

**MARKERS' AND UMPIRES' COMMENTS
INITIAL TEST OF COMPETENCE
JANUARY 2022**

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 January 2022. Its objectives are to –

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

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

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

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

- Statistics for the ITC January 2022;
- Background information on the setting, marking and adjudication of SAICA examinations;
- General comments on the ITC January 2022; and
- Detailed comments on each of the four professional papers.

STATISTICS FOR ITC JANUARY 2022

The overall pass rate for the January 2022 ITC is as follows:

| | Jan 2022 | | | |
|-----------------------|-------------|-------------|-------------|------------|
| | FAIL | PASS | TOTAL | %PASS |
| All Candidates | 1207 | 1739 | 2946 | 59% |

Average marks per question (all candidates)

| | Paper 1 Q1 | Paper 1 Q2 | Paper 2 Q1 Part I | Paper 2 Q1 Part II | Paper 3 Q1 Part I | Paper 3 Q1 Part II | Paper 4 Q1 | Paper 4 Q2 | TOTAL |
|------------------|------------|------------|---------------------|--------------------|-------------------|--------------------|-------------|---------------------|--------|
| | ACC | SRMG & MAF | Audit, MAF & Ethics | TAX | ACC | Audit & Ethics | SMR&G & MAF | AUDIT, TAX & Ethics | |
| Maximum mark | 31 | 69 | 50 | 50 | 63 | 37 | 50 | 50 | 400 |
| National average | 14,91 | 35,71 | 23,34 | 21,93 | 34,77 | 20,65 | 25,98 | 26,67 | 203,97 |

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 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 SAICA's Initial Professional Development Committee (IPD), and takes overall responsibility for the setting of the examination papers. Examination questions are drawn from different sources:

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

In addition, two external examination sitters, who are independent of the exam setting process, are appointed to review the entire set of questions by writing the assessment before it is finalised. 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.

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 ITC Examco, question composers, subject specific reviewers and external examination sitters, is as follows:

| | | | |
|--------------------|-------------------|---------------------|-------------------|
| Alwyn Visser | Jack Jonck | Magda Turner | Ross Peasey |
| Alta Koekemoer | Jacobus Rossouw | Makhosazane Luthuli | Shana Brown |
| Anri Smit | Janine Claassens | Malwande Sivela | Shelly Nelson |
| Carmen Westermeyer | Elmarie Goodchild | Mandi Olivier | Stéfani Coetzee |
| Chuma Mjali | Gary Swartz | Marielienne Janeke | Sharon Munyaka |
| Denise Mare | Giel Pieterse | Melanie Marchbank | Surika van Rooyen |
| Depika Singh | Johann Steyn | Piet Nel | Thembi Kganane |
| Eihorere Wesigye | Kerry Pattinson | Reghardt Dippenaar | Veryl Mulder |
| Greg Beech | Lisa Vidulich | Reinhart Rudd | Zuleka Jasper |
| Helouise Burger | Lize-Marie Sahd | Robert Zwane | |

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.

3 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 academic providers for comment. The umpires review the providers' comments and make recommended changes to the suggested solution and mark plan for ITC Examco's approval. 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). 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 solutions and mark plans.

Marking of the ITC January 2022 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 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 awarded the final mark. The electronic tool automatically captures the final marks of all candidates and reports are prepared for ITC Examco to review.

Consistency marking was introduced in 2012, which entails that a pack of scripts are selected on a random basis by SAICA's Examinations Department, and the Candidate 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 umpires, together with their 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 markers 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 award marks.

4 Adjudication

Adjudication is a process during which the IPD Committee considers relevant evidence to determine whether the marks to awarded for each question should be adjusted. The IPD considers, amongst others, the following evidence:

- 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 IPD do not know the candidate details (including the raw pass mark) at the time the adjudication process takes place.

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.

It is important to note that no person from the academia who is a member of SAICA's IPD 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 or any information that may identify the candidates should not appear anywhere on their scripts.

5 Borderline review

In 2013 SAICA introduced a further process to ensure that 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 IPD 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. The marks during this process may either go up or down and each script is again assessed on a question by question basis. A sub-committee of the IPD 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 and as per the ITC Regulations, no request for re-marks will be entertained.

GENERAL COMMENTS ON THE ITC JANUARY 2022

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 | Tax | 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 | Tax | Management accounting and finance | Ethics (incl CoPC) | Communication | Total |
|--------------|-----------------------------------|--|---------------------|-----------|-----------------------------------|--------------------|---------------|------------|
| P1 Part I | 30 | | | | | | 1 | 31 |
| P1 Part II | | 35 | | | 30 | | 4 | 69 |
| P2 Q1 | | | 21 | | 19 | 8 | 2 | 50 |
| P2 Q2 | | | | 48 | | | 2 | 50 |
| P3 Part I | 60 | | | | | | 3 | 63 |
| P3 Part II | | | 23 | | | 12 | 2 | 37 |
| P4 Q1 | | 18 | | | 29 | | 3 | 50 |
| P4 Q2 | | | 21 | 20 | | 6 | 3 | 50 |
| TOTAL | 90 | 53 | 65 | 68 | 78 | 26 | 20 | 400 |
| % of total | 23% | 13% | 16% | 16% | 20% | 7% | 5% | |

3 Overall comments on the papers

The January 2022 ITC examination was considered to provide a fair assessment of technical competence overall, with a mix of easier and 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 two required parts. The first dealt with accounting and external reporting, and the second with strategy, risk management and governance, taxation and management accounting and finance.
- Paper 2 consisted of two questions, the first dealing with audit and assurance, management accounting and finance and ethics, the second with taxation.
- Paper 3 consisted of a single scenario with two parts. The first part of the required dealt with accounting and external reporting and the second part with audit and assurance and ethics.
- Paper 4 consisted of a two separate questions. Question 1 examined strategy, risk management and governance, taxation and management accounting and finance and question 2 assessed taxation and audit and assurance.

4 General comments

From a review of candidates' answers to the eight required sections for the ITC January 2022 examination, the general deficiencies set out below were identified. These problems affected the overall performance of candidates, and it is concerning 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.

4.1 Application of knowledge

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

4.2 Workings

It is essential that candidates show their workings and supply detailed computations to support the figures in their answers. Marks are reserved for methodology, but can only be awarded for what is shown. **Workings should, like the rest of the paper, be done in blue or black ink to ensure legibility.** In many instances workings were performed by candidates but not cross-referenced to the final solution. Markers could not award marks as they were unable to follow which working related to which part of the final solution. Candidates must ensure they show their workings and that these are properly and 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 (sms messaging style) in their answers. Marks could not be awarded here as it is not up to the markers to interpret abbreviations that are not commonly used. **Candidates should pay specific attention to the way in which they write their answers, and bear in mind that this is a professional examination for which communication and presentation marks are awarded.**

4.4 Journal entries

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

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

4.5 Time management

Candidates are advised to use their time wisely and budget time for each question. The marks allocated to each question are an indication of the relative importance the examiners attach to that question and thus the time that should be spent on it. Candidates should beware of the tendency to spend too much time on the first question attempted and too little time on the last. They should never overrun on time on any question, but rather return to it after attempting all other questions. 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.

4.6 Layout and presentation

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

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

Separate books are used to answer each question of the ITC. Each book is clearly marked and colour coded. Candidates are given explicit instructions to write the correct answer in the correct book. Despite this some candidates did not write the correct answer in the correct book (the secretariat did ensure that candidates who wrote answers in the incorrect book were marked by the correct mark team, 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 who fail. Many candidates did not address what was required by the questions, for example, provided a discussion where calculations were required or presented financial statements where a discussion of the appropriate disclosure was required.

4.11 Open-book examination

Candidates are reminded that they **MUST** familiarise themselves with SAICA's open book policy and be aware that this may differ from that of their accredited provider. 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 was that candidates did not state the relevant theory and/or definitions in their answers. One cannot build a logical argument without using the theory as a base and starting point. Reference to theory and definitions is essential to create the perspective from which the question is answered and is required to enable markers to follow the argument. However, since candidates have this information at hand, marks

are not awarded for stating detailed definitions only. This type of examination does affect the answer that is expected and *application* and demonstration of insight into the use of the definition have gained in importance.

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

4.12 Paying equal attention to all the competency areas

It is disappointing to note that candidates still appear to be most prepared to respond to accounting and external report questions and 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.

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 your next exam!

Best of luck!!

DETAILED COMMENTS ON EACH OF THE FOUR PROFESSIONAL PAPERS

PROFESSIONAL PAPER 1

Paper 1 consisted of an integrated 100-mark question, which dealt with the following aspects:

Part I

- (a) Candidates had to prepare the journal entries (cash transactions included) of a company to account for the transactions and events in terms of International Financial Reporting Standards for the financial year ended 30 September 2020 and 30 September 2021 with reference to section 1 (the construction of a wind farm in Kenya).

Part II

- (b) Candidates had to advise the company on which country of three would be best for expansion (opening of new African offices). Candidates had to include any other factors that the company should consider when selecting one of these countries for expansion.
- (c) With reference to opening of new African offices, candidates had to –
- (i) calculate the minimum hourly rate that the foreign office should be charged for supervisors in the first year of operations (with brief motivation of any amounts excluded); and
 - (ii) identify other key factors that could impact the minimum hourly rate for supervisors.
- (d) A critical evaluation, with reference to section 3 (long-term debt maturity), of the sources of finance being considered. Candidates had to include as part of their evaluation –
- a comparison of the costs of finance and the impact of each source of finance on the target debt ratio for all budgeted periods (all final answers were to be rounded to two decimals); and
 - any other qualitative factors not dealt with.

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 | Marks > 50% (pass) | Marks < 50% (fail) |
|--------------|--------------|--------------------|--------------------|
| 31 | 14,91 | 46,78% | 53,22% |

1 General comments on the degree of difficulty of the question

Although most universities rated the question as moderate, it seems as though the candidates were anticipating a revenue discussion question and not necessarily this format, in which the preparation of journal entries was required.

2 Feedback on the candidate responses

- Many candidates provided detailed (pages) of the application of the IFRS 15 steps when the question asked for general journals and not discussion. This resulted in a great deal of time being wasted on doing something that was not required and for which they gained no marks.
- Many candidates did not illustrate an understanding of the principles of revenue allocation. They seemed not to know what to do with those amounts allocated in terms of posting journal entries.
- Most candidates were able to do some allocation of the transaction price to the performance obligations but were not sure what to do with the amounts. As a result, they ended up not using the calculated amounts but rather used the cash receipts to post the revenue journal entries.

3 Feedback per each required section of part I

3.1 Areas that candidates handled well

- The journals not related to IFRS 15 were correctly accounted for.

| |
|---|
| <ul style="list-style-type: none"> Some candidates were able to identify which revenue should be recognised in the first year and what should be in the second year. Candidates were able to identify some of the easier journals entries, such as those dealing with inventory and recognition of maintenance revenue. Candidates were able to follow the bank payments correctly and account for them on the correct dates. Candidates mostly knew how to deal with the bonus payment. Candidates understood how to deal with the cost of sales and the sale of additional inventory. |
| 3.2 In what respect candidates' answers are considered to fall short of requirements |
| <ul style="list-style-type: none"> The candidates struggled with the application of IFRS 15 with respect to determining the transaction price as well as allocating the transaction price to the performance obligations (POs). While the question did state that the discount was to be allocated to only two POs, many candidates struggled with the mechanics of the discount allocation and determining of the ultimate transaction price. The matter was in many cases overly complicated by candidates. Candidates were doing calculations but not necessarily know for what purpose. They therefore did not use the calculated amounts in the journals, but rather used the cash payments instead. Candidates who used the cash receipts as revenue and posted them as IFRS 15 revenue journal entries, appeared to ignore IFRS 15 principles and account for revenue upon receipt of cash. Many candidates did not correctly date their journals, for example doing 2020 journals with 2021 dates and vice versa. Further many candidates attempted to group the journals in terms of transactions for both years; this could possibly overcomplicate the question as the candidates tried to do the entry for the same transaction for both years at the same time instead separately, and thus demonstrating an understanding the flow of transactions. Candidates did not provide for journal narrations. Many candidates used account names in the general journal that do not represent valid general ledger accounts in terms of IFRS 15. Many candidates provided journal entries that had a net effect of zero, i.e. debiting and crediting what is effectively that same account, or using a profit and loss account when a statement of financial position account should have been used (i.e. some candidates wrote 'Bank (P/L)'). Many candidates did not test for possible additional discounts and/or did not understand how to allocate the relevant discount to the appropriate performance obligations. Many candidates recorded journals where the sum of the debits did not equal the credits, one-sided journal entries, or journal entries without providing any amounts. |

PAPER 1 PART II

| Maximum mark | Average mark | Marks > 50% (pass) | Marks < 50% (fail) |
|--------------|--------------|--------------------|--------------------|
| 69 | 35,71 | 54,75% | 45,25% |

| |
|---|
| 1 General comments on the degree of difficulty of the question |
| The difficulty level of the Paper 1 part II can be summarised as follows per sub-section: Section (b): Easy to moderate Section (c): Moderate Section (d): Moderate to difficult |
| 2 Feedback on the candidate responses |
| Candidates provided general/generic comments or simply repeated information provided without applying to the scenario. |
| 3 Feedback per each required section of part II |

| |
|---|
| 3.1 Areas that candidates handled well |
| <p>Part (b) Overall candidates performed well in this section. Candidates managed to address most of the issues presented in the information provided in the table in the scenario.</p> |
| <p>Part (c)(i)</p> <ul style="list-style-type: none"> Most candidates managed to earn the marks on the lost contribution from the government contract and the cost of the additional overtime hours. Candidates were able to identify that the cost for the normal available hours was irrelevant since the staff were appointed on permanent basis. |
| <p>Part (c)(ii) Most candidates were able to identify the need to pay extra to the staff for travelling and working abroad, additional direct costs for the arrangement and took into consideration that there might be differences in the countries' labour regulations.</p> |
| <p>Part (d) In general candidates managed to calculate the cost of equity and the cost of the loan and the green bond.</p> |
| 3.2 In what respect candidates' answers are considered to fall short of requirements |
| <p>Part (b) This section was answered well overall.</p> <ul style="list-style-type: none"> However, some candidates merely mentioned or rewrote what was provided in the scenario, instead of applying their observations to the decision at hand. Candidates struggled to go further than just repeating information. Issues were also treated separately and not linked to each other. A number of candidates tended to concentrate on only one country and discuss the relevant matters to that country in comparison to South Africa. In some cases, candidates discussed South Africa as a possibility for investment, even though this was not what was required. |
| <p>Part (c)(i)</p> <ul style="list-style-type: none"> Although it was clearly mentioned in the required, candidates failed to mention the motivation for amounts not included in their calculations. In addition, candidates did not demonstrate a strong understanding of relevant costing principles and struggled to distinguish between incremental and non-incremental costs. Many candidates failed to base their final answer on the hours required by the foreign office. |
| <p>Part (c)(ii)</p> <ul style="list-style-type: none"> In the discussion candidates tended to mention generic points and did not apply to the scenario. In many instances only the result of the calculation was discussed. |
| <p>Part (d)</p> <ul style="list-style-type: none"> Candidates struggled with the calculations in this section. Very few candidates understood the required regarding the change in debt ratio. <ul style="list-style-type: none"> Some candidates seem to be confused and did not address the required at all, for example numerous candidates attempted to calculate the weighted average cost of capital, which was not required. Candidates did not adjust the asset balance in order to determine the debt ratio. In many instances candidates did not calculate the revised ratio for all three possibilities of finance, or for all budgeted periods, thereby losing a lot of marks. Candidates who seemed to be confused in the calculation section of this question also failed to do well in the discussion section. Responses in the discussion section often seemed generic and not applied to the scenario, for example simply mentioning that equity is more expensive than debt. It was a concern that candidates struggled with the fundamental calculations for the cost of finance, with very few candidates managing to secure full marks for the cost of equity, failing to identify the market rate as the cost of a loan and failing to correctly calculate the cost of debt using the time value of money formula. |

PROFESSIONAL PAPER 2

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

Question 1

- (a) Candidates had to describe four business risks relating to the granting of credit to a company's customers and one relevant control to mitigate each risk.
- Answers had to be provided in a tabular format.
- (b) A description of the automated information processing controls that should be in place to ensure that all data transferred from an effective point-of-sale system and integrated accounting system was accurate and complete.
- (c) Candidates had to describe the additional substantive audit procedures that the external auditor of the company should perform relating to the accuracy, occurrence and completeness of the debtors' age analysis as at 30 June 2021.
- The following procedures have already been performed:
- Obtaining all client schedules to support the classes of transactions and account balances.
 - Re-performing the casts and cross-casts on these schedules.
 - Agreeing the closing balance of these schedules to the amounts in the general ledger, trial balance and annual financial statements.
 - Agreeing the opening balance of these schedules to the prior-year workpapers and audited financial statements.
 - Obtaining a signed management representation letter regarding the accuracy, occurrence and completeness assertions relating to the classes of transactions and account balances being audited.
 - Considering the effectiveness of internal controls regarding classes of transactions and account balances and their impact on the nature, timing and extent of the substantive procedures.
- (d) Candidates had to assist the owner of the company with a working capital analysis by –
- (i) calculating the trends in the working capital cycle of the company for the period FY2019 to FY2021; and
- (ii) commenting on the outcomes of the analysis.
- All workings and final answers had to be rounded to the nearest whole number.
 - Candidates had to use year-end (and not average) balances in the calculation of any supporting amounts or ratios.
 - Candidates had to use 365 days per year when calculating relevant ratios.
- (e) A discussion, with reference to ethical considerations, whether or not a friend (a CA(SA)) should advise the company to accept assistance from a privately-owned financial institution whose CEO has been implicated in corrupt practices.
- Candidates were not required to discuss any aspect of the SAICA and IRBA codes of professional conduct.

Question 2

- (a) A discussion of the normal tax consequences for a 66-year-old South African tax resident for her 2021 year of assessment of –
- (i) the sign-on incentive from a South African company (KicksZA);
- (ii) the forfeitable share awards she received from another company (OTL); and
- (iii) an Atlantic seaboard property (using all the information provided in the section on this property), with supporting calculations.
- (b) A calculation of the resident's taxable income for her 2021 year of assessment, excluding the information on the Atlantic seaboard property.
- Candidates had to clearly indicate all items that have a nil effect and provide a brief reason for each of these items only.

- (c) Candidates had to advise another tax resident which of the two transport arrangement options available to her as part of her employment package would result in her having the highest after-tax cash flows for her 2021 year of assessment.
- Candidates had to base their answers on cash flows after the tax return had been submitted by the taxpayer and any appropriate refunds received from the South African Revenue Service.
- (d) A discussion of the gross income consequences for a company relating to land sales made during the 2021 year of assessment.
- VAT could be ignored for this section.

Four 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 | Marks > 50% (pass) | Marks < 50% (fail) |
|--------------|--------------|--------------------|--------------------|
| 50 | 23,34 | 41,58% | 58,42 |

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| 1 | General comments on the degree of difficulty of the question |
| <ul style="list-style-type: none"> • The scenario was relevant and appropriate and integrated concepts of auditing with financial management. • Universities raised no adverse issues with regard to the question. <ul style="list-style-type: none"> ○ Overall, the paper was a good mix of calculations and discussion within the relevant current economic environment. ○ Although no adverse issues were raised a comment was made around the scenario lacking depth and potentially being less demanding in terms of higher order thinking and application which is evidenced in other discipline questions. • The universities rated the question overall as average moderate to difficult, with a few rating some parts of the required as being easy. | |
| 2 | Feedback on the candidate responses |
| <ul style="list-style-type: none"> • Candidates performed poorly in the discussion parts of the question. • There were issues with correct technical wording where candidates did not express themselves in proper auditing format, therefore not earning the mark. As an example in the auditing requires, a procedure requires you to do something, to something, for a purpose. Candidates would often only identify the trigger, and identify the something, and not follow this with applying the trigger to a matter, and then conclude on what the purpose was. • Similarly, in required (d), candidates would merely repeat the calculation in words, rather than comment on why they felt the movement occurred. For instance, sales decreased by 20%. Rather than, sales decreased by 20% due to the impact of COVID as clients had less disposable income. • It was also observed that candidates did not provide sufficient/relevant points to earn them marks, mark allocations should be inspected carefully to determine number of points to provide. • The candidates found it difficult to identify which values to use and how to calculate the working capital cycle and in most cases no year on year trend analysis was performed. The commentary in relation to the trends was very poor with candidates merely commenting whether the ratio/value had increased or decreased and providing no real insights about the possible causes for changes. | |
| 3 | Feedback per each required section of the question |
| 3.1 | Areas that candidates handled well |
| Part (a) | |
| <ul style="list-style-type: none"> • Candidates were both able to identify business risks from the scenario and the compensating controls, thus demonstrating the necessary skill on these aspects. | |

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| <ul style="list-style-type: none"> The difficulty of the question was in finding risks for the specific scope, which was limited to credit granting risks. |
| <p>Part (b)</p> <p>Candidates identified the more general points such as exception reports, reconciliation reports, and sequence controls well.</p> |
| <p>Part (c)</p> <p>Candidates were able in general to provide substantive procedures, the bigger issue was often rather finding procedures specific to the debtors age analysis.</p> |
| <p>Part (d)(i)</p> <ul style="list-style-type: none"> The candidate who attempted the section in general were able to achieve more than 50%. Most candidates who attempted the section were able to perform the following ratios that were missing in the table provided: <ul style="list-style-type: none"> Trade receivable balance Trade payables Cost of sales Inventory days There were however other ratios candidates could calculate outside of these. |
| <p>Part (d)(ii)</p> <p>Candidates who performed the calculations above were able to proceed and discuss the main issue within the scenario, relating to the fact that the business was cash strapped and needed to come up with other mechanisms to raise cash for the business.</p> |
| <p>Part (e)</p> <ul style="list-style-type: none"> Candidates identified the issues of corruption and reputational damage well. They also identified a number of the stakeholders, and linked their discussions to the impact on each. |
| <p>3.2 In what respect candidates' answers are considered to fall short of requirements</p> |
| <p>Part (a)</p> <ul style="list-style-type: none"> Candidates battled to find risks and controls within the defined scope of granting of credit only, and often went onto broader business risks which were outside of the scope of the required. Candidates also at times identified risks but did not apply them to the scenario by linking the risk to the impact on the company. The scenario was often not used adequately to glean points for discussion. |
| <p>Part (b)</p> <ul style="list-style-type: none"> Candidates in general battled with this required, often providing input or output controls, or manual controls which were outside the scope of the required. Candidates should process the required to determine it specificity. |
| <p>Part (c)</p> <ul style="list-style-type: none"> The scoping out of general controls in the required elevated the difficulty of this section, and candidates battled to find other procedures in what was again a tight scope. Candidates therefore often provided procedures that related to the debtors balance, rather than the debtors age analysis, which did not gain them any marks. Candidates also battled to find sufficient procedures for the three assertions to which they were limited (completeness, occurrence and accuracy). |
| <p>Part (d)(i)</p> <ul style="list-style-type: none"> The candidates found it difficult to identify which values to use in the table provided and how to calculate the working capital cycle. In most cases where candidates did perform the calculation, no year on year trend analysis was performed and this cost the candidates easy marks. |
| <p>Part (d)(ii)</p> <ul style="list-style-type: none"> The commentary in relation to the trends was very poor executed, with candidates merely commenting |

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| <ul style="list-style-type: none"> whether the ratio/value had increased or decreased. No real insights were provided on the possible causes. |
| Part (e) <ul style="list-style-type: none"> Candidates battled to find all of the stakeholders in the dilemma, and also battled with linking this to the impact and effect on each stakeholder. The scope limitation which removed the considerations related to the CPC and APA created difficulty for candidates who relied on those two documents to support their ethical foundations, and battled to engage in a more general principle-based ethical discussion using ethical models. |

PAPER 2 QUESTION 2

| Maximum mark | Average mark | Marks > 50% (pass) | Marks < 50% (fail) |
|--------------|--------------|--------------------|--------------------|
| 50 | 21,93 | 34,83% | 65,17 |

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| 1 General comments on the degree of difficulty of the question |
| <p>The question contained both easy marks (tax computation) and a more moderate discussion and advice questions on a choice between a travel allowance and company car as well as a sale of a plot of land through a realisation company. Both the scenario and required was of a practical nature, testing the application of prevalent issues.</p> <p>The degree of difficulty was seen as fair (not overly complex/complicated) by most universities and included various 'easy' marks and more complex application marks. Candidates who had a fair knowledge relating to the topics covered were able to score a reasonable number of marks.</p> |
| 2 Feedback on the candidate responses |
| <p>In general candidates needed to be able to process multidimensional sources of information for application in various contexts and should have performed well overall. However, many exhibited a lack of knowledge on basic tax principles (a gap in the knowledge) and/or inability to execute proper exam planning.</p> <p>Most candidates confused the sign-on incentive and the shares, possibly because the concepts 'incentive' and 'forfeiture' were used in the scenario. However, the candidates should have been able to deduce the meaning with ease from the nature of the discussion in the scenario.</p> |
| 3 Feedback per each required section of the question |
| 3.1 Areas that candidates handled well |
| Part (a)(i) <ul style="list-style-type: none"> Candidates identified that they needed to start with the 'gross income' definition in section 1 of the Income Tax Act. Candidates answered the question in a structured manner and most candidates did discuss the phrase 'unconditionally entitled to'. Most candidates were able to identify that the R1,5 million was received for services rendered/employment (para. (c) inclusion in gross income), and thus linked the amount received to the employment of Boitumelo. |
| Part (a)(ii) <ul style="list-style-type: none"> Candidates recognised that the forfeitable shares were awarded to the taxpayer by virtue of employment. Most candidates were able to identify the correct section reference as section 8C of the Income Tax Act. Most candidates could identify that it was restricted equity shares, which vested per section 8C(1)(a) within the 2021 year of assessment. Candidates who identified section 8C did indicate that 'the gain' amount must be included in 'income'. |
| Part (a)(iii) <ul style="list-style-type: none"> Candidates identified the inclusion of the rental income (R49 000 and R60 000) in gross income and the deductibility of the other expenditure (R110 000) in terms of section 11(a). |

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| <ul style="list-style-type: none"> Candidates also recognised that the coffee machine was a dividend in specie that should be exempted in terms of section 10(1)(k). |
| <p>Part (b)</p> <ul style="list-style-type: none"> The calculation was attempted by almost all candidates. Candidates included the salary and provident fund contributions (for only 10 months) of the taxpayer in gross income and claimed the deductions for section 11(e) and home office expenditure correctly. Candidates did recognise that the section 11 F deduction was applicable and used the correct layout and structure in their calculation. Additional principle marks could be earned if their answers from part a(i) and (ii) were carried forward. Most candidates brought forward a similar treatment as their conclusion on the shares and sign-on bonus prepared in part (a). |
| <p>Part (c)</p> <ul style="list-style-type: none"> Most candidates discussed both the company car and travel allowance option. Candidates were able to use the correct fixed cost and fuel cost to calculate the deemed cost in respect of the travel allowance. Candidates calculated the number of business and private kilometres correctly. Candidates were able to reduce the business travel portion as allowed by para. 7(7) of the Seventh Schedule of the Income Tax Act Where candidates calculated the tax effect, they indicated it as a cash flow item. Most candidates came to a conclusion, providing advice on which option should be used. |
| <p>Part (d)</p> <ul style="list-style-type: none"> Many candidates did attempt this part of the question. Candidates were able to identify the issue of whether the amount of the sale was income or capital in nature. Some candidates stated that the onus of proof is on the taxpayer to indicate whether the amount is capital or revenue in nature. Candidates identified that the intention of the taxpayer should be considered, even though they sometimes concluded incorrectly. Many candidates were able to identify the relevant case law principles regarding a realisation company. Where candidates discussed the sale of the 50ha of land, the candidates were able to identify the change of intention from capital to revenue, recognising that the development of the units was crossing the Rubicon / entering into a scheme of profit making. |
| <p>3.2 In what respect candidates' answers are considered to fall short of requirements</p> |
| <p>Part (a)(i)</p> <ul style="list-style-type: none"> Most candidates were unable to identify that the 'issue' was that the R1,5 million ought to be included in 'gross income' at the earlier of receipt or accrual – that resulted in candidates including the amount in various years of assessment. Candidates need to work with a timeline to ensure that they identify the correct year of assessment. Because of the above lack in principle, candidates addressed only the matter regarding the entire R1500 000 and assumed that it all relates to the 2021 year of assessment. Most candidates did not recognise that the specific deduction in terms of section 11(nA) takes preference over section 11(a). This gave the impression that many of the candidates were not aware of how to apply the section 11(nA) deduction. Section 11(a) could not be applied as there was no trade or production of income link to the employee and a specific section was available. Candidates did not recognise that section 23(m) was not applicable |
| <p>Part (a)(ii)</p> <ul style="list-style-type: none"> Even though candidates were able to identify the correct section 8C, the application of this section was incorrect. In context of section 8C, candidates should have identified the impact of each event on the given date on gross income and its accompanying exemptions. |

- The result of missing the above tax principle was that only a few candidates identified and applied section 10(1)(nD) of the Income Tax Act after the initial acquisition, because shares were still restricted. This restriction only lifted at the end of the year of assessment of the company (31 December 2021).
- Candidates erroneously included the net gain of the difference between the market value on grant date and the market value on vesting date (31 December 2021).
- Some candidates discussed that the shares are capital in nature, identifying section 9C instead of section 8C.
- A few candidates even applied section 8B of the Income Tax Act, which was clearly not applicable as there was no indication that 80% of all employees were entitled to participate in the scheme and the amount of the shares was above R50 000. Section 8B is also excluded from the SAICA Examinable Pronouncements.
- Some candidates used the word 'settled' instead of vesting.

Part (a)(iii)

- Although most candidates calculated rental income and the related expenditure, candidates failed to identify the loss made.
- Candidates further failed to recognise that the tax loss should be ring-fencing in terms of section 20A of the Income Tax Act. Candidates should have recognised that Boitumelo is a natural person who is paying tax at the maximum marginal tax rate, that the daughter is a connected person and thus the rental loss falls under the definition of a suspect trade in terms of s 20A.
- Most candidates also failed to calculate the capital allowance in terms of section 11(e) on the coffee machine.
- Some candidates failed to recognise the inclusion of the dividend in specie (coffee machine) in gross income, and the exemption of the dividend in specie in terms of section 10(1)(k).
- Some candidates recognised the dividend in specie but then discussed the dividends tax consequences. This shows a lack of understanding of the requirements and also an inability to identify differences types of taxes.
- A number of candidates did not support their discussion with calculations as required and missed out on the marks due to the lack of application.
- Some candidates excluded VAT from the coffee machine cost.
- Candidates used a five-year write-off period instead of six years for section 11(e). In addition to this some candidates did not apportion the section 11(e) calculation for the 11 months.

Part (b)

- Candidates did not use a timeline to verify the number of months to be used for the salary and provident fund inclusion.
- Candidates confused section 8 (allowance) and the Seventh Schedule (fringe benefit) related to the home fibre costs. They thus included the allowance for the fibre line as a fringe benefit, instead of an allowance.
- Candidates failed to recognise that section 23(m) allows a natural person who is an employee to claim a wear-and-tear allowance in terms of section 11(e) of the Income Tax Act. Candidates who did remember that, forgot that small assets with a value of R7 000 or less are entitled to a 100% deduction (General Binding Ruling Nr 7).
- Candidates did not always transfer their conclusion from part a(i) or part a(ii) correctly.
- Candidates failed to apply para. 2(a) of the Seventh Schedule to the desktop monitor acquired for more than the cost price. Most candidates indicated that this was a fringe benefit with a value of R2 000 (R6 000 – R4 000), which was incorrect.
- The application of the section 11F limitations was very poorly executed and applied – mostly without calculation. Assumptions were not allowed.
- Those candidates who did apply section 11F's application solutions were incoherent. Many candidates were unable to identify the three options under this section. Candidates were unable to calculate the remuneration for the purposes of section 11F correctly and some did not position it as the deduction after the sub-taxable income were calculated.
- Some candidates also had other deductions after the s11F deduction calculation.
- Some candidates calculated CGT implications for the land (part (d)) here, which showed that they either did not read the required or applied poor exam technique.

Part (c)

- Overall most candidates did not appropriately address the required, providing a definite conclusion on which option would be the best and linking it specifically to after-tax cash flows.
- In addition, most candidates did not apply the principles of a travel allowance to the right of use of a motor vehicle, and vice versa.
- The tax principals of calculating the right of use of a company car vs a travel allowances were often swapped around by the candidates.
- Right of use:
 - Candidates used 3,5% or 3,25% to calculate value instead of the actual cost as applicable to an operating lease as defined in terms of section 23A(1) of the Income Tax Act (para. 7(1)(b) of the Seventh Schedule).
- Travel allowance:
 - Most candidates used the correct tables, but apportionment can only be with days;
 - Maintenance cost was rarely discussed, and candidates appeared to have mostly missed this detail in the scenario and included the maintenance cost amount in the deemed expenditure calculation; and
 - Most candidates failed to calculate the actual cost to compare it with the deemed cost in their calculation of the travel allowance.
- Some candidates only calculated the inclusion of the travel allowance and company car in taxable income and did not consider the cash flow at all.
- Where candidates calculated the cash flows, they also included the taxable value of the right of use as a cash flow item.
- The tax rate was given as 45%, yet a number of candidates used other tax rates, such as 28%.

Part (d)

- Many candidates did not attempt this part of the question. This could be as a result of a lack of time management applied by the candidates in their attempt at the whole of paper 2.
- Candidates struggled to properly structure and provide a logical flow in their discussion of the sale of the 100ha versus the sale of 50ha as the scenario indicated.
- Surprisingly, candidates did not use case law principles to discuss capital versus revenue in this part of the question.
- Simply rewriting the gross income definition in the hope of attaining marks is not appropriate. As a prospective CA, candidates are expected to identify the crux of the question and apply case law principles to substantiate their arguments.
- Candidates should have started their discussion of intention with the original intention of Boitumelo as Boitumelo remained the sole shareholder of Origins, the realisation company.
- The change in intention should then not only be mentioned but applied to the scenario.
- Candidates should have discussed the impact of section 42 of the Income Tax Act on the intention or change of intention.
- In summary: discussion questions and especially court case type of questions needs to be executed in logical steps. First identify the issue, then discuss the onus of proof, what the initial intention of Boitumelo was, then the intention of Origins and only then the fact that the intention did not change for the 100ha. The argument should always have a conclusion.
- On the development of the 50ha of land:
 - Although most candidates could identify that this is a change of intention, they failed to mention the court case principle behind it; and
 - Candidates discussed the deductibility of the R2 million expenditure, which did not form part of the required.

PROFESSIONAL PAPER 3

Paper 3 consisted of an integrated 100-mark question, that dealt with the following aspects:

Part I

- (a) Candidates had to discuss whether a manufacturing and retailing company, has control over a Japanese sole manufacturer for FY2021 in terms of International Financial Reporting Standards (IFRS).
- (b) Assuming that the Japanese company should be consolidated as a subsidiary of the manufacturing and retailing company, candidates had to prepare the consolidated statement of changes in equity of the group for FY2021.

Candidates received the following instructions:

- Do not provide the total, share capital and non-controlling interest columns of the statement of changes in equity.
- Do not provide comparative amounts and notes.
- Round all amounts to the nearest ZAR.
- Assume all amounts are material.
- Answers should comply with IFRS.

Part II

- (c) Candidates had to recommend improvements to the inventory count procedures set out in an annexure that were followed by the company's employees during the year-end inventory count.
- (d) Candidates had to criticise the appropriateness of the planning of the attendance of the inventory count detailed in a workpaper.
- (e) A discussion of any ethical concerns the candidate may have regarding the token of appreciation by the company to the audit team and the arrangement between the CEO and the engagement partner, in terms of the SAICA Code of Professional Conduct.
- Candidates were not required to discuss how the concerns should be evaluated and addressed.

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 | Marks > 50% (pass) | Marks < 50% (fail) |
|--------------|--------------|--------------------|--------------------|
| 63 | 34,77 | 65,55% | 34,45% |

1 General comments on the degree of difficulty of the question

The question had good integration within the financial reporting discipline assessing several IFRS standards (IFRS 3, IFRS 9, IFRS 10, IFRS 11, IAS 1, IAS 16, IAS 21, IAS 2, IAS 28, IAS 32, IAS 38).

Good exam technique was required for a candidate to do well in this question. On an overall basis, the question was assessed as moderately difficult by the overwhelming majority of the universities.

2 Feedback on the candidate responses

Exam technique

Candidates wasted a lot of time in providing theoretical points on control without any application to the scenario, specifically the shareholders agreement that was in place. Candidates often computed amounts that were not subsequently used in answering the question. All the above were indicators of poor exam technique in this question.

Time management

Candidates displayed poor time management skills in answering this question. The statement of changes in equity was often left out or not completed adequately.

Communication

This question had three communication skills marks. Most candidates who attempted part (a) and (b) earned these marks.

Recommendations

Candidates should practice good exam technique by –

- demonstrating an application of information when responding to discursive type questions; and
- showing an understanding of the required computations, such as the calculation of profit for the current year. Once amounts are calculated, those amounts should be used in arriving at the final answer as opposed to having ‘hanging’ calculations that are not used at all.

Workings (and references to workings)

Many candidates did not reference their workings, making it extremely difficult to follow the candidates’ thought processes and the flow of answers. Often the workings provided did not agree with the final answer given in the profit calculation or on the statement of changes in equity.

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| 3 | Feedback per each required section of part I |
| 3.1 | Areas that candidates handled well |
| Part (a) | |
| <ul style="list-style-type: none"> • Candidates identified the key components of control that had to be addressed. • Candidates concluded appropriately under each of the components of control. • Many candidates identified that 40% shareholding is not sufficient for control. | |
| Part (b) | |
| <ul style="list-style-type: none"> • Candidates identified that Hiro was an interim acquisition • Candidates identified the unrealised profit on the inventory | |
| 3.2 | In what respect candidates’ answers are considered to fall short of requirements |
| Part (a) | |
| <ul style="list-style-type: none"> • Candidates did not apply the theoretical requirements of control to the shareholders’ agreement that was provided • Candidates did not identify that the unanimous consent required to change the structure of Hiro, etc., was protective and does not give power. In many instances candidates incorrectly concluded that these rights gave power over the investee. • Candidate provided a ‘copy and paste’ of the terms in the shareholders’ agreement; this was often out of context and not in the context of proving power. • Candidates struggled to articulate how the company could use its power to affect the returns of the investee. This part was very theoretical and candidates demonstrated no application to the scenario. | |
| Part (b) | |
| <ul style="list-style-type: none"> • Many candidates did not present a statement of changes in equity, in other words, they did not answer the question. • In many instances, candidates computed amounts that were not subsequently used to answer the question, thus just ‘hanging’ calculations. • While many candidates identified that Hiro was an interim acquisition, they did not calculate the evenly incurred profit at acquisition and after acquisition. Specifically, because the unrealised profit of the inventory, depreciation on the specialised machine and interest were not evenly incurred for the full 12 months. • It was surprising to see that often candidates struggled to determine the unrealised profit on the raw material. Instead of using the gross profit margin given, candidate incorrectly interpreted this as a mark-up on cost. • Very few candidates identified that the loan between Beautha and Hiro is exposed to forex movements. This | |

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| <p>calculation was not prevalent in this population of candidates.</p> <ul style="list-style-type: none"> • Very few candidates increased the equity at acquisition of Hiro with the cash, equipment and low interest rate loan equity contribution. Candidate only used the above amount in determining the consideration transferred. • Often candidates prepared an analysis of equity starting at acquisition right up to the end of the 2021 year, without considering the calculation of the FCTR. In such instances the at acquisition portion of the analysis of equity is considered as an used portion of the calculation and thus does not attract marks. It is always important for candidates to understand why they are performing a calculation and subsequently, how to use the output of that calculation. In the event that a gain on bargain purchase was incorrectly determined at acquisition, for the marks to be awarded, the gain on bargain purchase had to be used in the calculation of group profit for the at acquisition section to attract marks. • In relation to the loan from Beautha to Hiro, candidates often incorrectly used the time value of money principles to re-compute the PMT (payment) instead of the PV (present value) of the loan. • In relation to dividends declared that are presented of the statement of changes in equity, candidates incorrectly included the dividends declared by the subsidiary. • Candidate only included 40% of the FCTR movement on goodwill in the statement of changes in equity. This is not appropriate because the non-controlling interest is measured at the proportionate share of net assets at acquisition. • The gain on bargain purchase of Basket was not computed by most of the candidates. • The subsequent amortisation of the advertising and brand in Basket was identified by an overwhelming number of candidates. • Candidates often neglected to multiply by 40% or 35% when including the profit and loss items in the determination of group profit. |
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PAPER 3 PART II

| Maximum mark | Average mark | Marks > 50% (pass) | Marks < 50% (fail) |
|--------------|--------------|--------------------|--------------------|
| 37 | 20,65 | 69,42% | 30,58% |

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| 1 General comments on the degree of difficulty of the question |
| <p>The scenario was appropriate and it is accepted that candidates should have been aware of the importance of inventory count procedures and ethics.</p> <p>Overall, most universities regarded that this question to be of easy to moderate difficulty.</p> |
| 2 Feedback on the candidate responses |
| <p>The question was appropriate and gave the candidates a good opportunity to score marks. The scenario and question were relevant to the candidate's real life working environment, as stock counts are something they are certain to deal with. In addition, the section on the Code of Professional Conduct focused on good principles relevant to the industry in terms of self-interest, intimidation, integrity and objectivity and professional behaviour.</p> |
| 3 Feedback per each required section of part II |
| 3.1 Areas that candidates handled well |
| <p>Part (c) This required was generally answered well, with candidates recommending the appropriate improvements to the inventory count procedures.</p> |
| <p>Part (d) Some candidates correctly identified that the working paper dealt with the planning of the inventory count (and not the inventory count procedures).</p> |
| <p>Part (e) Candidates were able to identify and discuss threats in relation to the gift/ inducement and the impact of the team members being prohibited from asking uncomfortable questions.</p> |

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

Part (c)

- Some candidates answered in the form of audit procedures, which demonstrated an understanding of the required.
- Candidates struggled to identify that there was both a warehouse and factory to consider.
- Common improvements were overlooked in respect of the stationery controls/formatting of the count sheets and the testing of the barcode scanner.

Part (d)

- Candidates did not adequately address all topics (objective, selection of stores, sampling, procedures), although they scored marks by focusing sporadically on each topic.
- Many did not consider the other assertions that should have been included as part of the objective.
- With regard to sampling, candidates often used the correct terminology (random, weighted average, etc.), but provided limited explanations to identify whether they understood the method/concept they mentioned.
- The procedures were poorly criticised. Most candidates failed to identify the concerns per the solution other than opening of boxes and damaged stock.

Part (e)

- Candidates struggled with identifying and discussing threats in relation to the client having input on the composition of the team as provided in the scenario.
- It appears as if candidates did not apply their minds to the implications of Theo being able to recommend to the engagement partner any members of the team that would need to be removed.

PROFESSIONAL PAPER 4

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

Question 1

- (a) Candidates were required to discuss six key business risks that a passenger bus company is currently facing.
- (b) Provision of assistance to the chief financial officers in setting up the ratio analysis by –
 - (i) calculating, for three years, the applicable ratios for the performance evaluation noted in minutes to a board meeting;
 - Candidates had to use year-end balances in their ratio calculations;
 - Candidates had to round to one decimal on all final answers; and
 - (ii) discussing the outcome of their calculations.
- (c) Candidates had to, with reference to the preliminary valuation performed by the financial manager –
 - (i) criticise the valuation (candidates were not required to re-perform the valuation); and
 - (ii) discuss the appropriateness of using an earnings-based valuation method to value the company in its current circumstances. Candidates had to provide alternative valuation methodologies that they may consider to be more appropriate to support their discussion.
- (d) A discussion, with reference to minutes of a board meeting, of the corporate governance concerns the candidate may have regarding the conduct of the company's directors with reference to the King IV Report and the Companies Act.

Question 2

- (a)(i) A discussion on whether a South African resident company was liable for any penalty(ies) in respect of the underestimation and late payment of provisional tax for FY2021.
- (a)(ii) On the assumption that the company is liable, a calculation of the amount of the penalty(ies) that would be payable.
- (b) Candidates had to discuss whether the company has any grounds to request the remittance of the penalty imposed by SARS for the late payment of provisional tax.
- (c) Candidates had to discuss whether their audit firm could comply with the financial manager's request to write

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| | a letter to SARS in an attempt to persuade SARS to waive the penalties on the late payment of provisional tax. |
| (d) | Candidates had to discuss whether The company applied the correct VAT treatment for the acquisition of a new manufacturing machine for the two-month tax period ended 31 December 2021. |
| (e) | <p>A discussion of the matters the candidate's audit firm should consider with regard to its reporting responsibility, based on the information relating to the reversal of invoices.</p> <ul style="list-style-type: none"> • Candidates had to exclude the detailed steps to be followed when reporting the matter. • Candidates had to exclude any impact this matter may have on the performance of the audit of The company's financial statements. <p>For purposes of required (f) and (g), candidates had to assume that the following audit procedures have been successfully completed:</p> <ul style="list-style-type: none"> • Obtain schedules reflecting the computation of the VAT balance and deferred tax asset as at 31 December 2021. • Re-perform the calculations on these schedules. • Agree the total to the balances in the general ledger, trial balance and the financial statements. • Agree the opening balances to prior-year working papers and financial statements. |
| (f) | A formulation of the additional substantive audit procedures the candidate would perform on the VAT balance in the statement of financial position as at 31 December 2021. |
| (g) | A formulation of the additional substantive audit procedures the candidate would perform on the deferred tax asset balance in the statement of financial position as at 31 December 2021 pertaining to the manufacturing equipment. |
| <p>Six communication skills marks were available for this paper. These marks were clearly and separately stated in the 'required' sections of each part.</p> | |

PAPER 4 QUESTION 1

| Maximum mark | Average mark | Marks > 50% (pass) | Marks < 50% (fail) |
|--------------|--------------|--------------------|--------------------|
| 50 | 25,98 | 63,51% | 36,49% |

| | |
|---|---|
| 1 | General comments on the degree of difficulty of the question |
| <p>The overall this question was rated fair to moderate by universities, leaning towards easy, and the general expectation was that candidates would do well in this question. The scenario was unambiguous and manageable in terms on length, the presentation thereof was also in a very well organised manner. Candidates were expected to easily relate to the type of industry and company used in the scenario.</p> <p>The required parts of the question were very concise, clear and straight to the point. The topics examined in this section were also topics regularly examined in the ITC. The question had very little integration of topics and this was expected to elevate candidates' chances of doing well.</p> <p>The marking team felt that this question has a good mixture of intermediate and easy marks. The question was of an easy standard. The candidates did well in most of the subsections and those who did not do well found it difficult to apply decision making relevant to the scenario, resulting in the issues they considered not to be very relevant.</p> | |
| 2 | Feedback on the candidate responses |
| <p>Most candidates managed to answer all required parts with no evidence of time constraints. The general concern noted was lack of application in some parts of the question, candidates understand the theory on most topics however when such theory must be applied, there are shortcomings in that area.</p> | |
| 3 | Feedback per each required section of the question |
| 3.1 | Areas that candidates handled well |

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| <p>Part (a)</p> <ul style="list-style-type: none"> • Candidates did well on this part of the question with business risks being thoroughly discussed. • The scenario allowed for candidates to cover various business risks and there was enough coverage in terms candidates' answers on this part of the question. |
| <p>Part (b)(i)</p> <ul style="list-style-type: none"> • This section was made up calculations which were considered to be easy, and most candidates did well to calculate the required ratios correctly. • Candidates also answered the required thoroughly by calculating the ratios for all the three (3) years. |
| <p>Part (c)(i)</p> <ul style="list-style-type: none"> • This section was well answered by most candidates, the section was balanced with easy and difficult marks. • Most candidates managed to address the required very well. • This section required a deeper understanding of the EBITDA valuation method, a most candidates demonstrated this in their responses for this part of the question. |
| <p>Part (d)</p> <ul style="list-style-type: none"> • This section was answered well, but from an exam technique point of view, candidates did not structure their responses accordingly. • The required asked for corporate governance concerns in line with 'KING IV' and 'The Companies Act' and most candidates just provided responses without highlighting whether the point is covered under KING IV or The Companies Act. |
| <p>3.2 In what respect candidates' answers are considered to fall short of requirements</p> |
| <p>Part (b)(ii)</p> <ul style="list-style-type: none"> • This section was poorly answered by most candidates, with most demonstrating a lack of application. • Candidates mostly simply stated that the ratio increased or decreased with no application of what could be the possible cause. • Some candidates mainly explained what the calculated ratios mean. • The scenario provided sufficient information for application, but most candidates missed this. |
| <p>Part (c)(ii)</p> <ul style="list-style-type: none"> • This section required a deeper understanding of EBITDA valuation method and required candidates to apply themselves particularly taking note that the current economic environment and state of the company is out the ordinary. • Most candidates simply provided theory on the EBITDA valuation method and their responses were not applicable in the context of the scenario (i.e. fluctuating earnings, financial difficulties, Covid). • The required also asked for an alternative valuation method that could be used and candidates discussed various valuation methods extensively, which was not what was required. |

PAPER 4 QUESTION 2

| Maximum mark | Average mark | Marks > 50% (pass) | Marks < 50% (fail) |
|--------------|--------------|--------------------|--------------------|
| 50 | 26,67 | 65,41% | 34,59% |

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| 1 General comments on the degree of difficulty of the question |
| The integrated nature of the question and the fact that the 50 marks were divided up into seven required sections, elevated the level of difficulty of the question. Candidates also appear to have experienced the scenario as complex due to the level of integration within the information provided. |
| 2 Feedback on the candidate responses |
| Many sections were not answered or responses were very brief. As a result, they did not provide enough valid points to obtain sufficient marks to pass this question. |
| Many candidates misread some sections (e.g. by not responding with reference to a reportable irregularity, but rather on what should be done by the client (thus tax administration). This was an indication that they interpreted the question as a tax rather than an auditing question. |
| 3 Feedback per each required section of the question |
| 3.1 Areas that candidates handled well |
| Part (a)(i) |
| <ul style="list-style-type: none"> Most candidates were able to identify that the company's taxable income is above R1 million. Many candidates concluded that the company would be liable for penalties. |
| Part (a)(ii) |
| Many candidates could calculate the penalties at 10% for late payment penalty and 20% for underestimation penalty. |
| Part (b) |
| <ul style="list-style-type: none"> Candidates struggled with the application of the Tax Administration Act. A number of candidates identified financial hardship and Covid-19 (human-made disaster) and concluded accordingly. |
| Part (c) |
| Most candidates were able to identify that the request by the financial manager was inappropriate and that it raised issues of non-compliance with the SAICA Code of Professional Conduct. |
| Part (d) |
| Many candidates identified the timing of the supply, documentary proof and that the company could not claim input tax in the incorrect vat period. |
| Part (e) |
| Many candidates were able to identify that the issue was a reportable irregularity and needed to be reported to the IRBA. |
| Part (f) |
| <ul style="list-style-type: none"> Most candidates were able to identify a few general procedures that had not be performed for the audit of the VAT control account. Candidates also identified that the account needed to be verified against correspondence from SARS regarding the company's VAT account. |
| Part (g) |
| <ul style="list-style-type: none"> Many candidates were able to identify a few general procedures that had not be performed for the audit of the deferred tax balance. Candidates realised that they needed to confirm that the correct tax rate was applied in the calculation of the deferred tax balance. |

| 3.2 In what respect candidates' answers are considered to fall short of requirements |
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| <p>Part (a)(i)</p> <ul style="list-style-type: none"> • A number of candidates did not specify the type of penalty, i.e. if this was an underestimate or late payment penalty and just referred to the 'penalty(ies)'. • The required was very specific in terms of the candidates discussing if the company would be liable for any penalties with respect of the underestimation and late payment of provisional tax. • Few candidates provided calculations despite the required being clear that a discussion was required. |
| <p>Part (a)(ii)</p> <ul style="list-style-type: none"> • Some candidates struggled with using the correct percentages, and some used 25%. • Some candidates provided explanations of 80% of taxable income in part (a)(ii), whereas part (a)(ii) specifically required the candidates to do a calculation. • Most candidates missed that the late payment penalty should be deducted from the underestimation penalty. |
| <p>Part (b)</p> <ul style="list-style-type: none"> • The discussion on part (b) was poor, and candidates did not fully apply the information in the scenario to the theory of the question. • Candidates struggled with the application of the Tax Administration Act. • Few candidates identified financial hardship and Covid-19 (human-made disaster) and were able to discuss it appropriately in the context of the company. This points to poor exam technique and understanding of the technical application of the Tax Administration Act by the candidates. |
| <p>Part (c)</p> <ul style="list-style-type: none"> • Most candidates identified that the auditors would be in non-compliance with the SAICA Code of Professional Conduct, if they were to comply with the financial manager's request to write a letter to SARS. However, the application of the information in the question was poor and candidates focused on the theory, which only earns half a mark, and not enough on the application of the information in the question. • This points to poor exam technique being displayed in the answering of the question. • The required clearly stated that candidates had to come to a conclusion on whether the auditors could comply, and which needed to be substantiated by reasons to support the conclusion. Many candidates did not include a conclusion in their response, thereby losing an easy mark. • Overall, candidates displayed poor exam technique, by not addressing the required and not tailoring the information given to theoretical principles. |
| <p>Part (d)</p> <ul style="list-style-type: none"> • Most candidates did not identify the VAT period and the fact that the manufacturing machine is used to make 100% taxable income. • Few candidates identified the documentary proof requirement. |
| <p>Part (e)</p> <ul style="list-style-type: none"> • Although the majority of the candidates identified that the issue was a reportable irregularity, performance was poor because candidates only stated the considerations and thus only the theory. • Marks are awarded for the application of the information in the scenario to the requirements of a reportable irregularity and not just theory. • Furthermore, many candidates come to a conclusion on whether the issue then meets the requirements of a reportable irregularity or not, and thus lost a mark • The required stated two exclusions (detailed steps and impact on the performance of the audit), but many candidates missed this and wasted time by discussing these, which did not earn any marks. • Many candidates did not respond by discussing a reportable irregularity, but rather on what should be done by the client (tax administration) – they interpreted the question from a tax rather than an auditing perspective. • In this part in particular, candidates displayed poor exam technique, by not addressing the required and an overall lack of application of the information in the scenario to the theory. |
| <p>Part (f)</p> <ul style="list-style-type: none"> • The description of the substantive procedures given by candidates was poor. |

- Many of the procedures were very vague and not formulated as procedures that could be carried out to obtain sufficient and appropriate audit evidence on the VAT balance.
- Candidates did not apply their knowledge of VAT appropriately either. Very few candidates considered both VAT inputs and VAT outputs. This displays an inability to integrate information across subjects.
- The question was very broad as no specific VAT balance was given in the information for candidates to audit and the required did not restrict the procedures to only one or two assertions. This allowed for a very broad solution with a large number of available marks for a five-mark question.
- Many candidates did not identify that there were at least two general procedures that were not already performed and thereby lost easy marks.
- Overall, poor application and exam technique contributed to the poor performance in this question.

Part (g)

- Again, the description of the substantive procedures was poor, vague and badly formulated.
- Many candidates did not address the issue of going concern evident in the information and link this to whether the company will have sufficient taxable income to utilise the deferred tax asset again.
- This is evidence of an inability to critically consider the information given in the scenario. As a result, many candidates did not formulate procedures to address the issue of future taxable profits in the form of inspecting budgets and forecasts and lost easy marks.
- The solution has many available marks and even if candidates did not formulate procedures on the budgets and forecasts, there were still many marks to be obtained for auditing the deferred tax balance itself.
- The required did not provide a specific deferred tax balance breakdown or schedule to audit and the required did not restrict the procedures to only one or two assertions.
- Many candidates focused on auditing the underlying assets, specifically the new manufacturing machine and therefore gave procedures to audit property, plant and equipment, rather than the actual deferred tax asset.
- Responses were on the whole very brief and in most cases candidates wrote too little to score well on this required.