



SAICA

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**MARKERS' AND UMPIRES' COMMENTS
INITIAL TEST OF COMPETENCE
JUNE 2024**

OBJECTIVES OF THIS REPORT

This report has been compiled from the analysis of examiners on candidates' performance in the Initial Test of Competence (ITC), which was written in June 2024. 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 set, 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 2024;
- Background information on the setting, marking and adjudication of SAICA examinations;
- General comments on the ITC June 2024; and
- Detailed comments on each of the four professional papers.

STATISTICS FOR ITC JUNE 2024

	Pass %	Passed	Failed	Total
All candidates	14%	189	1 144	1 333

Average marks per question (all candidates)

Paper 1	Part I	Part II	Total
Total marks	41	59	100
Average marks	15,69	25,28	40,97
Paper 2	Question 1	Question 2	Total
Total marks	50	48*	98
Average marks	24,04	23,63	47,68
Paper 3	Part I	Part II	Total
Total marks	47	53	100
Average marks	17,75	23,93	41,68
Paper 4	Question 1	Question 2	Total
Total marks	50	50	100
Average marks	18,64	22,06	40,70

* The total for this question was 48 marks instead of 50. This was adjudicated at the SAICA Chartered Accountant Professional Development Committee meeting.

More detailed statistics can be found on the SAICA website at www.saica.org.za

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

The ITC Examinations Committee (ITC 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 of and improvement in the way in which it selects questions for inclusion in the examination and decides on the final mark plans.

1 Source of the questions

The ITC Examco is a sub-committee of the SAICA Chartered Accountant Professional Development Committee (CAPD Committee) and takes overall responsibility for the setting of the examination papers. Examination questions are commissioned from persons in commerce and industry, public practice or from academics.

Academics or former academics are also involved in reviewing exam questions in each of the core subject areas. However, 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 the 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 the assessment.

Four external examination sitters, who are independent of the exam setting process, are also appointed to review the entire set of questions. These sitters are chosen from the persons who passed the ITC exam the previous year. The examination sitters provide independent comments on the examination paper, suggested solutions or mark plans, and report on these to the ITC Examco.

In addition, the examination questions are also reviewed by a third expert for cultural and language bias.

SAICA would like to acknowledge and thank all the people involved in the examination setting process.

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.

2 The marking process

The ITC 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 accredited programmes for comment. The markers and umpires finalise the 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 ITC Examco, which approves 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. Markers and umpires are assigned to specific questions based on their fields of expertise.

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

Consistency marking was introduced in 2012, which entails that a pack of scripts are selected on a random basis by SAICA's Examinations Unit, and the exam numbers removed. These scripts are then re-numbered and photocopied. Every person on the mark team has to mark the question to which they have been assigned in the batch of scripts. This takes place on the first day of the main marking process and the umpire, together with his/her mark team, then discuss point by point how the individual markers awarded the marks 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.

Marking of the ITC June 2024 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, using an electronic marking tool. The tool records marks per subsection, section and question automatically. 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 (what is referred to as 'marking reconciliation') to be awarded for a particular answer. This was also recorded on the marking tool. 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 reviewed the paper and awarded the final mark. After the reconciliation process, the electronic tool captures the final marks of all candidates and prepares a report for the ITC Examco.

3 Adjudication

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

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

The members of the CAPD 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 CAPD Committee as soon as possible after the marking process has been finalised and checked by the SAICA secretariat. During the adjudication four secretaries' marks (one per paper) are added to each candidate's score. The objective of these secretaries' marks is to compensate for any errors that may have occurred during the marking process. In a typical 400 total exam mark, the secretaries' marks translate to 1%.

It is important to note that no person from academia is allowed to serve on the ITC 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.

4 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 has been complete, the scripts of candidates who just failed (based on a range determined by the CAPD Committee); who achieved less than 25% for the exam as a whole; or who did not achieve the requirement of a 40% minimum per paper (see par. 4.12 of the section on the general comments below) are extracted and a third and final review is undertaken of such candidates' scripts.

This review is undertaken by the umpire and assistant umpires, being the most senior and experienced members of a marking team. The marks during this process may either go up or down and each script is again assessed on a question by question basis to ensure that the final result is not contrived. A sub-committee of the CAPD Committee then meets to discuss the outcome of the borderline review and thereafter the pass percentages and other detailed statistics for the examination are prepared.

Candidates whose scripts are selected for the borderline review are not awarded the secretaries' mark 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 the Examination Regulations for the ITC in this regard).

GENERAL COMMENTS ON THE ITC JUNE 2024

1 Objective

In view of the primary objective of the 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

	Accounting and external reporting	Strategy, risk management and governance	Audit and assurance	Taxation	Management decision making and control	Ethics	Communication
Required ranges in terms of the SAICA guidelines (since 2013)	60 – 100 marks	40 – 60 marks	60 – 100 marks	60 – 100 Marks	60 – 100 Marks	20 – 60 marks	20 – 30 Marks
	15 – 25%	10 – 15%	15 – 25%	15 – 25%	15 – 25%	5 – 15%	5 – 7,5%

	Accounting and external reporting	Strategy, risk management and governance	Audit and assurance	Taxation	Management Accounting and Finance (MAF)	Ethics (including CPC)	Effective and efficient comm	TOTAL
	60 – 100 marks	40 – 60 marks	60 – 100 marks	60 – 100 marks	60 – 100 marks	20 - 60 marks	20 – 30 marks	400
	15 – 25%	10 – 15%	15 – 25%	15 – 25%	15 – 25%	5 – 15%	5 – 7.5%	100%
Paper 1 Part I	40						1	41
Paper 1 Part II		25	22			8	4	59
Paper 2 Question 1		5		14	29		2	50
Paper 2 Question 2				45*			3	48
Paper 3 Part I		13			32		2	47
Paper 3 Part II			46			4	3	53
Paper 4 Question 1	28				20		2	50

	Accounting and external reporting	Strategy, risk management and governance	Audit and assurance	Taxation	Management Accounting and Finance (MAF)	Ethics (including CPC)	Effective and efficient comm	TOTAL
	60 – 100 marks	40 – 60 marks	60 – 100 marks	60 – 100 marks	60 – 100 marks	20 - 60 marks	20 – 30 marks	400
	15 – 25%	10 – 15%	15 – 25%	15 – 25%	15 – 25%	5 – 15%	5 – 7.5%	100%
Paper 4 Question 2	25	10				13	2	50
	93	53	68	59	81	25	19	398
	23%	13%	17%	15%	21%	6%	5%	

* This total for this question was 48 marks instead of 50. This was adjudicated at a CA PD Committee meeting.

3 Overall comments on the papers

The June 2024 ITC examination was considered to provide a fair assessment of technical competence overall, with a mix of easier and more challenging areas. There was a good balance between easy, moderate and difficult sections within each paper and the themes and scenarios were topical and relevant.

Paper 1 consisted of a single scenario, with the required sections divided into two parts. The first part dealt with **accounting and external reporting** and the second with **strategy, risk management and governance** and **management accounting and finance**.

Paper 2 consisted of two separate questions. Question 1 examined **strategy, risk management and governance and taxation**, while the second dealt with **taxation**.

Paper 3 consisted of a single scenario with two parts. Part I examined **audit and assurance** and **ethics**. Part II covered **strategy, risk management and governance** and **management accounting and finance**.

Paper 4 consisted of a two separate questions. Question 1 examined **accounting and external reporting and management accounting and finance**, while the second dealt with **accounting and external reporting, strategy, risk management and governance** and **ethics**.

4 General comments

From a review of candidates' answers to the ITC June 2024 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, in particular **foundational core knowledge**. 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 stated in the scenarios. 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 do 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 clearly 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 requires that significantly more focus and attention be given to these important skills. It is important that candidates bear in mind that written answers are a large component of the Qualifying Examinations, 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 (text 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 accounting and external reporting 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 incorrectly. 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 (and which financial statement) has to be debited or credited. It is not sufficient for a candidate with Accounting at the PGDA level 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. It was evident that candidates had not managed time appropriately, for they left out many sections, often relating to easier marks, while the difficult sections that were attempted had clearly taken more time to address, but resulted in few or no marks.

Candidates should address the time management issue by starting with the questions they feel more comfortable with or can consider to be 'easier' while still feeling fresh in the exam. This ensures two things: confidence is gained by the candidate and good marks are earned easily, such that some time is saved – which can then be used a 'buffer' to add to the time allocated for the more challenging questions. This gives the candidate a fair opportunity to do well. This is considered an 'exam success strategy'.

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 does ensure that candidates who write answers in the incorrect book are marked by the correct mark team, but this adds to the marking time).

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 in-depth 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. A discussion of a case study should always have a conclusion. Or if it requires that a decision be made, a conclusion alone is not sufficient; it requires that the conclusion be discussed and motivated.

4.10 Examination technique

Examination technique remains the key distinguishing feature between candidates who pass and those that fail. Many candidates do not address what was required by the questions and, for example, provide a discussion where calculations are 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 accredited 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 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 Examination Regulations prior to writing the examination.

Another problem relating to the open-book examination is that candidates do 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 reporting questions and fare considerably poorer in some of the other disciplines – most notably management accounting and finance. 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 ITC Examination Regulations:

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.

We have been in the position, in the past, where we unfortunately had to fail a candidate because that candidate did not achieve the 40% subminimum in two of the 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!!

DETAILED COMMENTS ON EACH OF THE FOUR PROFESSIONAL PAPERS

PROFESSIONAL PAPER 1

Paper 1 consisted of a 100-mark question, consisting of two parts that dealt with the following aspects:

Part I

- (a) Candidates had to prepare the pro forma consolidation journal entries to be processed by a group to account for one of the companies in the group in its consolidated financial statements for FY2023. Candidates were required to –
- show any re-measurement gain or loss separately;
 - ignore taxation; and
 - round all amounts to the nearest rand.
- (b) On the assumption that a financial institution's offer to purchase non-performing customer accounts is accepted, candidates had to –
- (i) calculate the amount that can be recovered from the sale of non-performing customers; and
 - (ii) briefly explain the reasoning for the recognition of the amount of the loss allowance in accordance with IFRS 9.

Part II

- (c) A discussion on whether the auditors will be permitted, in terms of the Companies Act and the SAICA Code of Professional Conduct, to prepare the journal entries related to the sale of the shares in one of the subsidiaries.
- (d) Candidates had to describe, with reference to the information contained in section 7, the tests of detail the auditor should perform to obtain sufficient and appropriate audit evidence –
- (i) about the fair value loss recognised in the separate financial statements of a company in the group; and
 - (ii) in auditing the investment in the associate included in the consolidated financial statements of the group.
- Candidates had to ignore any tests of detail related to the following:
- Taxation;
 - Assessing the competence of the accounting staff;
 - Transferring any unadjusted audit differences to the schedule of unadjusted audit differences; and
 - Obtaining a schedule and tracing it to the trial balance and general ledger.
- (e) A description of the agreed-upon procedures you (as a trainee) would advise management to request the auditors to perform to identify any fictitious customers on the list of non-performing customer accounts.
- Candidates were not required to deal with the classification of a customer as a non-performing account.
- (f) A discussion of the following aspects that the group should have considered before changing from diesel generators to solar systems:
- (i) Governance and business ethics; and
 - (ii) Strategic and other qualitative factors.

Five communication skills marks were available for this paper. These marks were clearly and separately stated in the 'required' sections of each question.

PAPER 1 PART I

Maximum mark	Average mark	Number of candidates who passed	Number of candidates who wrote
41	15,69	250 (18,75%)	1 333

1 General comments on the degree of difficulty of the question

On an overall basis the question was assessed as moderate by an overwhelming majority of the providers. The overall view was that this part of the paper was fair although it tested principles that candidates generally find more challenging. Some providers indicated that it was easy and referred to it as being a 'textbook example' for a loss of control pro forma journal entry. This is something that is assessed frequently by providers. The IFRS 9 principles assessed were easy and straight forward within the context of how it was assessed.

Overall, the accounting principles that were tested were not technically that difficult, but candidates tend to find the concept and the accounting for a loss of control more challenging than other consolidation principles.

2 Feedback on the candidate responses

Overall, candidates that followed a structured approach in doing their calculations and presenting the pro forma journal entries performed fairly well in this question.

Common mistakes included the following:

- Candidates missed the fact that control was lost during the year and therefore did not account for the profit or loss and other comprehensive income line items in their pro forma journal entries.
- Candidates often had journal direction issues when providing the pro forma journal entries.
- Some candidates equity accounted the investment after control was lost although the question clearly stated that the retained investment did not result in significant influence or joint control.
- Candidate who followed the deconsolidation approach in their pro forma journal entries commonly became confused and got the direction of the pro forma journal entries incorrect.
- Candidates did not identify that lifetime expected credit losses should be calculated due to the fact that the trade and other receivables does not contain a significant financing component.

3 Feedback per each required section of the part

3.1 Areas that candidates handled well

Part (a)

- Analysis and reserves: The majority of candidates effectively analysed and calculated marks for showing at acquisition and since acquisition reserves.
- Workings shown: Candidates provided their workings, aiding transparency in calculations and methods used.
- Despite the challenging nature of the question, candidates with a strong grasp of group accounting principles performed better.

Part (b)(i) and (ii)

- Theory application: Some candidates showed good understanding and application of IFRS 9 theory.

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

Part (a)

- NCI journal entries: Entries for non-controlling interest (NCI) were attempted, although some candidates had directional confusion.
- Remeasurement gains: Candidates generally calculated remeasurement gains both in individual statements and at the group level, despite the complexity in methods. However, candidates did not clearly indicate whether they were calculating the gain in the separate AFS or in the consolidated AFS.
- Alternative confusion: There was confusion among candidates regarding the type of alternative (6-month consolidation vs. 100 consolidation and then deconsolidate).
- NCI treatment: Many candidates were uncertain about how to handle NCI, often recalculating fair value gains and incorrectly attributing them to NCI.
- Calculation issues: Candidates struggled with accurate calculation of gains on disposal and remeasurement gains.
- Communication and narration: Candidates frequently failed to communicate effectively, omitting explanations or narrations that would have clarified their entries.
- Missed easy marks: Many candidates overlooked straightforward marks such as recognising income and expenses separately or providing correct journal descriptions. Very few candidates raised journals for the profit or loss and other comprehensive income items.
- Consolidation entries: There was a general weakness in consolidation journal entries, including derecognition of subsidiaries and incorrect handling of current year profits and expenses.

Part (b)(i)

- Overall, candidates often were not able to calculate the amount to be recovered, namely be the amount net of the allowance for the credit losses.

Part (b)(ii)

- In general, candidates did not consider lifetime expected credit losses as the allowance although it was clear that there was no significant financing component.
- A lack of this technical knowledge resulted in candidates not being able to explain why lifetime expected credit losses should have been used to measure the allowance.

PAPER 1 PART II

Maximum mark	Average mark	Number of candidates who passed	Number of candidates who wrote
59	25,28	237 (17,78%)	1 333

1 General comments on the degree of difficulty of the question

- Overall, this question was rated easy, or moderate to difficult depending on a subsection, leaning towards moderate. Candidates in general struggle with applied discussion questions.
- The scenario was unambiguous and manageable in terms of length; the presentation thereof was also in a very well-organised manner.
- The scenario was also quite relevant to the current environment, as it covered large retailers in the fast-moving consumer goods industry; this allowed for candidates to provide practical applications in their responses.

2 Feedback on the candidate responses

Most candidates struggled to give meaningful answers on all required parts of this question.

The general concern noted was the lack of application in most parts of the question; candidates understand the theory on most topics, but when such theory must be applied, there are shortcomings that show through.

3 Feedback per each required section of the part

3.1 Areas that candidates handled well

Part (c)

- Candidates did well in this section.
- The required directed the candidates to the Companies Act and the SAICA Code of Professional Conduct, which assisted the candidates with answering the question.
- Many candidates correctly identified that assistance with the journal entries is considered bookkeeping services and that the client is a listed entity; therefore, these services are not allowed.

Part (d)(i)

Candidates managed to obtain the easy marks, such as recalculation and obtaining a management representation letter.

Part (d)(ii)

Candidates managed to obtain the relatively easy marks, such as recalculation, inspection of bank statement and management representation letter.

Part (e)

Candidates identified the following two procedures to be performed to address the risk of fictitious customers (debtors):

- Inspection of the bank statement (for receipts from customers).
- Sending out debtors' confirmation/directly confirming with the debtor (through various methods).

Part (f)(i)

Candidates identified that the use of supplier, not on the approved supplier list, without following the procurement processes, is an area of concern (governance; not acting in best interest).

Part (f)(ii)

Candidates managed to identify the relatively 'straightforward' considerations such as –

- solar panels being environmentally friendly (as opposed to generators which are not);
- high running cost of generators (diesel costs); and
- the unreliability of the supplier that will be used for the supply of the solar, which may not provide quality service (not on approved supplier list).

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

Part (c)

- Candidates focused primarily on the CoPC. The candidates focussed less on the Companies Act for this part.
- There were several candidates who contradicted themselves (e.g., by concluding that auditors may perform journals in terms of the Companies Act but not the CoPC, or vice versa).

Part (d)(i)

- Candidates struggled to link the required to Jessica being an expert, and therefore lost out on all the marks relating to management's expert procedures. Also, because candidates missed out on this important element, they also missed out on procedures around appointing an auditor's expert.
- Candidates also missed out on marks relating to the estimate, i.e., assumptions, developing a point estimate etc.

Part (d)(ii)

- The substantive procedures that required the candidates to understand and ‘think’ about the entries in the consolidated financial statements, were not addressed by the candidates.

Part (e)

- Many of the candidates seems to have misread the required here and ended up producing pure substantive procedures instead of agreed-upon procedures that they would advise management to request the auditors to perform. As such, there was an evident challenge with how candidates phrased their responses to this required.
- Also, the majority of candidates just focused on substantive procedures around debtors’ confirmations, which is not what the required asked. Candidates’ responses focussed on discussion of the whole process around sending out the confirmations, that it must be under control of ‘auditor’, etc.

Part (f)(i)

- This section was not well answered as it required deep thinking and critical thinking with an application on governance and business ethics from candidates. The main issue here was candidates did not apply the scenario to governance or business ethics and just wrote down the theory.

Part (f)(ii)

- Candidates’ responses to the last question were sometimes short and not really aimed at determining the key strategic issues.
- Candidates also struggled with providing sufficient strategic considerations and qualitative factors for a 20-mark question.
- The cost aspects of this project were not discussed in detail (i.e., working capital requirements; funding alternatives etc).
- Candidates either focused on generators or solar and not both, which contributed to the poor responses.

PROFESSIONAL PAPER 2

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

Question 1

- (a) Candidates were required to perform, outlining key assumptions, an EBITDA multiple earnings-based valuation of the shareholding of one of the partners (Petrus) as at 31 December 2023.
- (b) An identification and explanation of the key strategic considerations for the company resulting from Petrus leaving the company.
- (c) A critical evaluation of the two performance incentive options and candidates had to advise the directors which of the two the candidate would recommend.
 - Candidates did not have to consider the tax consequences for either the employees or the company.
- (d) Candidates had to discuss the normal tax and employees’ tax consequences of –
 - a share option scheme; and
 - a bonus bank schemefor the company and for its employees.

Question 2

- (a) Candidates had to calculate an accrual claim and also had to state why the claim belongs to the wife (Grace).
- (b) Candidates had to discuss the estate duty implications (including liability for payment) of the life policy taken out by Grace on the life of her ex-husband (Itumeleng) in the event of his death.

- (c) A calculation of the normal tax payable (if any) by Itumeleng and Grace in respect of the lump sums awarded to Grace in terms of section 37D(4)(b)(ii) of the Pension Funds Act from Itumeleng's pension fund.
- (d) A calculation of the effects of the divorce agreement (only in respect of maintenance payments and medical aid contributions, accrual claims and legal costs relating to the divorce) on the taxable income of Itumeleng for his 2023 year of assessment.
- Candidates had to provide reasons for nil effects.
- (e) A calculation of the normal tax payable by or refundable to Grace for the 2023 year of assessment. Candidates had to –
- provide reasons for nil effects;
 - where an amount is fully exempt, include a reference to the legislation for both the gross income inclusion and the subsequent exemption; and
 - exclude all amounts calculated in part (d).

Five communication skills marks were available for this paper. These marks were clearly and separately stated in the 'required' sections of each part.

PAPER 2 QUESTION 1

Maximum mark	Average mark	Number of candidates who passed	Number of candidates who wrote
50	24,04	709 (53,23%)	1 332

1 General comments on the degree of difficulty of the question

A fair paper testing valuation principles, strategy and performance management, including taxation principles related to a share option scheme and bonus bank scheme.

The scenario was practical and relevant. However, the open-ended nature of the required may have increased the level of complexity.

There was a fair balance between discussion and calculation questions and a good integration between management accounting and finance and tax.

Part (c) of the required asked candidates to critically evaluate the performance incentive options (share option scheme and the bonus bank scheme), which made the question more challenging. It was, however, a well-balanced question offering candidates who applied their minds to the two options, an opportunity to score well.

There was a good level of integration between the employees' tax and normal tax implications as it relates to both the share option scheme and the bonus bank scheme in part (d). However, the open-ended nature of the required (no specific year of assessment or taxing event was triggered) resulted in some candidates considering a multitude of normal tax and employees' tax implications. The integration between the employees' tax and normal tax from both the employer and employee's tax perspective increased the level of complexity.

2 Feedback on the candidate responses

Exam technique

- Candidates did not adequately plan for the discussion responses as some needed viewpoints from different situations (i.e. share option scheme vs bonus bank scheme) and from different perspectives (i.e. taxpayers).
- With the valuation calculation, most candidates correctly identified the valuation method and answered the required.

- Candidates who performed well were those with good planning skills.

Time management

- Candidates overspent time on part (a), unnecessarily re-writing the financials for all the years only to average it at the end. This may be an indication that candidates could not decide on which information to use (lack of planning). The impact was some rushed responses in the other parts of the required.
- Candidates who performed well were those who dedicated the appropriate amount of time to each part of the required.

Communication

Most of the candidates' responses were clearly articulated.

Layout, structure and presentation

The layout and structure of part (a) was done well.

Relevance

In some instances, candidates reproduced the information in the scenario without any application to the required.

Recommendations

- Planning is critical for such questions. Candidates should not rush into responding without first understanding the required and planning the response. This will ensure that time is spread reasonably over all the required parts.
- The number of marks allocated to each part of the required should indicate the amount of time to be spent on each part of the required.

Workings (and references to workings)

Some candidates provided workings without referencing the workings to a final answer.

2 Feedback per each required section of the question

3.1 Areas that candidates handled well

Part (a)

- In most instances, candidates correctly identified the operating profit starting point and the adjustments to make for maintainable earnings. Candidates were able to identify the correct multiple being EBITDA and not a PE ratio.
- Candidates who made a decision and had a rationale on which year to use as their base year for the valuation performed well as they optimised their time.
- Most candidates were able to correctly identify the comparable company, i.e., Eureka Pets (Pty) Ltd or Organica.
- Most candidates were able to correctly elaborate on why they were adjusting the earnings multiple of the comparable company.
- Most candidates were able to calculate the total company value based on the maintainable EBITDA and adjusted multiplier.
- Most candidates were able to calculate the value of Petrus's share.
- Several candidates correctly included the financial implications of future strategic items like the rent, moving costs and savings in salary as a result of Petrus leaving.

Part (b)

- Some candidates were able to utilise the scenario to identify the strategic concerns that would arise once Petrus was no longer part of Ultra Canin.
- Several candidates identified and addressed the loss of savings in rental.

Part (c)

- Most candidates addressed the cash bonus bank scheme.

- Some candidates were able to succinctly evaluate both the share option scheme and bonus bank scheme and provided logical reasons for each.
- Most candidates concluded which of the two options would result in the most benefit for the employee vs the employer.
- Candidates understood the cash flow impact between the two performance incentive schemes.

Part (d)

- Some candidates correctly scoped themselves in s8C and differentiated between the implications of the share option scheme on grant and exercise date for both the employer and the employee.
- Most candidates were able to identify that the bonus would form part of remuneration in terms of the Fourth Schedule, and Ultra Canin should withhold employees' tax.

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

Part (a)

- Several candidates did not optimise their time by either starting with revenue or profit after tax as opposed to operating profit.
- Several candidates did not make any adjustments for non-operational activity items.
- Some candidates did not provide reasons as to why they were using a specific year as their benchmark.
- Some candidates used an average of the three years without providing a reason.
- In some cases, candidates identified that adjustments had to be performed. However, the adjustments were in the wrong direction.
- Some candidates included changes in working capital in the calculation of the maintainable EBITDA.
- Some candidates also used the free cash flow valuation method, which was not required.
- Some candidates incorrectly identified the comparable company.
- Some candidates used the PE multiplier instead of the EBITDA multiple.
- Several candidates did not consider the non-operating assets and liabilities to determine the value of Petrus's share.
- Most candidates included the full R31 million as the value of the NCI or added it back instead of subtracting it.

Part (b)

- Where candidates were unable to correctly identify Petrus's role in the success of the company, they fell short of the required.
- Some candidates 'dumped' general strategic considerations that were not applicable to the scenario.
- Many candidates did not adequately address the impact on the company's future due to Petrus leaving, such as how future funding would be acquired and the success of the company without the health stores.
- There were instances where operational issues as opposed to strategic considerations were addressed.

Part (c)

- Candidates who neglected to plan their responses to address both the share option scheme and the bonus bank scheme fell short of the required.
- Some candidates discussed IFRS 2, share based payments accounting implications.
- Many candidates did not address the dilutive effect should the share options scheme be chosen.
- Some candidates discussed the tax considerations of the different schemes, even though it was excluded from the required.

Part (d)

- Most candidates could identify the correct legislation to apply to the different schemes. However, not all of those candidates could follow through on the tax consequences.
- The majority of the responses lacked application to the scenario.
- Some candidates did not differentiate between the tax implications for both employer and employee in the two options.

- Most candidates incorrectly concluded that at the grant date, the share option scheme would be deductible for the employer and neglected to address the increase in contributed tax capital for Ultra Canin on vesting.
- Most candidates did not differentiate between the tax implications of the share option scheme at the grant and the vesting date.
- Some candidates incorrectly stated that the employer would have to account for capital gains tax on the exercise of the option upon the vesting date.
- Some candidates concluded that the employer did not have any employees' tax implications on the share option scheme.
- Most candidates concluded that the bonus would be included in the gross income of the employee when it is accrued to them, not considering the effect of s7B.
- Many candidates failed to address the concept of variable remuneration and therefore did not address when the normal tax implications would arise.
- Candidates failed to identify that the bonus would be paid out 25% in the first year and the remaining 75% in future years of assessments.
- Contrary to the required, some candidates did not address both taxpayers.

PAPER 2 QUESTION 2

Maximum mark	Average mark	Number of candidates who passed	Number of candidates who wrote
48	23,63	609 (45,72%)	1 332

1 General comments on the degree of difficulty of the question

The question was practical and relevant, considering the reality of the post-Covid increase of divorces in South Africa. The question paper was well laid out and easy for candidates to navigate.

The question was well integrated within the tax examinable pronouncements and required candidates to demonstrate competence in income tax and estate duty. There was sufficient breadth in covering two different taxpayers and included both calculation and discursive types of questions. In parts (b) and (c) candidates were expected to apply judgement in deciding which taxpayer would be liable for the estate duty and income tax respectively.

The question was assessed at a moderate level and contained a sufficient spread of easy, moderate and difficult marks, with more moderate calculation required parts.

Candidates struggled with the tax implications of divorce settlements in parts (d) and (e) and displayed a limited understanding of the application of s9HB, foundational capital gains tax concepts and the tax treatment of share dealers.

2 Feedback on the candidate responses

Exam technique

Many candidates presented solutions with unclear arguments and incoherent calculations. In addition, in presenting solutions candidates often addressed the incorrect tax implications, provided incorrect section references (where required) and failed to clearly identify which taxpayer they were dealing with. Most candidates failed to present solutions in logical structured format. Candidates seemed to lack the required technical knowledge resulting in not appropriately answering/poorly attempting this question.

Time management

Candidates who started with part (e) ended up with less time to attempt the other parts. Candidates were not able to manage

their time well and this resulted in some candidates not completing all the required sections. Candidates also tended to write more information than was necessary, which wasted time that they could have been used in other parts.

Communication

Candidates should pay attention to the use of correct terminology. Candidates cannot refer to a deduction as an exemption and vice versa. Candidates tended to repeat themselves saying the same thing over and over.

Layout, structure and presentation

Candidates displayed poor layout, structure and presentation of their responses, resulting in lost communication marks. Candidates failed to properly follow the taxable income framework. Common mistakes were including 'rebates' as a deduction in 'taxable income' and completing capital gains/losses at the start of the tax computation. In part (e), while it was commendable that most candidates used a three-column layout, the columns often did not have headings. This led to incorrect placement of items, particularly capital gains, and the omission of previous taxes paid, which could have reduced the calculated tax. In addition, in part (e) candidate failed to add brackets or negative signs for deductions and reductions.

Relevance

Some candidates failed to apply relevant tax legislation to the scenario. This included making references to the Value-Added Tax Act No. 89 of 1991, which resulted in missed opportunities to secure easy marks.

Recommendations

Candidates are strongly advised to plan their responses in relation to the required and consider the mark allocation. In a required where a conclusion is required – make sure the conclusion is in line with the required. Always present your solution in a format that is logical and easy to follow.

3 Feedback per each required section of the question

3.1 Areas that candidates handled well

Part (a)

- Most candidates performed well in this part.
- Candidates were able to identify that Grace's accrual of R50 000 would be reduced against Itumeleng's estate and correctly apportioned the net accrual by 50%.

Part (b)

- Most candidates identified that the life policy would be deemed the property of Itumeleng upon his death.
- Furthermore, candidates who did well understood the deemed property provisions in s3(3)(a) and correctly concluded in terms of s11(b)(i) on whom would be liable for the estate duty.
- Candidates correctly noted the value of the deemed property would be the amount of the proceeds less/reduced by the sum of the premiums paid by Grace plus interest at 6% per annum on such premiums paid.

Part (c)

- Most candidates correctly calculated the lump sum amount due to Grace using the retirement fund lump sum withdrawal table.
- Candidates correctly deduced the transfer in terms of para. 6(1)(a) of the Second Schedule in determining the lump sum included in gross income.

Part (d)

- Candidates identified that maintenance and legal costs were not deductible.
- Candidates correctly identified the base cost on the Bailey shares and the primary residence.
- Candidates who identified that the Bailey shares were held for at least three years applied s9C correctly.

Part (e)

- Most candidates provided valid reasons for amounts that had nil tax effects.
- Most candidates identified the inclusion of maintenance due to the specific inclusion para. (b) of the gross income definition and applied the s10(1)(u) exemption correctly.
- Most candidates included Grace's commission income in gross income.
- Candidates presented the taxable capital gain calculation in the correct format.

3.2 In what respect candidates' answers are considered to fall short of requirements**Part (a)**

- Several candidates attempted to work out the value of the estates despite this already being given, and this would have caused them to waste time.

Part (b)

- Many candidates failed to identify that the policy was a domestic policy and did not discuss the fact that Grace was dependent on Itumeleng for maintenance.
- Some candidates dealt with the normal tax implications of the amounts to be received by Grace in the event of Itumeleng's death as opposed to the estate duty implications.
- Most candidates did not identify that because the policy proceeds do not accrue to a surviving spouse it will not qualify for a s4(q) deduction.
- Candidates failed to address that the executor of Itumeleng's estate would be able to recover any estate duty attributable to this amount from Grace in terms of s13 of the Estate Duty Act.

Part (c)

- Some candidates failed to clearly identify the tax consequences for Grace and Itumeleng.
- Candidates either did not comment on the non-deductibility of the previous contributions to the pension fund or incorrectly used it in the calculation.
- The calculation of theoretical tax on previous lump sums was often done using the current-year lump sum instead of the previous withdrawals.
- At times candidates applied the incorrect tax tables including using the normal tax tables or using a retirement fund lump sum table.

Part (d)

- Most candidates failed to identify that s9HB would be applicable on the disposal of the assets by Itumeleng to Grace.
- Most candidates did not disregard the capital gains/losses in Itumeleng's taxable income calculation.
- Many candidates did not account for the accrual amount in cash.
- Many candidates calculated the capital gain on the disposal of the assets at proceeds equal to market value and in that incorrectly applied para. 38, whereas the proceeds should have been Rnil.
- Candidate displayed poor understanding of the income tax consequences relating to share dealers. Candidates treated all shares as capital in nature and calculated a capital gain instead of dealing the shares as trading stock.
- In contrast where candidates identified that the shares were held as trading stock, candidates would only deal with the opening stock component, not the ss 9HB or 9C recoupment
- Most candidates did not address the application of s9C.
- Several candidates calculated the normal tax payable for Itumeleng instead of calculating the effects on his taxable income as required.

Part (e)

- Some candidates included calculations for Itumeleng instead of Grace in part (e).
- Many candidates failed to score relatively easier marks in this part such as dealing with gross income and exemptions,

application of the tax tables and the rebates.

- Many candidates wasted much time redoing calculations from part (c) in part (e).
- Some candidates did not carry forward their rationale from part (c) to part (e) or did not provide a reason.
- A considerable number of candidates carried forward amounts from parts (d) relating to the Astra and Bailey share incorrectly, mixing up the trading stock with the CGT distinction.
- Some candidates incorrectly used an 80% CGT inclusion rate. In contrast some candidates included 40% of an assessed capital loss or Rnil, into taxable income.
- Some candidates failed to include the CGT calculation as the final inclusion into taxable income.
- Many candidates used the incorrect or a prior year of assessment tax tables.
- Some candidates 'deducted' rebates from taxable income instead of reducing it from tax per the tax tables.
- Candidates did not address the additional medical tax credit in terms of s6B. Even though Grace was not entitled to a s6A rebate, Grace had medical expenses which would qualify for the rebate in terms of s6B.
- In calculating the normal tax payable or refundable, some candidates added back the employees' tax instead of deducting the amount.

PROFESSIONAL PAPER 3

Paper 3 consisted of a single question that dealt with the following aspects:

Part I

- (a) Candidates had to critically evaluate the tasks performed by ChatGPT as part of a company's process of identifying and evaluating the suitability of the potential investment in an emerging company (ACL), based on –
- (i) the earnings-based valuation of ACL performed by ChatGPT; and
 - (ii) the additional work required to assess the reasonability of the forecast income statements (apart from the work already performed by ChatGPT).
- Candidates did not have to perform any calculations or re-perform any of the calculations provided by ChatGPT.
- (b) Candidates were required to perform a valuation of ACL using the free cash flow valuation methodology.
- Candidates had to start with the movement in cash.
- (c) A discussion of the risks and other relevant strategic factors that the company should consider regarding the decision to make use of an AI such as ChatGPT in performing the valuation of companies that are potential investment opportunities.

Part II

- (d) Candidates had to discuss and conclude on the ethical considerations surrounding the proposal by the company's executives to use ChatGPT to replace the team of financial analysts and investment specialists.
- (e) A description of the controls that the company's management should have implemented with regard to –
- (i) the investment process as described in the background information, excluding the payment process and human resources department controls, in addition to those already described in the scenario.
 - Candidates had to limit their answers to four additional controls; and
 - (ii) protecting the company against cyber attacks.
- (f) A discussion of the governance concerns surrounding the bonus and share option schemes.
- Candidates had to include appropriate and applicable considerations in terms of the SAICA Code of Professional Conduct.
 - Candidates did not have to include aspects to be considered in evaluating or addressing the threats identified.

- (g) A description of the procedures that the company's consultants should perform as part of their due diligence to identify possible unrecorded liabilities and contingent liabilities not accounted for in the financial statements of target companies.
- (h) Candidates had to describe, with reference to the external audit of ACL for FY2023 –
- (i) the risk of material misstatement related to the right-of-use assets; and
 - (ii) the substantive procedures to verify the right-of-use assets that ACL's auditors should perform.
 - Candidates did not have to address presentation and disclosure in their answers.

Five communication skills marks were available for this paper. These marks were clearly and separately stated in the 'required' sections of each part.

PAPER 3 PART I

Maximum mark	Average mark	Number of candidates who passed	Number of candidates who wrote
47	17,75	97 (7,28%)	1 332

1 General comments on the degree of difficulty of the question

Overall, part I was considered to be moderate to difficult. The major reason is that part (c) presented a challenge to candidates who find it difficult to work backwards from the movement in cash to perform a discounted cash flow valuation. However, this is not the first time that the ITC has assessed discounted cash flows in this manner.

Parts (a)(i) and (c) was considered fair to moderate difficulty. The difficulty level of part (a)(ii) is mitigated by the fact that it only counts four marks.

2 Feedback on the candidate responses

Exam technique – candidates who did well were those who were able to take the time to exactly understand what the required was asking of them, particularly in parts (a) and (c).

Communication – candidate responses to part (c) showed a lack of logical argument, as many candidates posed questions of risks to consider instead of articulating why something was a risk.

Relevance – candidates' answers to part (c) often lacked application to the use of AI in the investment process for the company.

Workings (and references to workings) – in some attempts on the free cash flow question in part (b), some candidates had workings which they did not use on the face of their free cash flow or which they did not cross-reference appropriately.

3 Feedback per each required section of the part

3.1 Areas that candidates handled well

In part (a)(i) candidates were able to apply the basic principles of multiple valuations to criticise the valuation performed by ChatGPT.

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

Part (a) (ii)

- Candidates could not demonstrate that they were able to criticise uncertain future information.
- While the required was focused on forecast information, some candidates focused on verifying historic information.

Part (b)

- Candidates struggled to work backwards from the movement in cash.
- Most candidates performed the discounted cash flow movements from scratch, completely ignoring the explicit instruction to start with the change in cash.
- Their attempts seem to indicate that there is a need for providers to expose candidates to different starting points when preparing a discounted cash flow. Similar questions have also been assessed in the ITC previously.

Part (c)

- This was a fairly opened-ended strategic, risk and other qualitative factors discussion question. Candidates generally tended to either struggle to generate enough points in questions like these OR they raised generic points which were not relevant to the scenario.
- Many candidates raised generic points that were not relevant to the use of AI in the investment process for this particular company.

PAPER 3 PART II

Maximum mark	Average mark	Number of candidates who passed	Number of candidates who wrote
53	23,93	614 (46,10%)	1 332

1 General comments on the degree of difficulty of the question

Overall, this part of the question was assessed as moderate. While there were some challenging parts, overall candidates had an opportunity to score well on the fair to easy parts.

- The paper was interesting and innovative but challenging.
- The length of the paper was appropriate, but candidates struggled because of the unusual (but very innovative, topical and relevant) inclusion of AI and the sheer volume of information.
- The reference of ChatGPT was topical, and the inclusion of an ethical issue around the use of AI was thoughtful.

Part (e)(i) was deemed challenging due to the nature of the question, being controls over an investment cycle for a private equity firm. Candidates were not always able to relate to the cycle, an aspect which required higher order thinking.

Part (f) refers to the CoPC, but the scenario was not clear in defining designations of the various directors and an executive of one of the companies.

Part (h) required candidates to have a solid knowledge of IFRS 16 *Right of Use Assets* to appropriately formulate risks and substantive procedures.

2 Feedback on the candidate responses

Exam technique

- Candidates appeared to attempt all parts of the question except for part (e)(i) where the responses were very limited. This was because part (e)(i) was challenging. This is in line with the expectations of the providers and Examco, as it was the most difficult part of the paper.
- Planning of answers and good exam technique was not too often apparent. Candidates as a result defaulted to lack of

application on various aspects, especially the substantive procedures and risk of material misstatements.

Layout, structure and presentation

- Overall, the layout and structure for each part was fairly considered by the candidates and presented appropriately.
- On part (f) candidates defaulted mainly to the CoPC without consideration of other governance structures that could have been used to answer the required in more detail.

3 Feedback per each required section of the part

3.1 Areas that candidates handled well

Part (d)

- The majority of the candidates performed very well in this part.
- Candidates showed a good understanding of the impact that ChatGPT would have on staff being retrenched.

Part (e)

- Candidates performed well in part (e)(ii) on controls to avoid cyber-attacks.
- Some of the candidates were able to clearly identify and appropriately explain the controls.

Part (f)

- Although the scenario and required did not state that the CFO was a CA(SA), the required specifically stated that the CoPC should be considered, and majority of the candidates answered this part by making use of the CoPC. Most candidates therefore made the correct assumption that the CFO was a CA(SA).

Part (g)

- The candidates did reasonably well in this question. They were able to describe procedures that were appropriately linked to the risk of unrecorded liabilities and contingencies for the purpose of performing a due diligence on target entities.

Part (h)

- In part (h)(i) the candidates were able to identify and address risks due to the complexity of the IFRS 16 standard and the inexperienced staff members.
- In part (h)(ii) candidates appropriately described procedures around the existence of the ROU.

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

Part (d)

- Some candidates wrote too much for four marks, which could have unnecessarily caused them to lose time.
- It was also noted that although more than enough issues were discussed, many candidates did not come to a conclusion at the end of their discussions.

Part (e)(i)

- Candidates generally failed to identify the broader controls (high-level process controls) and consequently fared poorly in this required.
- Several candidates dumped detail 'application-level' controls, especially on reviewing and approval of detailed investment procedures, but these were not applicable.
- In other instances, candidates also duplicated the controls already mentioned in the scenario; or they made assumptions on how the process worked to 'force' detailed controls on it. This did not earn them marks.

Part (f)

- Some candidates could identify the correct threat and fundamental principle, but the lack of give proper application of the issue at hand lost them marks.

- There were quite a few candidates who also elaborated on governance concerns using King IV and by far the minority also included the Companies Act.
- The majority of candidates used the CoPC as the starting point for their discussion. This could be because the required specifically stated that the CoPC should be considered.

Part (g)

- Although the candidates performed fairly well, quite a few candidates struggled to formulate the procedures correctly, which then cost them some marks.

Part (h)(i)

- Candidates identified risk factors but failed to sufficiently explain why these were risks, thus lacking application.
- Application of IFRS 16 technical aspects was not evident as most candidates would merely state that there was a risk that depreciation was incorrect without providing an explanation.
- Candidates struggled to formulate valid risks at assertion level for the right-of-use asset, again providing generic statements with little explanation of their possible impact.

Part (h)(ii)

- Many candidates did poorly in this question because they did not formulate the procedures correctly as per the ISA (Lack of appropriate use of terminology linked to inspection, recalculations, etc.).
- Some substantive procedures listed were generic, lacking an appropriate demonstration of how, what and why a procedure should be performed.

PROFESSIONAL PAPER 4

This paper consisted of two stand-alone questions, which dealt with the following aspects:

Question 1

- (a) Candidates had to calculate the consolidated profit of a group of companies from continuing operations for FY2023 after consolidating a subsidiary.
Candidates had to –
- ignore taxation;
 - show any fair value adjustment or remeasurement separately in their calculations; and
 - ignore all adjustments relating to a cash-generating unit.
- (b) A discussion of five concerns that the candidate may have about the calculation of the value in use for the cash-generating unit, and for each concern, the provision of the appropriate treatment.
- Candidates had to limit their discussion to issues for which there is evidence of inaccuracies, inconsistencies, errors in application and/or non-compliance with IFRS in the scenario.
- (c) The preparation, on the assumption that the group decided to sell the cash-generating unit, of the analysis of the single amount in respect of the discontinued operation in profit or loss in terms of IFRS 5.33b for inclusion in the notes to the consolidated financial statements of the group of companies for FY2023.
Candidates had to –
- indicate the allocation of the impairment loss to the respective assets in their calculations;
 - round and present all amounts in R'000;
 - not split any income tax expense between current tax and deferred tax;
 - not provide a disclosure of information relating to any allocation to the owners of the parent or the non-controlling interests; and
 - not provide comparative amounts.
- (d) Using the information provided on the performance for FY2023 and on the target revenue, cost-volume and

profit for the cash-generating unit, and on the assumption that the group adopted the option of moving the cash-generating unit to Botswana, candidates had to –

- (i) calculate the amount by which the current gross profit should increase to reach the target gross profit of the cash-generating unit in FY2024;
 - (iii) calculate the sales value required for the cash-generating unit to achieve the target gross profit for both the South African and Botswana operations in FY2024; and
 - (iii) calculate and conclude, taking into account their answers to part (d)(ii) above, the impact that the move to Botswana will have on the cash-generating unit's profitability.
- (e) A determination, assuming the group moved the cash-generating unit to Botswana and based on the information provided regarding strategic considerations, financial information and selected ratios, the strategies that could have been used to ensure that the cash-generating unit remained solvent and liquid following the move to Botswana.

Question 2

- (a) Candidates had to prepare the pro forma consolidation journal entries to account for all intragroup transactions in the consolidated financial statements of a group of companies for FY2024.
- (b) A discussion of whether the candidates agree with the inventory manager's decision to buy the shipping containers from an unrelated container company, with reference to the good for self and good for others approach and the utilitarian ethical theory.
- (c) Calculate the revenue that the group should recognise in accordance with IFRS 15 *Revenue from Contracts with Customers*, from the contract with a non-profit organization (Vuka Mzansi) for FY2024.
- (d) Candidates had to briefly discuss matters that should be considered during a brainstorming session regarding –
 - (j) the fact that Vuka Mzansi can obtain financing or generate income from the solar-powered innovation stations in the Eastern Cape;
 - (ii) the significant challenges that Vuka Mzansi will face while operating innovation stations in the Eastern Cape; and
 - (iv) the environmental impact of the innovation stations, particularly in rural areas.
- (e) Candidates had to prepare the pro forma consolidation journal entries to account for the effects of the civil unrest in the consolidated financial statements of the group for FY2024.
 - (i) Candidates had to ignore taxation.
 - (ii) Pro forma journal entries to account for non-controlling interest were not required.

Five communication skills marks were available for this paper. These marks were clearly and separately stated in the 'required' sections of each part.

PAPER 4 QUESTION 1

Maximum mark	Average mark	Number of candidates who passed	Number of candidates who wrote
50	18,64	148 (11,11%)	1 332

1 General comments on the degree of difficulty of the question

The question was assessed as moderate by the academic programme providers and as a fair and appropriate question for the ITC.

The number of required sections were noted as a possible cause of concern that could raise the difficulty level of the question.

Overall, candidates' performance in this question was disappointing.

Financial accounting

- Candidates failed to illustrate the necessary technical competence expected of a candidate at this level.
- For part (a), candidates struggled to calculate the consolidated gain or loss and remeasurement adjustment on the loss of control.
- For part (b), candidates failed to identify valid concerns with the value in use calculation.
- For part (c), a concerning number of candidates could not perform the required IFRS 5 disclosure and struggled to calculate the IAS 36 impairment loss.

MAF

- Providers mostly agreed that the MAF sections were not difficult and of a moderate difficulty level. However, some providers did indicate that they expected candidates to perform poorly due to some ambiguities in the question.
- Candidates might have struggled to understand exactly what was required of them in question (d)(ii), which could have impacted on their time management.
- For section (e) most providers agreed that there were sufficient available marks compared to the maximum for the question for candidates to perform well. However, the generic nature of the solution was noted as a possible cause of concern. Some providers mentioned that it would have posed difficulties for candidates looking to provide strategies that are primarily driven by the scenario as opposed to being more generic.

2 Feedback on the candidate responses

Time management: Candidates seemed to have had a problem with time management as section (e) was poorly attempted with several candidates not attempting it at all.

Relevance: Candidates' answers also often lacked application, and they listed generic points, especially in part (b) and in the strategy question (part (e)).

Technical knowledge: Overall, candidates' technical knowledge displayed for accounting was a concern with many technical errors in answers. This was also the case with Management Accounting where candidates for example could not apply the high-low method to separate fixed and variable costs.

3 Feedback per each required section of the question

3.1 Areas that candidates handled well

Part (a)

- Most candidates demonstrated an understanding of what was required, by calculating the consolidated profit or loss with adjustments for the effect of the loss of control.
- Candidates were also mostly able to reverse the profit or loss on the sale of the shares that was recognised in the separate financial statements of the parent.

Part (b)

- Candidates demonstrated good exam technique by only identifying five concerns, as was required.
- Most candidates included recommendations for the concerns identified.

Part (c)

- Most candidates did well to calculate the IAS 36 impairment loss.

Part (d)(i)

- Candidates seemed to understand what was required and they did relatively well on this section.
- Most candidates managed to calculate the target gross profit and current gross profit.
- They also used these amounts to determine the amount by which the current gross profit should increase. This was evident in the fact that part (d)(i) had the highest performance of the question.

Part (d)(ii)

- Most candidates recognised that they had to split the cost between fixed and variable cost and attempted to do so.
- Several candidates did apply the high-low method to determine the fixed and variable cost and applied the formula correctly, thus obtaining the correct answers.

Part (d)(iii)

- Some candidates did recognise that there were less fixed costs to cover and that it would have a positive effect on profitability.

Part (e)

- The candidates who listed sufficient points in this section performed well.
- Several candidates did manage to identify strategies that could be implemented to ensure that a cash-generating unit remained liquid and solvent following the move to Botswana.
- Some points were mentioned by several candidates, such as debtors' policy, inventory management, currency risk mitigation and back-up power solutions.

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

Part (a)

- Overall, candidates' attempts for this part of the question was weak.
- The majority of candidates included the profit of the subsidiary at 60%, which is incorrect since the consolidated profit includes non-controlling interest.
- Very few candidates reversed the remeasurement gain that was recognised in the separate financial statements of the parent.
- Furthermore, many candidates incorrectly included the current year profit of the subsidiary in the parent's interest of R4 700 000, which was a given amount on the date of disposal.
- In general, candidates struggled to calculate the group gain or loss and remeasurement adjustment in the consolidated

financial statements.

- Some candidates included amounts for the cash-generating unit, although the question noted that any adjustments relating to this should be ignored.

Part (b)

- Candidates struggled to identify a sufficient number of valid concerns with appropriate recommendations.
- Although many candidates identified that the R3 million termination benefits should not be included in the cash flows, the appropriate reason was often lacking.
- Furthermore, many candidates identified that no capital expenditure was included in the cash flows (since this was stated in the question) but failed to link it specifically to the replacement of a glass-cutting machine.
- Some candidates also included mainly theoretical considerations from IAS 36, with limited application to the scenario.
- A concerning number of candidates confused the IAS 36 value in use calculation with a free cash flow valuation, by recommending that the tax should be included in the cash flows and that an after-tax discount rate should be used (which is incorrect in terms of IAS 36) and also recommending that a terminal value should be included.

Part (c)

- A concerning number of candidates failed to include the required presentation / disclosure of the discontinued operation, and only included a calculation of the impairment loss, which was worth only three marks.
- Where candidates did include the required presentation / disclosure, they often did not show the effect on the income tax expense, thereby losing out on some marks.
- When calculating the impairment loss, some candidates did not limit the loss on the land to its own recoverable amount.
- Very few candidates calculated the amount of the impairment loss to be recognised in profit or loss (i.e. excluding land recognised in OCI and grossing down of goodwill), thereby losing out on marks.

Part (d)(i)

- Several candidates failed to calculate the target gross profit by applying mark-up on cost.
- Instead of applying the 25% mark-up to the cost, they calculated a 25% profit on sales.

Part (d)(ii)

- The first two marks were for splitting the total cost between variable and fixed cost using the high-low method. Most candidates recognised that they had to split the cost between fixed and variable cost but applied the formula incorrectly, showing a lack of technical knowledge.
- Overall candidates struggled with the rest of this required. There was no clear approach that the majority of the candidates seemed to have followed. Some candidates did mention that the correct target sales value was the R120 million.
- Many candidates calculated a break-even value but used the sales plus fixed costs instead of the target profit and fixed costs.
- Very few candidates calculated sales values for both Botswana and South Africa as required. Most candidates calculated one value (often not even stating clearly if this related to Botswana or current operations).
- Candidates clearly struggled with this section and in many instances this section was not attempted at all.

Part (d)(iii)

- Section (d)(iii) was a conclusion based on the calculations in section d(ii) and therefore not answered well.
- The majority of candidates did not attempt this section at all.
- Those who did, wrote generic statements such as that the profit would increase with the move to Botswana without basing the answer on any calculations or referring any of the answers to the previous sections.

Part (e)

- The performance of candidates in this section was disappointing as there were many available marks and the solution

included generic strategies to improve liquidity and solvability.

- Several candidates answered in cryptic bullet point format, which seemed to indicate time mismanagement.
- Overall, candidates did not write a lot on this part, with several candidates not attempting this part at all.

PAPER 4 QUESTION 2

Maximum mark	Average mark	Number of candidates who passed	Number of candidates who wrote
50	22,06	444 (33,38%)	1 331

1 General comments on the degree of difficulty of the question

The question was considered moderately difficult. Although part (d) may have been challenging, the question was well balanced with a good distribution of easy, moderate, and difficult marks, which should have allowed candidates sufficient opportunity to demonstrate their abilities. The question covered decision making, ethics and financial reporting (including groups, IFRS 15 (revenue) and IAS 36 (impairment of assets)).

Part a) was a fair assessment of undergraduate concepts. Apart from the intercompany discount (1 mark), this part assessed basic inter-company inventory journal entries.

Part b) was fair and there were numerous aspects in the scenario that candidates could have referred to.

Part c) was straight-forward and candidates generally did well in this part.

Part d) was challenging due to its discursive nature, which required candidates to 'think out of the box'.

Part e) was a relatively simple question assessing basic impairment principles.

2 Feedback on the candidate responses

Candidates who performed well in this question were those who attempted all the parts, were able to plan their answers, demonstrate a basic understanding of IFRS principles and apply their minds to the ethical dilemma. Candidates who clearly showed and cross-referenced their calculations and kept to the allocated time per part generally did well. However, many candidates did not show or cross-reference their workings. It is strongly suggested that candidates practice cross-referencing and to show calculations clearly by doing questions properly under exam conditions.

Candidates' who failed this question were those who did not demonstrate an understanding of inter-company sales, revenue from contracts with customers, impairment of a cash-generating unit and their answers lacked application (i.e., where a candidate failed to apply the requirements of a particular provision to the detail provided in the scenario – they merely rewrote the scenario without any context). Based on the available number of marks for the ethical dilemma in part (b) and the issues in part (d), candidates could have done well if they applied their minds.

Candidates should also work on improving their handwriting.

3 Feedback per each required section of the question

3.1 Areas that candidates handled well

Part (a)

- Candidates were generally able to calculate the 20/120 profit and candidates who eliminated the unrealised profit in the opening and closing inventories generally also managed to determine the tax effect correctly.
- Candidates illustrated good exam technique by including journal narrations, which earned them the communication skill mark.

Part (b)

- Generally, candidates performed well in this part. They were able to identify and discuss how the transaction was good / bad for various role players in the question.

Part (c)

- Candidates were generally able to identify the transaction price and allocate it based on the stand-alone selling prices.
- Candidates recognised that revenue from the sale of the innovation stations should be recognised in full in FY2024.

Part (d)

- Candidates performed better than expected in this part, considering providers' comments that this part required 'out-of-the-box' thinking.
- Candidates who identified that funding could be obtained from banks and other companies, identified on possible revenue stream, one challenge and one environmental consideration were able to pass this part.

Part (e)

- Candidates were generally able to calculate the goodwill and impairment loss by identifying the carrying amount and the recoverable amount of the subsidiary.
- Candidates also performed well in allocating the residual impairment loss to the PPE assets within the subsidiary.

3.2 In what respect candidates' answers are considered to fall short of requirements**Part a)**

- Apart from the intercompany discount (1 mark), this part assessed basic intercompany inventory journal entries. Candidates did not perform as well as expected in this part.
- For example, they did not eliminate unrealised profit in the opening balance of inventory and also eliminated the profit-share of current year sales, instead of eliminating current year sales in full.
- It was concerning to see how many candidates prepared at-acquisition journal entries, had 'bank' in their pro forma journal entries or prepared the journals in the separate financial statements or recorded the adjustment against an investment in subsidiary account.

Part (b)

- Many candidates failed to state and apply the utilitarian theory.
- There were a large number of issues in the scenario that the candidates could have applied, but on the whole their answers were very limited in scope.

Part (c)

- Many candidates did not recognise that revenue from the storage services transferred over time and did not include it in their FY2024 revenue calculation.
- Some candidates recognised revenue on a cash basis and recognised the 50% deposit received as revenue.
- The stand-alone selling prices of the innovation stations and the warranty services were given per unit as opposed to the stand-alone selling price of the storage services, which was given for total units combined.
- Many candidates added per units stand-alone selling prices to total stand-alone selling prices, with the result that they did not compare like with like.

Part (d)

- Many candidates failed to capitalise on the easy marks.
- There were 23 available marks and to pass this part candidates only had to identify one financing option, one new revenue stream, one challenge and one environmental impact (which would have also earned them the communication skill mark).

Part (e)

- Many candidates did not gross-up the goodwill and did not illustrate an understanding that the annual goodwill impairment test involved comparing the company's entire recoverable amount (given) with its entire carrying amount (not given).
- This is problematic when the goodwill is measured at the non-controlling interests' proportionate share of the acquiree's identifiable net assets, because the recoverable amount of the subsidiary will include goodwill attributable to both the parent and the non-controlling interests.
- In contrast, the goodwill recognised in the consolidated statement of financial position includes only the portion of goodwill allocated to the parent, which owns 80% interest in a subsidiary, and it measures non-controlling interests initially at a proportionate share of the net identifiable assets. This implies that the subsidiary's carrying amount would need to be restated to include the unrecognised non-controlling interests' portion of goodwill.
- Many candidates failed to allocate the impairment loss to the goodwill.