

**MARKERS' AND UMPIRES' COMMENTS
INITIAL TEST OF COMPETENCE
JANUARY 2023**

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 2023. 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 2023;
- Background information on the setting, marking and adjudication of SAICA examinations;
- General comments on the ITC January 2023; and
- Detailed comments on each of the four professional papers.

STATISTICS FOR ITC JANUARY 2023

	Pass %	Passed	Failed	Total
All candidates	75%	2 279	742	3 021

Average marks per question (all candidates)

Paper 1			
Total marks	50	50	100
Average marks	27,1	25,8	52,9
	Part I	Part II	Total
Paper 2			
Total marks	73	27	100
Average marks	41,7	15,38	57,08
	Question 1	Question 2	Total
Paper 3			
Total marks	50	50	100
Average marks	26,52	25,18	51,7
	Part I	Part II	Total
Paper 4			
Total marks	45	55	100
Average marks	28,71	27,47	56,18
	Question 1	Question 2	Total

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 (CA PD Committee), and takes overall responsibility for the setting of the examination papers. Examination questions are drawn from different sources:

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

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

In addition, four external examination sitters, who are independent of the exam setting process, are 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.

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

Marking is undertaken by teams, with each team consisting of a number of markers (comprising academics, practitioners and representatives from commerce and industry) and an umpire. 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 2023 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 awarded the final mark. The electronic tool automatically captures the final marks of all candidates and prepares a report for the ITC Examco.

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.

3 Adjudication

Adjudication is a process during which the CA PD 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 or translation; and
- Any other problems that may have been encountered relating to the examination.

The members of the CA PD 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 CA PD 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 who is a member of SAICA's CA PD Committee 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 CA PD 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 CA PD 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 JANUARY 2023

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	Taxation	Management Accounting and Finance (MAF)	Ethics (include-ing CPC)	Effective and efficient comm	TOTAL
Paper1 Question 1				47			3	50
Paper 1 Question 2			48				2	50
Paper 2 Part I	32			4	15			51
Paper 2 Part II	18			16		10	5	49
Paper 3 Question 1		12			36		2	50
Paper 3 Question 2		9	29			10	2	50
Paper 4 Part I	32			11				43

Paper 4 Part II		20			23	9	5	57
TOTAL	82	41	77	78	74	29	19	400
% of total	21%	10%	19%	20%	19%	7%	5%	

3 Overall comments on the papers

The January 2023 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 two questions. The first question dealt with **taxation** and the second with **audit and assurance**.

Paper 2 consisted of consisted of a single scenario, with the required sections divided into two parts. The first part dealt with **accounting and external reporting, taxation, and management accounting and finance** and the second part dealt with **taxation, accounting and external reporting, and ethics**.

Paper 3 consisted of a two separate questions. Question 1 examined **strategy, risk management and governance, and management accounting and finance**. Question 2 covered **strategy, risk management and governance, audit and assurance** and **ethics**.

Paper 4 consisted of a single scenario with two parts. The first part covered **accounting and external reporting**, while the second dealt with **management accounting and finance, strategy, risk management and governance** and **ethics**.

4 General comments

From a review of candidates' answers to the eight required sections for the ITC January 2023 examination, the general deficiencies set out below were identified. These problems affected the overall performance of candidates, and it is a matter of concern that candidates make the same mistakes year after year. Although these aspects seem like common sense, candidates who pay attention to them are likely to obtain better marks, and it may even turn a low mark into a pass.

4.1 Application of knowledge

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

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 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 that fail. Many candidates did not address what was required by the questions and, for example, provided a discussion where calculations were required or presented financial statements where a discussion of the appropriate disclosure was required.

4.11 Open-book examination

Candidates are reminded that they **MUST** familiarise themselves with SAICA's open book policy and be aware that this may differ from that of their 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 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.

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 two stand-alone questions, which dealt with the following aspects:

Question 1

- (a) For this required, candidates had to calculate the following for a South African tax resident, Naveed Bux, in respect of his year of assessment ended 31 December 2021:
- (i) Taxable income;
 - (ii) Estate duty; and
 - (iii) Donations tax.
- All amounts had to be rounded to the nearest rand.
- (b) With respect to part 2 (on possible emigration to Singapore), candidates had to discuss what the South African tax benefits and disadvantages would have been for Naveed if he had emigrated to Singapore on 1 November 2021.
- No calculations needed to be performed.
- (c) Candidates were required to discuss the impact of information relevant to the taxable income of Mahendra (Naveed's son and a tax resident of the UK) and the Bux Family Trust on their years of assessment ended 28 February 2022.

Question 2

- (a)(i) Candidates were required to identify and describe the risks of material misstatement related to the completeness, accuracy, and valuation and allocation of the creditors balance of a company as at 31 December 2022; and
- (a)(ii) For each of the risks identified, candidates had to indicate to which assertion the relevant risk relates.
- Answers had to be presented in a table format.
- (b) With reference to the placing of orders and delivery of goods from category 2 and 3 suppliers, as documented in a workpaper on the purchases cycle, candidates had to –
- (i) identify and discuss the internal controls present in the systems description of the company that they would rely on; and
 - (ii) formulate the tests of control(s) the auditor should perform to assess the relevant internal controls for each control identified in (b)(i).
- Candidates had to present their answers in the following table format:

(i) Internal control identified	(ii) Test of control
Internal control 1...	Test of control related to internal control 1...
Etc...	Etc...

- Candidates had to assume that the audit firm will follow a combined audit approach.
 - The following was not to be included in their answers:
 - Changes to the list of approved suppliers and approved price list; and
 - Segregation of duties between irreconcilable functions.
- (c) The formulation of substantive procedures that the audit team should perform to obtain sufficient appropriate evidence regarding the completeness of the creditors balance of the company as at 31 December 2022.
- The following were not to be addressed in answers:
 - The extent and timing of procedures; and
 - Any procedures related to tax.

- Candidates did not have to perform the following general substantive procedures:
 - Obtaining a creditors schedule and recalculating the mathematical accuracy of the schedule;
 - Comparing the total creditors according to the creditors schedule with the creditors balance included in the trial balance and general ledger, the balance of the creditors control account and the creditors balance in the financial statements;
 - Comparing the opening balance of creditors with the closing balance of the previous year's audited financial statements;
 - Inspecting the creditors' accounts in the general ledger for any unusual journal entries and following up on any unusual entries identified; and
 - Requesting a signed management representation letter to confirm the completeness of creditors.

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 QUESTION 1

Maximum mark	Average mark	Marks > 50% (pass)	Marks < 50% (fail)
50	27,1	66%	34%

1 General comments on the degree of difficulty of the question

This question was regarded to be at a moderate to easy difficulty level. Based on the degree of difficulty, candidates were expected to fare better than they did. This again highlights that candidates are not able to capitalise on all the basic marks afforded in questions. The basic tax principles are the foundation of critical thinking and as such should be embraced by the candidates.

The question addressed an individual income tax calculation on the date of death of an individual, the calculation of estate duty and a deemed donation tax due on an interest-free loan account. The question further tested some practical tax issues for an individual taxpayer that considered emigrating before he died. Consequently, the candidates needed to discuss the advantages and disadvantages of emigration. Further discussions of the income tax consequences of a trust and a non-resident beneficiary were required.

Although a number of straightforward provisions were tested, the number of events that candidates had to consider between various taxpayers (natural persons, trust and non-residents) and the impact of emigration increased the complexity.

Part (a): Calculation

Part a(i) required candidates to perform an individual's tax calculation until the date of death. We found the question easy to fair. Universities were surprised at the number of marks allocated for pure calculations but recommended the approach to examining and reinforcing the importance of basic tax law principles.

Part a(ii) required candidates to calculate the estate duty for the deceased estate. The universities and mark team found the question to be easy. Most candidates did quite well in this part of the question. Where candidates arrived at a dutiable amount above R30 million in error, they did not apportion the calculation on the first 30 million at 20% and the residual value on 25%. These candidates used 25% on the whole amount.

Part a(iii) required candidates to calculate the donations tax on the deemed donation (deemed interest on the outstanding loan account to the trust in terms of section 7C). It was an easy two marks to obtain. Surprisingly, most candidates did not apportion the interest-free interest calculation for the number of days during the year of assessment and consequently lost an easy mark.

Part (b) - discussion

Part b required a discussion of the tax advantages and disadvantages of emigrating for an individual. Although the universities and mark team found this to be a moderate question, the candidates did not perform well. Candidates did not show critical thinking on the resident versus non-resident considerations (thus did not discuss advantages or disadvantages) and simply stated the resident versus non-resident rule.

Part (c) - discussion

The universities and mark team found the question moderate and a good application of tax principles of a trust.

Part (c) required a discussion of the taxable income of Mahendra (a non-resident beneficiary of the trust) and the trust itself. Candidates needed to discuss three items: local interest received by the trust, the rental income vested in Ahmed (a minor beneficiary of the trust) and the sale of 10% of shares (after the donor died).

A candidate who could differentiate between the tax effect of the rental income distribution in terms of section 7 (anti-avoidance provision for trusts) and the CGT attribution in terms of para. 80 of the Eighth Schedule generally obtained the marks. Candidates did not perform well overall because they did not apply the tax principles relating to a trust and its beneficiaries.

2 Feedback on the candidate responses

Exam technique

- Candidates who did well in required (a) of this question made use of a timeline for the calculations of the natural person and planned (structured) their answers well. The question contained a number of different events that only applied to a few months and these candidates made sure they knew what happened when.
- Candidates who did well in required (b) carefully planned their solution to indicate whether it was a benefit or a disadvantage for each point raised. Their key to success was also to identify and evaluate the type of assets and income of the natural person. Candidates needed to apply their knowledge of the scenario and not simply to provide the tax rule in section 9H of the Income Tax Act on deemed disposals at date of emigration.
- Candidates who did well in required (c) showed that they understood the anti-avoidance rules in section 7 and the attribution rules in the Eighth Schedule in regard to the applicable transactions of the trust for the year of assessment. These candidates dressed both the trust and Mahindra separately and applied the tax legislation appropriately.
- Candidates should not attempt to use all the information in the scenario, if it is not required, for example:
 - Candidates used the exempt interest in terms of section 10(1)(i) for the trust.
 - In part a)(ii) some candidates calculated a tax liability (section 11F deduction as well as 6A and 6B rebates), wasting valuable time.
- Candidates should be careful to not only provide theory (sometimes irrelevant), and to repeat the same tax principle in different ways.

Time management

- Overall, it seemed as though candidates managed their time well and where candidates failed to complete a required, it appeared to be due to a lack of knowledge.
- Several candidates did not manage their time well and did not attempt one or two parts of this question (see above comments).'
- Candidates should be careful not to provide unnecessary information as it will waste their time. Candidates need to ensure that their time spent correlates with the mark allocation.
- Some candidates did not attempt all parts of this question, which is indicative of improper time management as sufficient time was available to complete the question.

Communication

- Candidates did well in obtaining most of the communication marks but there were candidates that failed to apply the instruction of the required and ended up losing out on the communication marks. Candidates must concentrate on planning their required because this is a pervasive skill that will be assessed in every work assignment or project in which they will be involved for the rest of their careers.

- Some candidates only provided calculations in parts where they were meant to only discuss (for example in part (b) of the question).
- Though some candidates scored all the communication marks, there was a handful that did not, mainly due to mistakes such as having a tax liability in the end.
- In most instances, candidates demonstrated proper communication skills.
- In part (c), some candidates did not clearly state the advantages and/or disadvantages. This may possibly be because they did not read the required carefully.

Layout, structure, and presentation

- Candidates need to ensure they understand the difference between 'taxable income' and 'tax liability'. "The correct order, as prescribed by the Income Tax Act, of a natural person's taxable income should be mastered and candidates need to understand that a deduction reduces taxable income. A medical rebate is not a deduction but a rebate that reduces the natural person's tax liability. Thus, if a required refers to 'taxable income' a medical rebate ought not to be discussed.
- Candidates should make use of headings to clearly indicate to the markers what they are discussing and to help to order their responses.
- Care should be taken that solutions are presented in a logical structured manner.

Relevance

- In a specific scenario where the required refer to specific events, periods or specific taxpayers, candidates should ensure their solutions are not generic but are applicable to the events, persons, and periods.
- It seems as if during reading time, some candidates identified a few things they could calculate with ease. Because of this these candidates continued to use the items identified in spite of the required. For example, candidates calculated the sections 6A & 6B rebates and the tax liability just because the information for this was available. "

Recommendations

- In preparing for the ITC candidates should ensure that they understand the tax legislation to enable them to apply the relevant sections to real-live situations.
- It is important that candidates should read the scenario thoroughly before reading the required part and then should go back to the scenario and required again to ensure the solution is correctly structured.

Workings (and references to workings)

- Candidates need to show all calculations even if the calculation will have a nil effect on taxable income: For example, Proceeds R5 000 less Base Cost R5 000 = capital gain/loss = R0 instead of just saying there are no tax implications – this is crucial for calculation questions.

3 Feedback per each required section of the question

3.1 Areas that candidates handled well

Part (a)(i)

- Most candidates did well in this part as they did include most of the transactions.
- Most candidates included the salary, local dividends, foreign dividends, and some rental income correctly in the taxable income of Naveed Bux;
- Most candidates applied the correct exemptions for both the local and foreign dividends;
- Most candidates did attempt a capital gains tax (CGT) calculation.

Part (a)(ii)

- Most candidates capitalised on the easy marks for this part and performed an estate duty calculation in the correct prescribed framework.
- Most candidates applied the R3 500 000 abatement and calculated the estate duty liability.

Part (a)(iii)

- Most candidates could identify that the loan amount of R2 300 000 was a deemed donation as it was an interest-free loan and calculated the donations tax.
- Candidates could also correctly apply the R100 000 annual exclusion available to natural persons to reduce the amount subject to donations tax.'

Part (b)

- Most candidates identified that s 9H of the Income Tax Act will apply to a person ceasing to be a resident of South Africa and that it will result in a deemed disposal of capital assets.
- Candidates could also identify that after emigration, Naveed will be a non-resident and will therefore be taxed on a source basis.

Part (c)

- Most candidates identified that the local interest of R423 560 was received by the trust and not distributed by the trust, and thus included it in the gross income in the hands of the trust.
- Most candidates also attempted the calculation of the capital gain on the disposal of the foreign shares.
- Some candidates identified that the trust does not qualify for a section 10(1)(i) interest exemption because it is not a natural person.
- Some candidates identified that because Ahmed is a minor, Naveed will in terms of section 7(3) be taxed on the rental in respect of the house in Durban until the date of his death and thereafter Ahmed will be taxed in terms of section 25(1) or section 7(1) as he had a vested right to the rental income.

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

Part (a)(i)

- Some candidates showed a lack of understanding with respect to the structure prescribed for the taxable income calculation.
- Candidates did not use a timeline to plot all the different tax events of Naveed. This led to the incorrect apportionment, which showed an inability to tailor their answers to the facts of the scenario. As a result, the number of months for calculation purposes were incorrect, which led to candidates losing easy marks for the inclusion of salary, medical benefit and rentals.
- While Naveed was alive, the rental income from the trust that vests in his minor child will be subject to section 7(3) of the Income Tax Act and this attribution is limited to the on-going donation as established in the 'Wouldge case'. To correctly address this principle, the limitation should be calculated. Candidates should remember that the calculation of any interest must never be calculated in months but apportioned as days in the year in terms of section 7D of the Income Tax Act.
- Those candidates who did calculate the Wouldge case principle added the notional interest calculation erroneously to the taxable income calculation.
- It is concerning that candidates incorrectly applied rebates and medical tax credits against taxable income.
- Local dividends received by a natural person will receive the net amount after dividends tax was withheld and in terms of para. (k) of the gross income definition (section 1 of the Income Tax Act). The amount needs to be 'grossed up' with 100/80 as the inclusion in gross income should be the gross amount. This showed a lack of knowledge.
- A natural person's death will result in a 'deemed disposal' of all capital assets held on death (s 9HA of the Income Tax Act) – some candidates that did not identify the deemed disposal, which may indicate a lack of knowledge.
- All capital disposals or deemed disposals must be calculated separately for each asset. All gains and losses should then added together in order to apply the annual exclusion of R300 000 in the year of death before the application of the inclusion rate of a natural person of 40%. Structure and format are important as it is provided by the legislation and non-compliance will result in no marks being allocated.
- Candidates mixed up the disposal of the Durban home before death with the 'Loan to the Trust' that was an asset of Naveed at the date of death. Candidates should ensure that they follow the facts in the scenario so that this does not happen. The property in Durban was not a primary residence and could not receive a primary residence exclusion and did not qualify for any capital allowances.
- Some candidates struggled to apportion the capital gain with respect to the business use on the primary residence. Para. 49 of the Eighth Schedule relates to the apportionment of non-residential use and should be applied on the capital gain and not the annual exclusion. It should be added to the aggregate capital gains that will be subject to tax.
- Some candidates applied the R40 000 annual CGT exclusion as opposed to the R300 000 exclusion on death

as Naveed had died in 2022 year of assessment.

- Some candidates applied the 40% CGT inclusion rate before the R300 000 exclusion, this showed a lack of knowledge.

Part (a)(ii)

- The Estate Duty Act is a separate tax and the inclusion of the property and deemed property values should be done according to the Estate Duty Act and all amounts need to be included and deducted separately in terms of section 4 of the Estate Duty Act.
- Some candidates did not correctly identify all the property bequeathed to the spouse in terms of section 4(q) deduction.
- Some candidates applied the incorrect estate duty rate where the net value of the estate was above R30 million (due to their own error). The estate duty liability is at a flat rate of 20% for a dutiable amount that is less than R30 million. If the dutiable amount is greater than R30 million, the liability on the first R30 million will be at a flat rate of 20% and on the amount exceeding R30 million it will be 25%.
- Some candidates included the incorrect values of property in the estate.
- Some candidates forgot to deduct the tax liability.

Part (a)(iii)

- An interest-free loan to a trust will result in an ongoing donation that will be calculated at the end of the year of assessment of the trust but will be taxed, in terms of Donations Tax, in the hands of the natural person, Naveed, who made the interest-free loan (section 7C of the Income Tax Act).
- Section 7C must be apportioned for the part of the year of assessment that Naveed was alive, and that apportionment must be based on the number of days. Most candidates did not apportioned the interest calculated for part of the year.
- The R100 000 annual exemption is available to natural persons and must be applied before you multiply with 20% (the tax rate applicable to donations tax) (section 56(2)(b)). Some candidates applied the R10 000 exclusion in terms of section 56(2)(a), which is applicable to a company and not a natural person.

Part (b)

- Candidates forgot about the exclusion of the deemed disposal of property in terms of section 9H(4). This resulted in candidates indicating that all property must be deemed to be disposed of on date of emigration – a statement that is incorrect because Naveed kept the immovable property in SA.
- Candidates focused their answer only on one event namely the emigration that resulted in a deemed disposal of all assets and did not discuss any other change in taxing rights.
- Candidates also did not read the required properly, which stated that they needed to discuss all South African tax. This means that the discussion should include income tax (capital and revenue); donations tax (low-interest loan) and estate duty (Naveed died in December).
- The required further asked for benefits and disadvantages. Candidates did not apply critical thinking as those who did discuss the effect of his emigration on his SA taxes, did not expand their discussion to the benefit or disadvantage for Naveed.
- Notably some candidates applied the incorrect tax terminology in answering this part – for example, referring to exemptions as ‘deductions’ or ‘rebates’.

Part (c)

- The basic principles of trusts were examined, but only a few candidates managed to identify and address the applicable provisions. Candidates should have identified the three different components (interest, rental income, and the capital gain) and discussed all for both the trust and Mahindra.
- Some candidates focused only on Mahendra (the beneficiary), which meant that the effect of taxing the trust were not addressed or only on a limited scale.
- Most candidates did not split who will be taxed on the rental income before and after the death of Naveed. It is important that candidates remember that if the donor of an asset dies, section 7 will no longer be applicable.
- Candidates did identify that section 7(3) applied to the rental from the Durban property up to Naveed’s death but incorrectly attributed vested income (in terms of section 25B (1) of the Income Tax Act) back to the trust after Naveed’s death.

- Candidates needed to discuss all tax implications of the trust. Candidates did not go back to the scenario to identify aspects, and thus most candidates did not discuss that the trust received the unlisted share portfolio from Naveed's estate at market value.
- Only a few candidates recognised that 50% of the portion of the capital gain would be attributed to the trust in terms of para. 80(2) because Mahendra is a non-resident and that the other 50% will be taxed in the hands of Ahmed (even if he is a minor) in terms of para. 80(1) as Naveed passed away (the attribution in terms of para. 69 does not apply).
- A notable number of candidates also applied section 7(8) instead of the CGT provisions, which indicate a lack of knowledge of the basic principles relating to trusts.
- Only a few candidates correctly considered and addressed the receipt of the property as capital in nature in the hands of Mahendra.
- Again, some candidates also did not apply the incorrect tax terminology in answering this part – for example, referring to exemptions as 'deductions' or 'rebates'.

PAPER 1 QUESTION 2

Maximum mark	Average mark	Marks > 50% (pass)	Marks < 50% (fail)
50	25,8	61%	39%

1	General comments on the degree of difficulty of the question ¹
	<p>Overall, the level of difficulty is assessed as easy to moderate due to the following factors:</p> <ul style="list-style-type: none"> • Although the assertions in (ii) were limited to only two to choose from, formulating the risk to explain the relevant assertion correctly required a higher degree of understanding. • Also, mixing both controls that one can rely on and weaknesses in controls for the purpose of assessing ROMM in the same scenario/business process, adds a level of difficulty to part (a) as the information was scarce/not easy to spot. • The umpire and team also felt that the wording of the required in part (a) for the assertion 'accuracy, valuation and allocation' as stipulated in the standard, was wrongly stated as 'accuracy and valuation and allocation' which could undoubtedly have confused some candidates. • Although sense could be of the intention and purpose of part (b), the required stated 'identify and discuss'. In effect, the candidates were expected to merely identify and rewrite the control from the given scenario. The wording '...and discuss' could have confused candidates, and they might have spent unnecessary time to 'discuss' this internal control identified, without earning any marks.
2	Feedback on the candidate responses
	Overall candidates struggled with the assertions scoped out by the required, while other assertions were addressed as part of the questions.
3	Feedback per each required section of the question
3.1	Areas that candidates handled well
	<p>Part (a)</p> <ul style="list-style-type: none"> • Listing of the related assertions in a table format as required. <p>Part (b)</p> <ul style="list-style-type: none"> • Identifying controls following the guidance of the outline of the scenario. This allowed candidates to score the relevant marks, including for test of controls. <p>Part (c)</p> <ul style="list-style-type: none"> • Candidates were able to address the subsequent payment testing, and creditors' reconciliations and other few different substantive procedures relating to the creditors.
3.2	In what respect candidates' answers are considered to fall short of requirements
	<p>Part (a)</p>

- Not addressing sufficient risk factors, and providing only a few points. Due to the nature of the required these then resulted in candidates missing out on the related marks for the assertions.

Part (b)

- This was generally well answered, with candidates spending some time on this required judging from the length of the responses they provided.

Part (c)

- This section was poorly answered, as candidates provided substantive procedures in relation to other assertions over and above completeness.
- Some candidates did not attempt this part or provided limited procedures.

PROFESSIONAL PAPER 2

Paper 2 This paper consisted of one integrated question that dealt with the following aspects:

Part I

- (a) A calculation of the total amount for employee benefits to be disclosed by a company in the notes to the statement of profit or loss and other comprehensive income for FY2022.
- Candidates could ignore the disclosure requirements on related parties and comparative information.
- (b) A preparation of the journal entry(ies) the company should process in its accounting records for FY2022 relating to problems with locally sourced microchips.
- Candidates did not have to provide closing entries or journal narrations and could ignore tax.
- (c)(i) Candidates had to discuss the correct accounting treatment for an unpaid insurance claim of R2 million in the accounting records of the company for FY2022 in terms of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*; and
- (c)(ii) A discussion of why the amount of R2 million should not be taken into account as an accrual for tax purposes when calculating the company's normal taxation for the 2022 year of assessment.
- (d) Candidates had to advise management on the following:
- (i) The optimal sales mix to maximise the contribution of the company in FY2023; and
 - (ii) Other factors it should consider before implementing the recommended mix.
- Candidates had to assume that production volumes will equal sales volumes and inventory quantities will remain unchanged in FY2023.

Part II

- (e) Candidates had to calculate the taxable income of the company for its 2022 year of assessment by starting with the profit before tax of R45 million.
- Candidates had to ignore sections 5, 9 and 10.
 - The accounting adjustment had to be indicated separately from the tax adjustment in respect of each item.
 - Any accounting adjustments for depreciation had to be indicated separately from impairments, if any.
 - Candidates had to include nil effects and provide brief reasons for the nil effects in their answers.
 - Candidates had to ignore an unpaid insurance claim of R2 million and assume that a R13 million claim paid on 10 December 2022 was the final insurance claim amount accepted by both parties.
- (f) A discussion of the ethical considerations for the individual directors and the board regarding the use of the specialised software in the company's diesel engine vehicles.
- Candidates had to ignore King IV 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 2 PART I

Maximum mark	Average mark	Marks > 50% (pass)	Marks < 50% (fail)
73	41,7	74%	26

PAPER 2 PART II

Maximum mark	Average mark	Marks > 50% (pass)	Marks < 50% (fail)
27	15,38	70%	30%

These two parts were addressed in a single report.

1 General comments on the degree of difficulty of the question

The overwhelming majority of the providers assessed the question as moderately difficult by of the universities. The various disciplines were assessed as follows:

- Accounting: Easy to moderate
- MDMC: Moderate to difficult
- Taxation: Moderate
- Ethics: Easy to moderate

However, the providers also noted that candidates were expected to struggle with this question due to the level of integration and ambiguities evident in the information, and that it may have resulted in time constraints and the inability to complete the question adequately.

The umpires and marking team felt the accounting principles tested in parts (a), (b), (c)(i) and (e) were not complex. The integrated nature of part (e) did however increase the difficulty level of part (e).

The taxation principles examined in part I(c)(ii) and part I(e)(i) were not complex. The integrated nature of the assessment and in particular the reconciliation of profit before tax to taxable income increases the difficulty. Candidates first had to demonstrate an understanding of the financial reporting concepts, determine how these were accounted for, reverse these and then account for normal tax consequences.

Regarding part I(d)(i), the sentiments of the providers are shared here. Given the disjointed information required to perform this calculation, as well as the novel way of determining the limiting factor per vehicle, this section is regarded as difficult.

Other than the above specific matters noted, overall, the level of the question was assessed as moderately difficult by the team. Candidates were expected to struggle to perform well in this question. This is because of the level of integration, ambiguities and volume (scattered) of information presented in the scenario.

2 Feedback on the candidate responses

Exam technique

Candidates often computed amounts which were subsequently not used in answering the question. All the above were indicators of poor exam technique.

Time management

Candidates displayed a lack of time management skills in answering this question.

Recommendations

Candidates should practice good exam technique by –

- (a) displaying application of information when responding to discursive type questions; and

(b) using computations in answering required. Once amounts have been calculated, the amounts should be used in answering 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, which made it difficult to follow the candidates thought process and flow of answers. Often the workings provided did not coincide with the final answer given in journal entries or the note that was provided.

3 Feedback per each required section of the part

3.1 Areas that candidates handled well

Part (a)

Overall candidates performed well in this section. The calculations were clear and it was clear that candidates did to a large extent have a proper understanding of the IAS 19 principles that were assessed.

Part (b)

Candidates who identified that the warranty provision needed adjustment and that the inventory items needed to be written down to NRV, performed well in this question.

Part (c)(i)

Overall candidates fared relatively well in this part and showed a good understanding of the requirements relating to when a contingent asset must be disclosed.

Part (c)(ii)

- Candidates managed well with this part – the required was quite clear in directing students to address the principles of accruals.
- Candidates' solutions were quite conclusive in identifying that the matter was still under dispute and there would be no accrual.

Part (d)(i)

- Most candidates were able to get to a contribution per limiting factor (albeit using the wrong limiting factor).
- Most candidates were also able to recommend the ranking based on their calculations.

Part (d)(ii)

- Most candidates were able to pick up that even though the sales mix calculated in (d)(i) might yield a specific ranking, there might be other qualitative factors that favour one vehicle over the other, despite what the sales mix calculated may reveal.
- In particular, a large number of candidates identified that due to the declining state of the economy and its effect on disposal income, consumers may favour sedans as there are more affordable than SUVs.
- A significant number of candidates also raised the fact that due to the deteriorating conditions of SA roads, consumers may rather opt for SUVs.'

Part (e)

- Candidates generally were able to calculate the normal tax consequences on the transactions.
- Candidate were generally able to calculate the applicable capital allowances, recoupments and the resulting taxable capital gain.
- Candidates often also provided reasons for nil effects to their solution.

Part (f)

- Candidates managed well with this part considering that it was open-ended ethics question.
- Even though they were told to ignore King IV, most candidates were still able to have sufficient coverage of other ethical considerations in order to have a competent response.

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

Part (a)

- Many candidates failed to identify that the depreciation of the director's SUVs is classified as part of 'employee benefits' as the information states '... as part of their remuneration package'.
- Many candidates used the 325 days as the average working days of the year instead of the 300 days provided in the scenario.

Part (b)

- Candidates did not perform well in this part.

- Many candidates did not understand the question, and this was evidenced by the fact that the normal sales journal entries were presented.
- Many candidates did not identify the write down/impairment of the microchip, thus losing a significant number of these marks.

Part (c)(i)

- A number of candidates discussed whether a provision should be recognised instead of the contingent asset.
- If this was the case, no marks could be awarded as the context of the discussion was incorrect.

Part (c)(ii)

- Candidates who fell short in this required were those that failed to discuss the dispute using the principle of accrual.
- In addition some students failed to apply income tax principles and argued the facts using financial reporting principles, despite the required directing candidates to address the accrual from a tax perspective.

Part (d)(i)

- Candidates missed the fact that the constraint was the microchips and that it needed to be expressed as a cost, which candidates may not have encountered before.
- This caused many candidates to not do a contribution per limiting factor calculation, and thus resulted in many candidates not getting to a ranked sales mix.

Part (d)(ii)

- Most candidates had generic responses to this part of the question.
- They failed to understand that their qualitative factors had to be related to the calculated sales mix in (d)(i).
- Many candidates listed points that were not related to the sales mix.

Part (e)

- Candidates who did not perform well in this section were those who failed to identify the accounting that was included in the profit before tax that needed to be reversed before accounting for the taxation implications of the transactions.
- Most candidates also did not carry forward their relevant calculations in part (a) and (b) to part (e).
- Some candidates did not clearly articulate whether amounts were to be included into taxable income or whether it would be deducted.
- Most candidates failed to identify that there would be no recoupment on the SUVs granted to the directors.
- Many candidates applied a section 12C capital allowance to the replacement robotic arm instead of section 11(e).
- This was not the first time that the asset was brought into use by the taxpayer and therefore section 12C was not available.
- In some case candidates displayed limited understanding of recoupments and the impact of recoupments and capital allowances on the determination of proceeds and base cost for calculating CGT.
- Often candidates did not calculate a recoupment or in other cases did not carry forward the impact on the recoupment into the determination of proceeds.

Part (f)

- Candidates who performed poorly in this section were those who either did not complete the section or focused on a single ethical consideration instead of a variety.
- Candidates also repeated the same ethical considerations several times, despite having already discussed these considerations earlier in their attempts.
- Some candidates also focused on the King Code although it was clearly scoped out within the required.

PROFESSIONAL PAPER 3

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

Question 1

- (a) Candidates had to determine the weighted average cost of capital of a company as at 31 December 2022.
- (b) Candidates had to criticise the net present value analysis performed by the financial management team of the company.
- (c) A description of the key risks and considerations that the company would face if acquired by a Chinese-based conglomerate.

Question 2

- (d) A discussion on whether a non-executive director (a CA(SA)), will have any obligations to report issues arising from the acquisition and rezoning of a second property as reflected in the summary of minutes of a board meeting held on 13 September 2022, once he took note of the decisions taken.
 - Candidates did not have to provide a detailed description of how he should go about discharging any reporting responsibilities he may have.
- (e) Candidates had to discuss any concerns they may have about the conduct of the financial director (a CA(SA)) with reference to the Companies Act and the SAICA Code of Professional Conduct.
- (f) Candidates had to critically evaluate the appropriateness of the board composition of the company, as well as the suitability of the individual directors serving on the board.
- (g) A discussion of the matters that the financial director should have considered before she could have recommended that an external audit is required for the company's annual financial statements for FY2022. In planning the audit of PG for FY2022, candidates had to –
 - (i) discuss the effect of the information provided on the auditor's assessment of the risks of material misstatement on the assertions for the revenue class of transactions; and
 - (ii) describe the nature and timing of the audit procedures that were needed to respond to the risk of material misstatement in the completeness assertion for the revenue class of transactions.

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 QUESTION 1

Maximum mark	Average mark	Marks > 50% (pass)	Marks < 50% (fail)
50	26,52	62%	38%

1 General comments on the degree of difficulty of the question

The overall rating for this question was moderate to difficult, leaning more towards difficult, and the general expectation was that candidates would find the question challenging on an overall basis. The scenario was unambiguous and manageable in terms on length, and it was presented in a well-organised manner. Candidates were expected to relate to the type of industry and company used in the scenario.

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.

2 Feedback on the candidate responses

Most candidates managed to answer all required parts with no evidence of time constraints. The general concern noted was lack of application in most parts of the question, with candidates showing an understanding of the theory on most topics, but when such theory needed to be applied, the responses fell short.

3	Feedback per each required section of the question
3.1	Areas that candidates handled well
	<p>Part (a)</p> <ul style="list-style-type: none"> • Most candidates answered this section well, demonstrating a good understanding of the principles of cost of capital. • The market value of the loan as well as determination of cost of equity were handled well, and candidates were able to obtain good marks for this section. • Candidates either calculated the WACC using market values or target capital structure, displaying good logical approaches in their responses. <p>Part (b)</p> <ul style="list-style-type: none"> • On average, candidates did well on this section. The question had obvious marks that candidates could obtain. • Most candidates demonstrated a basic understanding of the NPV calculation, although there were shortcomings relating to the details and application as discussed below. <p>Part (c)</p> <ul style="list-style-type: none"> • On average, candidates performed much better in this part of the question as they were able to identify general risks related to mergers and acquisitions and applied these well in the given context. • Candidates were able to demonstrate good business acumen by carefully considering and discussing the risks of South African company being acquired by a foreign-based company.
3.2	In what respect candidates' answers are considered to fall short of requirements
	<p>Part (a)</p> <ul style="list-style-type: none"> • It was extremely frustrating to see several candidates calculating the weighted average cost of capital using only debt instruments, without any consideration of the equity capital. At this level, it should be common knowledge that equity capital is a primary component of a company's capital structure. • Some candidates did determine the WACC using the target capital structure, but the question required a deeper understanding of WACC principles, where candidates needed to first determine the weighted average cost of debt since there were two debt instruments. Candidates resorted to hedging their bets by trying to do several calculations with the hope that the marker will mark the correct calculation. • Candidates who determined WACC using market values struggled to calculate the market value of equity using an earnings-based approach. The calculation was not complicated and required basic valuation principles, which were not demonstrated in candidates' responses. • With regard to determining an appropriate beta, several candidates struggled to correctly apply the formula, which highlighted a lack of basic arithmetic skills as well as an understanding of the principles of unlevering and relevering the beta. • Most candidates were not able to accurately value perpetual cash flows where these cash flows were expected to occur in the future rather than immediately. • A few candidates calculated the cost of preference shares on an after-tax basis despite dividends being non-deductible for tax purposes. • Several candidates used an incorrect tax rate of 28% despite the scenario making a provision for the income tax rate of 27%. These silly mistakes resulted in candidates losing easy marks. • Candidates incorrectly classified the preference shares as equity instruments despite the scenario stating the instruments formed part of debt financing. <p>Part (b)</p> <ul style="list-style-type: none"> • In this section, the main issue was lack of application and critical evaluation skills. • The lack of application appeared to be a lack of understanding of the fundamental principles of the net present value analysis. The lack of understanding of the fundamental principles made it difficult for candidates to identify basis errors, such as the irrelevance of the factory managers' salary, omission of tax cash flows, omission / mistreatment of working capital cash flows and omission of initial period and related costs. • Candidates spent unnecessary time highlighting the areas of the analysis done correctly, which was inconsistent with the requirement to 'criticise' the analysis presented to them.

- Several candidates failed to demonstrate critical evaluation skills by not questioning the growth assumptions and other key inputs that were not reasonable in the analysis.
- Candidates provided theory with limited application and the main concern, which candidates did not consider the context in their responses.
- Candidates mainly provided generic statements.

Part (c)

- This section requested candidates to think outside the box and it appeared to be a challenging section overall. This was evidenced by candidates providing highly generic responses with limited due consideration for the facts relating to the company being acquired.
- Candidates focused solely on the 'key risks' related to the proposed acquired and did not discuss 'other considerations', highlighting lack of effective examination technique with regard to fully understanding the required prior to attempting a question.
- Candidates mostly focused on shareholder-related risks rather than those related to the company as per required. This highlighted a lack of effective planning on the candidates' part.
- Candidates' responses were also very narrow, focusing on a lengthy discussion on a limited number of issues. This showed that the candidates could not fully apply themselves in a non-traditional risk question.

PAPER 3 QUESTION 2

Maximum mark	Average mark	Marks > 50% (pass)	Marks < 50% (fail)
50	25,18	57%	43%

1 General comments on the degree of difficulty of the question

The question is considered to be moderate, but the overall paper time pressures would have elevated the difficulty level. Although the triggers in the paper are clear, some requireds are more difficult and required more critical thinking, such as part e(ii), which required some planning.

Candidates have not performed as well as expected which can be attributed to two factors:

- Time pressure in the question: The scenario is long with a high quantum of information that candidates had to analyse. This, coupled with a challenging management accounting and finance question in part 1 of the paper increases the pressure on the candidates in the session. This is evident in the candidate performance per required, as the average mark per required decreases without the level of difficulty being necessarily greater.
- Furthermore, the paper consists of six requireds for 50 marks (a high level of requireds each with a small mark allocation) covering a large variety of topics within the discipline. Therefore, candidates had to jump between topics without necessarily having the time to do so or the opportunity to get invested in a larger required. Thinking time is compromised by the smaller requireds.

2 Feedback on the candidate responses

- In general candidates struggled with time in this question. Many candidates had short attempts per required or left out requireds.
- Candidates wrote theoretical/generic responses in some requireds and did not apply the theory in the context of the question.

3 Feedback per each required section of the part

3.1 Areas that candidates handled well

Part (a)

Most candidates were able to identify some form of reporting responsibility.

Part (b)

Candidates were able to balance their responses between Companies Act and CPC well.

Part (c)

Candidates were able to identify concerns with respect to the board composition.

Part (e)

Candidates were able to identify triggers for risk as assertion level for revenue.

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

Part (a)

- Some candidates erroneously discussed the question from the perspective of a CA(SA) in practice and therefore concentrated on the reporting of a reportable irregularity.
- Some candidates identified the reporting responsibility, but then struggled to identify the exact party to whom they should report.

Part (b)

- Candidates generally did not identify a broad range of concerns to maximise mark allocation.
- Most candidates focused on the fraud issue and did not expand their solutions to cover the broad range of triggers provided.

Part (c)

- Although candidates were able to identify concerns with respect to the board composition, they often did not consider the proportionality principle sufficiently.
- Many of the concerns identified would not be applicable to the board structure as per the scenario.

Part (d)

- Overall the required was poorly answered.
- Candidates battled to identify the Companies Act requirements, or they identified the requirements but did not apply them.
- Candidates provided theoretical answers copied from the legislation.

Part (e)(i)

- Although candidates were able to identify triggers from the scenario to some extent, they did not write enough to earn all the marks allocated.
- Some candidates attempted the question in a very generic way and did not apply the triggers from the scenario.
- They provided a list of generic risks rather than identifying the context specific risks.
- Candidates also struggled with wording their risks appropriately at assertion level.

Part (e)(ii)

- The required has the worst result for this part of the paper.
- Many candidates did not answer this required at all.
- Those who did attempt it often provided a generic theoretical response and did not apply the theory to the context of the question. Therefore, they earned very few marks for their attempts.

PROFESSIONAL PAPER 4

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

Part I

- (a) On assumption that a company (Sibahle) chooses option 1 and enters into the lease with another company on 1 July 2023, candidates had to –
- (i) discuss the errors in the journal entry proposed by the company with regard to the initial recognition of a lease for specialised printing equipment; and
 - (ii) provide the journal entry(ies) to correct the errors identified and to record the finance costs and the payment for FY2024.
- (b) A discussion on whether the compensation in clause 7 of an agreement (Appendix A) will constitute gross income of yet another company (AllOut), for the year of assessment ending 30 June 2023.

- Candidates had to assume that Sibahle chooses option 3.
 - Candidates had to assume that the agreement was entered into on 1 January 2023.
- (c) Candidates had to advise Sibahle on whether it has an obligation to withhold employees' tax on the amounts paid to AllOut.
- Candidates had to assume that Sibahle chooses option 3.
- (d) A discussion on how AllOut would recognise revenue if the agreement with Sibahle is entered into.
- Candidates had to limit their answers to the first two steps of the five-step revenue approach in IFRS 15, *Revenue from Agreements with Customers*.

Part II

- (d) Candidates had to critically discuss the strategic risk factors and other relevant qualitative factors that a company (Sibahle) should consider with regard to each of three options proposed for the recovery strategy before making a decision.
- (e) Based on the information in the scenario, candidates had to quantitatively evaluate options 1 and 2 proposed for the recovery strategy and recommend which option should be selected.
- Candidates had to use discounted cash-flow techniques where necessary.
- (f) A discussion of any ethical concerns candidates may have with regard to a voice note sent by the marketing director to an influencer (Colleen) and how these can be mitigated.
- Candidates had to assume that Sibahle chooses option 3.

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 PART I

Maximum mark	Average mark	Marks > 50% (pass)	Marks < 50% (fail)
45	28,71	85%	15%

1 General comments on the degree of difficulty of the question

Candidates did well in this part of paper 4. Only a few candidates battled to complete all sections of the question, which was an indication of a lack of understanding of all issues in part I.

It appears candidates handled their time well in answering this part of the paper and provided comprehensive discussions

2 Feedback on the candidate responses

Exam technique

Those candidates who planned their answers before writing could score marks easily in part (d) without excessive writing.

Communication

Some candidates failed to conclude either within their discussion and at an overall level failed to address what was required, which resulted in lost marks.

Layout, structure and presentation

Legible handwriting remains a challenge and candidates are encouraged to work on this.

Relevance

There was some evidence of 'theory dumping' in parts (b) and (d) where candidates failed to apply the theory/principles to the scenario.

3 Feedback per each required section of the part
3.1 Areas that candidates handled well
<p>Part (a)(i) This part was well answered. The coverage and depth of discussions varied between candidates, however, although most addressed more than 50% of the errors.</p> <p>Part (a)(ii) Candidates did well in the journal entries and most candidates showed their workings.</p> <p>Part (b) Candidates who identified the key issue of accrual and unconditional entitlement did well.</p> <p>Part (c) Candidates who identified the key issue of PSP handled this part well.</p> <p>Part (d) Step 1 was answered well by most candidates, with good identification and application of the IFRS 15 principles relating to the existence of a contract.</p>
3.2 In what respect candidates' answers are considered to fall short of requirements
<p>Part (a)(i)</p> <ul style="list-style-type: none"> • Some candidates struggled with this part, and this impacted how well they did in part (a)(ii) to a certain degree. • Some of the errors were not identified or even where candidates identified the error, they could not clearly explain why it was an error. • The error that was most difficult for candidates to identify and explain related to the maintenance costs treatment. • There was repetition of the errors where candidates would identify the same error, just using different wording to describe it. • A few candidates recalculated the interest implicit in the lease despite the scenario specifying that this was not available. <p>Part (a)(ii)</p> <ul style="list-style-type: none"> • Some candidates provided depreciation journal entries, which were not required. • The calculation of the present value seemed to be challenging for some candidates. • Most candidates failed to include journal narrations and lost out on the presentation mark. <p>Part (b)</p> <ul style="list-style-type: none"> • Many candidates did not address each revenue stream separately but rather discussed them in aggregate. • In addition, an array of gross income principles was stated, which was not relevant to the scenario and issue at hand e.g., capital vs. revenue, onus of proof, received for own behalf. <p>Part (c)</p> <ul style="list-style-type: none"> • Many candidates erroneously applied the paragraph (a) definition of an employee (from the Fourth Schedule), thus discussing the exclusion to the remuneration definition and concluding that AllOut is an independent contractor. • Those candidates who were able to identify that paragraph (e) of the employee definition applied and that AllOut could be classified as a personal service provider fared well. <p>Part (d)</p> <ul style="list-style-type: none"> • This part was not highly complex, yet many candidates seemed to get lost and tangled in some of the intricacies of IFRS 15. • For one, only the first two steps of IFRS 15 were required yet many went on to discuss the timing of revenue recognition. • With regard to the first step, application of the principles and requirements to the case study were lacking or non-existent at times. • Some candidates provided an overly detailed discussion of the requirements of IFRS 15, concluding that a valid contract was not present. • Step two was an easy opportunity for marks for students that understood the principles of IFRS 15. Those that did not have a good fundamental understanding of the standard were unable to apply the criteria and

- considerations to the case study, often resulting in contradictory statements and conclusions being made.
- Here too, students at times fell short in marrying the technical IFRS requirements to the case study, thereby failing to demonstrate whether a requirement had been satisfied. This was particularly evident when looking at the need for separately identifiable promises.

PAPER 4 PART II

Maximum mark	Average mark	Marks > 50% (pass)	Marks < 50% (fail)
55	27,47	51%	48%

1	General comments on the degree of difficulty of the question
	<p>Paper 4 Part II was assessed as moderate to difficult. The paper covered several disciplines, including management decision making and control, strategy and risk management and ethics, and required a great deal of critical thinking skills throughout the different required sections.</p> <p>The calculation section was fairly straightforward, but with time pressure required efficiency in performing the calculations within the required time.</p> <p>Some parts of the discussion questions were challenging, but this was compensated by a mark plan which considered a wide coverage of factors. This made the discussions manageable.</p>
2	Feedback on the candidate responses
	<p>Overall, this part of the question was manageable and candidates were able to handle both the calculation and discussion required sections.</p> <p>As far as the calculations are concerned, candidates fared quite well with most of them being able to demonstrate a fair understanding of net present value principles. However, the embedded decisions and annual equivalents were more challenging.</p> <p>The discussion sections were also well handled and on average candidates provided comments that were specific to the information provided in the scenario, which was very encouraging. However, a significant number of candidates appeared to have struggled with providing valid risks relating to the strategic proposals that were presented to them. This observation was in line with previous sitting's observations with respect to candidates' performance in risk management questions.</p> <p>On the last question dealing with ethics, candidates performed fairly well and they were able to identify and effectively communicate the ethical concerns from the voice note. However, they struggled to provide mitigation strategies.</p>
3	Feedback per each required section of the part
3.1	Areas that candidates handled well
	<p>Part (e)</p> <ul style="list-style-type: none"> Candidates identified the triggers for the basic strategy points, and linked the point identified to the impact on the company. <p>Part (f)</p> <ul style="list-style-type: none"> The principles of net present value were identified and dealt with well. Candidates generally performed the relevant calculations and identified the cash flows that needed to be included in each of the different decisions for the two parts. Candidates generally were able to identify the wear and tear and recoupment cash flows, and implemented the relevant costing principles correctly. The lease vs buy embedded decision was also well identified and cash flows included, including the different tax aspects in the embedded decision. Net present value calculations were performed correctly in general, and candidates provided conclusions on

the decision after calculations.

Part (g)

- Candidates generally performed well in the ethics task, identifying the bribe that was being made to the judge, and the implications thereof.
- Candidates also identified the good for self and other considerations, and generally identified these well for the different stakeholders.

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

Part (e)

- Strategic considerations were required for the three options provided, which limited the breadth of the environment, and in effect prevented candidates from providing more generic strategic points.
- There were however many marks available in the scenario that were triggered by the various options, but candidates failed to apply these more broadly and to link them to their strategic impact on the company.
- The lack of breadth required candidates to use the detail in the scenario (the three options) to identify risks, and then to apply these to the impact on the company. Candidates often battled to apply the broader principles within the narrower confinement of the options.
- Candidates failed to make full use of the scenario, and instead defaulted to using the broader strategic learned points (generic lists) with which they were generally more familiar.
- The required was therefore effective in requiring thinking through the micro environment on the day, rather than dumping points from a broader and more generic learned set of points.
- This resulted in the average for this required on strategic thinking being lower than in some previous sittings of the ITC.

Part (f)

- The net present value basic principles and calculations required candidates to work efficiently and effectively, as time was relatively tight on the required.
- The difficulty was not necessarily only in the principles, but rather in the need to work efficiently and creating an efficient structure in the calculations.
- Candidates therefore often ran out of time in the calculations, or alternatively compromised required (e) or (g) because of poor time management.
- Candidates often did not identify the embedded decisions related to the lease vs buy decision, and the need to conclude a number of times on the different aspects of the decision as a whole.
- Candidates also in general did not identify that the two options were for different life spans (two and six years), and that they therefore could not be compared directly with net present value tools alone, and that the use of annual equivalents would be necessary in order to compare the options (converting the NPV into an annual equivalent amount), or alternatively a replacement chain could be constructed. Candidates did not necessarily need to do this if they assumed that the options were not mutually exclusive, and could then rather conclude that they would accept all positive NPV projects.
- When considering the alternatives in option 2, many candidates did not use net present value, and ignored the time value of money, performing profit calculations instead.
- Candidates in general did not consider a tax shield for the investment part of the two packages, and then failed to consider the use the S23H deduction to spread the cost over the period of the benefit.
- Some candidates included discussion in this part, despite the 'quantitatively evaluate' requirement.

Part (g)

- There was a general lack of structure in the attempts for this required, instead of building a coherent ethical consideration.
- Some candidates referred to the SAICA Code of Professional Conduct, which was not applicable in this case as Charles was not a CA(SA).
- Some candidates also indicated that there was a reportable irregularity, despite there not being an auditor relationship in the scope of the required.
- The request for mitigating actions for the ethical concerns is not something that has been asked previously in an ITC setting, and therefore would have been unfamiliar to candidates. This was generally poorly attempted.

