the question

The question only examined financial accounting, and specifically IAS 7, *Statements of Cash Flow*.

The question required candidates to prepare a consolidated statement of cash flow per the requirements of IAS 7. What made the question different was the way in which the information is presented to the candidate. Consolidated statements of cash flow are usually prepared from two years' statements of financial position, requiring a comparison of the movement between the two years. This question provided the candidate with all the individual statements of cash flow of group companies, aggregated the totals thereof in a final column, and required the candidate to –

- eliminate intragroup transactions (in respect of subsidiaries and not in respect of associates);
- eliminate intragroup dividends (once again in respect of subsidiaries and not associates);
- deal with errors made in the individual (given) statements of cash flow, such as the inclusion of deferred payment terms in the 'trade receivables' and 'trade payables', which should have formed part of the investment activities section;
- Include a subsidiary that had been erroneously left out of the aggregated total for all statements of cash flow;
- prepare the final consolidated statement of cash flow using the direct method (i.e. selecting the relevant cash amounts and not using an indirect process of elimination); and
- provide detailed (and properly referenced) calculations supporting the consolidated statement of cash flow.

General comments

Candidates appeared to follow good examination and time management techniques and appeared to be able to handle the question well. Answers were not particularly long, as the suggested solution was mainly based on calculations.

Areas the candidates handled well

It appeared that candidates were familiar with the basic format and structure of the statement of cash flows, per the requirements of IAS 7.

Furthermore, candidates were much more resilient than expected and actually handled the intragroup eliminations, intragroup dividend calculations and erroneous non-inclusion of a subsidiary relatively well.

Most candidates had a very good idea of what was required of them in the question and little unexpected, irrelevant or totally incorrect information was encountered in their answers.

The answers were well presented, calculations cross-referenced to the answer and explained where necessary, which indicates that candidates did not experience time constraints.

Most candidates wrote down the format of the statement of cash flows to start their answers off, and then populated the document with their calculations. This proved to be an invaluable approach.

Areas the candidates handled poorly

Candidates did not do well as far as indicating the direction of cash flow (e.g. using brackets, negative signs, etc.) was concerned. This meant that cash outflows were not distinguished properly from cash inflows, debits and credits were switched around in the T-accounts, and so forth. This was a matter of concern and in accordance with the final mark plan a negative mark was awarded to candidates who were guilty of incorrect and/or inconsistent use of signs in the statement of cash flows.

Some candidates seemed to forget what they were supposed to be doing, which was indicative of a lack in logical approach. The information in the question provided candidates with a final column where all relevant statements of cash flow of group companies had been aggregated (except where noted in the information). Some candidates seemed to forget that they were supposed to 'eliminate' irrelevant transactions and started calculating amounts that should appear in the final answer, outright. This approach sometimes landed them in trouble.

Illegible handwriting remains a problem in the Qualifying Examination and may be solved by moving to 'online' examination at some future date.

PROFESSIONAL PAPER 3

Paper 3 consisted of two questions that dealt with the following aspects:

Question 1

The question was a management accounting and finance question, counting 39 marks, dealing with DFC valuation.

Question 2

The question was solely an integrated tax question, counting 61 marks. The question was well balanced and contained a mix of easier and more difficult marks. The question also tested discussion and calculations.

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%	Marks < 50%
39	15.60	398	2 714

Level of difficulty

The question was set at an appropriate level of difficulty for Part I of the Qualifying Examination.

Although this question was of medium difficulty, it appears that many candidates were unable to cope with that level.

Main subjects / topics examined in the question

This question was solely a management accounting and finance question counting 39 marks in total.

- This was a DCF valuation question, which presented a relevant scenario in the form of a media company buying a medical publications company, the acquisition of a private company by a large listed media company. Students were presented with forecast financial statements as well as the valuation of the firm and were required to critically review and advise on the valuation. This included an analysis of the financial forecasts, errors of principle, the discount rate, and on the reasonability of the valuation. The question provided a rich scenario for analysis.
- The balance of marks related to managerial decisions regarding commission changed from a revenue based to a GP% based structure, to get sales people to think about costs (performance evaluation). The company also wanted employees to change to a freelance journalist basis, thus changing a fixed into a variable cost (cost volume profit analysis). This reduced the amount that could be required of students in relation to the valuation part of the question.

General comments

Very few candidates excelled (and presented a critical thinking approach) in the question. Generic, standardised approaches were applied by most candidates. There was an inherent lack of commanding the data at hand and providing concise, articulate and decisive interpretations.

The question contained numerous available marks, far in excess of the maximum marks. On several of the marks the question also required interpretation by the marker.

Layout and presentation

In spite of the added reading time, candidates' layout and presentation were very poor. It appears that 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. The quality of handwriting is also an ongoing problem. Poor spelling and use of unintelligible abbreviations remain problematic.

Areas the candidates handled well

Part (b) of the question was handled relatively well by candidates.

Areas the candidates handled poorly

Part (a) of the question was particularly poorly answered, although candidates struggled with the question overall. Most solutions were a generic dump of valuations principles, rather than context specific comments on the company at hand.

Specific comments on sections of the question

Part (a)

Candidates in general performed poorly on this section. Many failed to realise that the starting point of the valuation was the cash line item which resulted in candidates incorrectly criticising some of the points on the valuation. Some candidates provided information on valuation theory instead of commenting on the context, which earned them no marks.

Part (b)

No additional comments.

Part (c)

No additional comments.

Marking points

Candidates in general did not take a standpoint and they in general provided generic content. On the whole there was very little depth in the solutions that were provided.

QUESTION 2

Maximum mark	Average mark	Marks > 50%	Marks < 50%
61	27.80	1 097	2 015

Level of difficulty

The question was adequately integrated and set at an appropriate level of difficulty for Part 1 of the Qualifying Examination. The question was well balanced and contained easier and more difficult marks. The question also tested discussion and calculations.

General areas covered by the question

- Calculation of section 12H learnership allowances;
- Discussion of the deductibility of interest incurred (case law and legislation);
- Calculation of section 24J interest incurred and profit on the redemption of debentures;
- Donations tax calculation;
- Capital gain calculation on the disposal of shares;
- VAT calculation on the disposal of fixed property;
- Capital gain calculation on the disposal of fixed property;
- STC calculation on the disposal of fixed property; and
- Comparison of the tax consequences of a company car fringe benefit vs a travel allowance and advice on the best alternative for the taxpayer.

Specific comments on sections of the question

Lack of candidates' knowledge identified common mistakes they made.

Part (a)

In this section, candidates were required to calculate the impact of registered learnership agreements on the taxable income of the company.

This section was generally well answered, even though some candidates went into lengthy discussions of the learnership agreements that wasted a lot of time.

Part (b)

In this section candidates were required to discuss arguments that SARS as well as the company could put forward to deny or claim a deduction of interest incurred. The arguments had to be supported with reference to legislation and case law and an extra mark was allocated for communication skills.

Discussion questions are more difficult for candidates and this was again evident when marking this part. Marks were, however, awarded leniently to make provision for different thought processes followed by the candidates.

The following problems were identified:

- Most candidates discussed interest deductions in terms of section 11(a) instead of section 24J. This indicates that candidates do not understand the scope of section 24J.
- Many candidates did not answer the question properly. The required specified that candidates should discuss the arguments that SARS could raise and the arguments that the

taxpayer could raise – many candidates focused solely on the perspective of one of the parties involved.

Part (c)

In this section, candidates were required to calculate the impact of interest incurred and the repurchase of debentures on the taxable income of the company.

The following problems were identified:

- Many candidates crossed out and recalculated their answers a few times which resulted in extra time spent on this part. There were a few methods that could have been followed to derive the final answer and it seems as if some candidates just got a bit trapped in number crunching without systematically working towards the answer.
- A big concern was the fact that many of the candidates used months to apportion the interest calculated even though the relevant section (section 24J) specifically requires days to be used.

Part (d)

In this section, candidates were required to calculate (based on certain assumptions) all the tax implications for William on the disposal of the shares to Angus.

Although this part was generally well answered, the following problems were identified:

- Many candidates still do not correctly apply the annual exclusion and CGT inclusion rate in the correct positions. It is concerning that this still occurs at the level of Part 1.
- Even though the selling price was given as one figure and only one CGT calculation would have sufficed, a large number of candidates broke the disposal down into separate calculations, which meant that they (unnecessarily) spent extra time on this part.

Part (e)

In this section, candidates were required to calculate all the tax implications for the company in respect of the transfer of fixed property to its shareholder.

This part was generally well answered.

Some candidates struggled to determine the contributed tax capital, but most recognised that they had to calculate CGT as well as STC.

Part (f)

In this section, candidates were required to advise Angus, based on tax cash flows (and certain other assumptions), which vehicle option would be in his best interest. Guidance was provided in the required, in that the candidates had to compare the monthly PAYE amounts as well as the additional payment or refund upon assessment. An extra mark was allocated for communication skills.

This part was generally answered poorly. The following problems were identified:

- Candidates have a basic understanding of the use of a company car and a travel allowance, but failed to make a meaningful comparison between the two in the given scenario.
- Candidates seem to have confused the requirements when calculating PAYE (i.e. application of the Fourth Schedule) vs the requirements when calculating income tax on the benefit on assessment (i.e. application of section 8(1) and the Seventh Schedule) in relation to the use of a company vehicle and a travel allowance.

Areas the candidates handled well

Candidates generally did well in identifying which taxes, i.e. capital gains, donations and income tax, were applicable

Parts (a), (d) and (e) were generally answered well.

PROFESSIONAL PAPER 4

Paper 4 consisted of one question that dealt with the following aspects:

Question

This question was an integrated financial accounting and auditing question, counting 100 marks in total.

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

QUESTION

Maximum mark	Average mark	Marks > 50%	Marks < 50%
100	50	1 587	1 525

Level of difficulty

Universities generally assessed this question as moderate difficulty (with a mix of easier and more difficult sections) with adequate topic coverage.

Main subjects / topics examined in the question

This question consisted of an auditing section counting 22 marks and financial accounting sections counting 78 marks in total. The question dealt with the following:

Part (a)(i): Preparation of a memorandum to explain the procedures to be performed to assess the competence of the component auditors of two subsidiaries.

Part (a)(ii): Preparation of a memorandum to discuss concerns about the audit committee.

Part (b): A description of the recognition and measurement of a provision for environmental rehabilitation (integrated with a prior period error).

Part (c): Journal entries for an onerous contract.

Part (d): Preparation of a memorandum to discuss the initial recognition and measurement of rights arising from the receipt of 'certified emissions reduction certificates' from the United Nations. The discussion required candidates to consider the conceptual framework as well as all applicable asset standards.

Part (e): Journal entries for an equity-settled share-based payment transaction and a share buy-back.

Part (f): The calculation of the purchase consideration for a business combination (therefore also including some financial instrument principles).

In total ten marks were awarded for communication skills (included in the overall mark allocation mentioned above).

General comments

Some subsections were generally answered well, but many students failed to identify (all) the issues in other subsections.

Areas the candidates handled well

- Candidates generally attempted all subsections, which could be a reflection of the positive effect of the introduction of reading time in Part I.
- Answers were generally fairly neat and organised, and the majority of candidates cross-referenced their calculations or otherwise laid them out properly.
- Most candidates demonstrated communication skills at an acceptable level for Part I.

Areas the candidates handled poorly

A few areas should be highlighted, which may be of use to candidates for future examination purposes relating to general exam technique:

- In respect of the discursive sections, many candidates failed to identify the issues and to address all considerations before arriving at a conclusion.
- In respect of journal entries, many candidates failed to properly describe the specific accounts affected (e.g. did not commit themselves to specific accounts but rather described accounts as 'liability' or 'equity') and/or failed to convey the type of account (e.g. profit or loss versus OCI). It is suggested that candidates indicate the type of account in brackets so that markers are in a better position to assess whether the choice of account is appropriate if it is not clear from the account description.
- There were a (limited) number of cases of illegible handwriting and marks could not be awarded for certain sentences as the markers were unable to decipher them.

Specific comments on sections of the question

Part (a)(i)

In this section, candidates were required to prepare a memorandum to the group audit engagement partner to explain the procedures the audit firm should perform to gain an understanding of the competence of the component auditors of two Japanese subsidiaries in the group. Candidates therefore had to apply the principles in ISA 600 to answer this subsection.

Candidates generally performed worse than expected, and the following problem areas can be highlighted:

- Many candidates wasted time by addressing issues of independence whereas the question clearly required a consideration of competence.
- The majority of candidates quoted the theory (considerations) from ISA 600 without formulating them into proper audit procedures (i.e. without describing what should be done, how it should be done and why it should be done), with reference to the scenario. The question specifically asked candidates to explain the procedures to be performed.

Part (a)(ii)

In this section, candidates were required to prepare a memorandum to the group audit engagement partner to discuss concerns about the audit committee of the group. Candidates generally performed well in this subsection and picked up on most criticisms against the audit committee (which were fairly obvious from the given information).

Many candidates could however have performed even better if they remembered that the Companies Act also contains corporate governance requirements (and not only King III).

Part (b)

In this section, candidates were required to describe the recognition and measurement of a provision for environmental rehabilitation. Information in the question was not sufficient for candidates to include amounts and calculations in their discussion.

The following problem areas are highlighted:

- Many candidates did not separate the two distinct obligating events, being the 20% initial damage done to the environment and the remainder of the damage that was caused evenly over the lease term.
- Many candidates failed to identify that there was a prior period error because the entity did not raise a provision in prior years even though the obligating event occurred in a prior year.

Part (c)

In this section, candidates were required to prepare the journal entries to record an electricity purchase contract with a third party. This contract satisfied the definition of an onerous contract because the entity had to pay for the electricity even though it did not use the electricity.

Candidates performed reasonably if they identified the onerous contract, but where candidates failed to identify that the contract was onerous, they performed very poorly and gave journal entries for a finance lease or other irrelevant / incorrect journal entries.

Part (d)

In this section, candidates had to prepare a memorandum to the audit engagement partner to discuss and make recommendations on the initial recognition and measurement of the certified emissions reduction (CER) certificates by considering the conceptual framework and testing the CER certificate against the definitions in relevant asset standards.

The following problem areas are highlighted:

- Despite the fact that the question stated that the entity intends to sell the CER certificates to developed countries that wish to reach their reduction targets, a high number of candidates were unable to link this with the real future economic benefits for the entity (in the asset definition and the recognition criteria). Instead, many stated that it was good for the reputation of the entity, etc., rather than realising that the future economic benefits derived from the sale of the certificates.
- Many candidates stopped at the application of the conceptual framework and did not continue to discuss and apply the definitions in the relevant asset standards.
- It was apparent that many candidates attempted to apply accounting principles by quoting (irrelevant) information from the question. It requires a deeper level of thinking to identify the relevant matters (e.g. what exactly was the past event that gave rise to an asset, why exactly does control arise and why exactly is economic benefits more probable than not).
- Many candidates wasted time by discussing subsequent measurement despite the fact that this was not asked.
- Some candidates could have demonstrated better communication skills by presenting a well laid out answer which flowed logically, showed cause and effect and where regular interim conclusions were reached, conveyed the candidate's trail of thought to the reader.

Part (e)

In this section, candidates had to prepare journal entries in respect of a share option scheme (equity-settled share-based payment) and in respect of the obligation to purchase shares from a director (with a corresponding reduction in equity in lieu of the future share buy-back).

The following problem areas are highlighted:

- Where candidates performed poorly it was often due to the incorrect calculation of the number of employees entitled to share options.
- Many candidates did not prepare a journal entry for the share buy-back as the shares would only be bought back in the future (that is, they failed to identify that an obligation to buy back the shares already existed).
- Proper account descriptions were especially problematic in this subsection, with candidates describing the obligation to buy back the shares simply as a 'liability' or a 'provision'. The account for the share-based payment equity was also often not properly pinned down, or candidates stated that it was to be presented in OCI, which is incorrect.

Part (f)

In this section candidates were required to calculate the purchase consideration for the acquisition of a controlling interest in another entity in terms of IFRS 3, *Business Combinations*. This subsection was straight forward and candidates generally performed very well.

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