



**MARKERS' AND UMPIRES' COMMENTS
INITIAL TEST OF COMPETENCE
JUNE 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 June 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 set, marked and adjudicated; comments on general shortcomings in answers; and specific comments on each question of the four examination papers.

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

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

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

STATISTICS FOR ITC JUNE 2023

	Pass %	Passed	Failed	Total
All candidates	40%	470	694	1164

Average marks per question (all candidates)

Paper 1	Part I	Part II	Total
Total marks	51	49	100
Average marks	22	21	44
Paper 2	Part I	Part II	Total
Total marks	58	42	100
Average marks	32	18	50
Paper 3	Part I	Part II	Total
Total marks	68	32	100
Average marks	33	19	53
Paper 4	Question 1	Question 2	Total
Total marks	50	50	100
Average marks	23	17	40

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

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

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

1 Source of the questions

The ITC Examco is a sub-committee of the SAICA Chartered Accountant Professional Development Committee (CAPD Committee), and takes overall responsibility for the setting of the examination papers. Examination questions are 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 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 questions and mark plans.

Marking of the ITC June 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 CAPD Committee considers all relevant evidence, including the following, to determine whether the marks to be awarded for each question should be adjusted:

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

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

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

It is important to note that no person from academia who is a member of SAICA's CAPD 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 CAPD Committee); who achieved less than 25% for the exam as a whole; or who did not

achieve the requirement of a 40% minimum per paper (see par. 4.12 of the section on the general comments below) are extracted and a third and final review is undertaken of such candidates' scripts.

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

Candidates whose scripts are selected for the borderline review are not awarded the secretaries' mark because they have had the benefit of a further and more detailed review of their papers.

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

GENERAL COMMENTS ON THE ITC JUNE 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	Taxation	Management decision making and control	Ethics	Communication
Required ranges in terms of the SAICA guidelines (since 2013)	60 – 100 marks	40 – 60 marks	60 – 100 marks	60 – 100 Marks	60 – 100 Marks	20 – 60 marks	20 – 30 Marks
	15 – 25%	10 – 15%	15 – 25%	15 – 25%	15 – 25%	5 – 15%	5 – 7,5%

	Accounting and external reporting	Strategy, risk management and governance	Audit and assurance	Taxation	Management Accounting and Finance (MAF)	Ethics (including CPC)	Effective and efficient comm	TOTAL
Paper 1 Part I		19			38		2	59
Paper1 Part II	39						2	41
Paper 2 Part I	56						2	58
Paper 2 Part II		14	19			6	3	42
Paper 3 Part I			45			20	3	68
Paper 3 Part II		10			20		2	32
Paper 4 Question 1				47			3	50
Paper 4 Question 2			25	18		5	2	50
	95	43	89	65	58	31	19	400
	24%	11%	22%	16%	15%	8%	5%	

3 Overall comments on the papers

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

Paper 2 consisted of a single scenario, with the required sections divided into two parts. The first part examined **accounting and external reporting** and the second part dealt with **strategy, risk management and governance, audit and assurance, and ethics**.

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

Paper 4 consisted of a two separate questions. Question 1 examined **taxation**, while the second dealt with **audit and assurance, taxation and ethics**.

4 General comments

From a review of candidates' answers to the eight required sections for the ITC June 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 do not do well in the examination.

4.2 Workings

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

4.3 Communication

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

In addition, markers found that candidates used their own abbreviations (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 does ensure that candidates who write answers in the incorrect book are marked by the correct mark team, but this adds to the marking time).

4.7 Irrelevancy

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

4.8 Drilling down

Responses, particularly in the financial management, management decision making and control and the strategy, risk management and governance areas are often provided by simply repeating the information given in the question. Candidates are unable to drill down to assess what the underlying problem areas are and do not put any effort into going beyond what is stated in the question. Candidates need to draw on their entire knowledge base in order to provide in-depth and meaningful insight, particularly in analysis-type questions.

4.9 Recommendations / interpretations

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

Candidates should communicate reasons for calculations, if required. A discussion of a case study should always have a conclusion. Or if it requires that a decision be made, a conclusion alone is not sufficient; it requires that the conclusion be discussed and motivated.

4.10 Examination technique

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

4.11 Open-book examination

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

- **No loose pages** (of any kind) may be brought into the exam.; and
- Writing on flags – as per section 4.4 of the SAICA examination regulations:

Candidates are only allowed to highlight, underline, sideline and flag in the permitted texts. Writing on flags is permitted for reference and cross-referencing purposes only, that is, writing may only refer to the name or number of the relevant discipline, standard, statement or section in the legislation.

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

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

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

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

4.12 Paying equal attention to all the competency areas

It is disappointing to note that candidates still appear to be most prepared to respond to accounting and external 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 a 100-mark question, consisting of two parts that dealt with the following aspects:

Part I

- (a) Candidates had to calculate the internal rate of return (IRR) for option 1: Dark kitchen and accompanying software application.
- For calculation purposes, candidates had to assume that today's date is 31 December 2022.
 - The analysis had to be limited to the period up to 31 December 2025.
 - Candidates had to provide brief reasons for omissions/exclusions from their calculations.
 - All workings and answers had to be rounded to the nearest whole number.
- (b) Candidates were required to calculate the IRR for option 2: EatWell (a company that provides exclusively plant-based meals).
- For calculation purposes, candidates had to assume that the date was 31 December 2022.
 - The assumption was that Sun Food sells its stake on 31 December 2025.
 - All workings and answers had to be rounded to the nearest whole number.
- (c) Provision of a recommendation on the best investment option for the company, taking into consideration calculations in parts (a) and (b), as well as any relevant strategic factors.
- Candidates did not have to perform any further calculations.

Part II

For requireds (d) and (e), candidates had to assume that the company decided to go ahead with the dark kitchen and the accompanying software app, and that all forecast amounts have been achieved.

- (d) Candidates had to discuss how the app created by a US-based hospitality consultancy firm (CCC) should initially be recognised and measured by Sun Food in terms of IFRS.
- All amounts had to be rounded the nearest ZAR'000.
- (e) Preparation of the journal entries to record the contract entered into with CCC to develop the app, in the accounting records of Sun Food for FY2023 and FY2024.
- All amounts had to be rounded the nearest ZAR'000.
 - Candidates had to assume that all amounts were material.
 - Candidates did not have to provide journal narrations.
 - Candidates could ignore closing entries.
 - Candidates could ignore all tax consequences.

For required (f), candidates had to assume that the company elected to invest in the company that provides exclusively plant-based meals and that all forecast amounts were achieved.

- (f) Preparation of an extract of the following statements of the group as at 31 December 2023, in so far as the information allows:
- Statement of profit or loss for the year;
 - Statement of financial position; and
 - Statement of cash flows, for the cash flows from investing activities only.
 - All amounts had to be rounded the nearest ZAR'000.
 - All amounts were material.
 - Candidates were not required to provide notes to the financial statements and accounting policies.
 - Candidates did not have to provide comparative figures.

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)
51	22	397	767

1 General comments on the degree of difficulty of the question

Most providers regarded the paper as moderate to difficult overall. Requireds (a) and (b) were calculation based, in which candidates are expected to do well in generally. Part (a) was regarded as moderate but careful attention was required in terms of classifying transactions in the correct period. This elevated the difficulty level even though the transactions given were straight forward.

Part (b) was expected to be challenging to candidates mainly because of the integration between capital budgeting techniques and valuations. The required demanded that candidates perform an EBITDA valuation. Although this was not explicitly required, it was embedded in the internal rate of return techniques. A high level of application was required in this section with a good understanding of capital budgeting and EBITDA valuation, which is why the expectation was that candidates would find this section challenging.

The general expectation was for candidates to do well in part (c), as this section was open ended and candidates had a lot of points that they could note.

The overall performance was not satisfactory on any of the three sections. No time constraints issues were noted, and the main reason for poor performance related to limited knowledge and understanding of capital budgeting techniques and valuations. As the scenario was well presented and familiar to most candidates, one could reasonably argue that the length of the scenario/type of industry could not be a factor for the poor performance.

2 Feedback on the candidate responses

The question relied mainly on an understanding the principles of capital budgeting and valuations. Most candidates demonstrated a lack of understanding of such principles, which was observed through various areas such as cash flows into the wrong years, not clearly understanding which cash flows were relevant, which cash flows were relevant for tax and which were relevant for IRR only.

Part (c) had 19 marks, but candidates did not provide enough relevant points. There was no observation of time being an obstacle, the reason for lack of coverage was mainly linked to limited knowledge of the principles tested.

3 Feedback per each required section of the question

3.1 Areas that candidates handled well

Part (a)

- Most candidates managed to note on the market research was a sunk cost and therefore not relevant to the IRR calculation.
- Candidates realised that the lost revenue from closing the five franchises should be recognised as an opportunity cost.
- Many candidates noted that the rental to be saved together with the penalty should be included in the calculation.
- Taxation cash flows were taken into account in deriving the IRR.
- The rental expense for the dark kitchen was correctly treated by most candidates.

Part (b)

- Candidates correctly accounted for the first and second payment of the investment in Eatwell.
- Candidates recognised that dividends received should be considered.
- A handful number of candidates managed to note that the sales value needed to be accounted for in deriving the internal rate of return.

Part (c)

- Most candidates' discussion covered both option 1 and 2 as required, together with strategic factors.
- Most candidates touched the possible exchange rate risk from option 1, the lack of expertise by Sunfood in operating the App, whether the Sunfood has the required cash and other few points covered on the suggested solution.

<ul style="list-style-type: none"> Candidates concluded on which option to go for as required.
3.2 In what respect candidates' answers are considered to fall short of requirements
<p>Part (a)</p> <ul style="list-style-type: none"> The main drawback on this part was candidates' understanding of timing of the cash flows, i.e. not understanding which year to classify cash paid/received in advance vs in arrears. There was a lack of understanding that a period in capital budgeting is not the same as in financial accounting terms. On the issue of cash flow timing, candidates demonstrated a lack of understanding demonstrated on the tax working, that is, an understanding that in the case of some cash flows in advance, the tax benefit would only arise a year later. Most candidates did not perform the tax calculation separately. There was lack of understanding about which cash flows were relevant and which were not within the IRR calculation. <p>Part (b)</p> <ul style="list-style-type: none"> Most candidates missed that they had to perform an EBITDA valuation and the majority of those that did, demonstrated a limited understanding of its principles. That is, instead of only performing the calculation in the year 2025, it was done for all years. Unearned profit mark was missed by most candidates. Most candidates adjusted the multiple of 6 provided, which indicated lack of understanding as this multiple was agreed upon beforehand and thus there was no need for adjustment. Most candidates missed the capital gains tax calculation and did not consider operational cash either. <p>Part (c)</p> <ul style="list-style-type: none"> Most candidates' responses lacked coverage and depth. Many candidates repeated points, which wasted time and earned no extra marks. The majority of the points provided lacked relevance and application to the scenario.

PAPER 1 PART II

Maximum mark	Average mark	Marks > 50% (pass)	Marks < 50% (fail)
49	21	361	803

1 General comments on the degree of difficulty of the question
<p>The umpires and the team believed that the question was moderate, but the level of difficulty was increased to difficult due to the level of integration with MAF. Further, the unique way in which the information was presented, and the requirement of extracts of financial statements on the assumption that all forecast information was achieved, elevated the difficulty of the question.</p> <p>Part (d) and (e) was rated as being moderate to easy and overall candidates performed well in these sections.</p> <p>Part (f), because of the aforementioned reasons, appeared to be at a moderate to difficult level of difficulty.</p>
2 Feedback on the candidate responses
<ul style="list-style-type: none"> Candidates who performed well in this part were those who were able to plan their answers and apply the relevant theory to the facts from the scenario, clearly show and cross reference their calculations and kept to the allocated time per section. Some candidates did not show or reference their workings. Where incorrect answers were given without supporting calculations, possible correct inputs could not be awarded marks because they were not shown. Some candidates' answers lacked application and they failed to apply the requirements of a particular IFRS definition or principle to the detail provided in the scenario. In some cases candidates could not demonstrate the basic financial statement format requirements of IAS 1. Some candidates drew a line through pages of their answers which included correct answers.

3 Feedback per each required section of the part
3.1 Areas that candidates handled well
<p>Part (d) Most candidates identified that the app was an intangible asset and discussed the definition and/or recognition criteria of an intangible asset.</p> <p>Part (e) Many candidates prepared the journal entries to recognise the intangible asset, make the cash payment and raise the accounts payable amount.</p> <p>Part (f) Many candidates were achieved the easier marks for presenting the given amounts in the SPLOCI and SFP.</p>
3.2 In what respect candidates' answers are considered to fall short of requirements
<p>Part (d)</p> <ul style="list-style-type: none"> • Candidates who performed poorly in this part failed to recognise that this was a purchased intangible asset, or they mentioned the definition and recognition criteria of an intangible asset, but failed to apply the definitions to the scenario. • Some candidates made statements without adequately substantiating their statements. Candidates would state that it was an asset but not go into detail about the individual requirements of an asset. In a similar fashion, candidates would not consider each component of the intangible asset definition, but would for example merge 'non-monetary and without physical substance'. • A fair number of candidates did not provide a conclusion. • For some candidates time was an issue, as they did not plan their responses, and one could see too much writing for this part and concepts being repeated. • Payments were made on different dates and some candidates did not know how to use the foreign exchange rates on the respective transaction dates. Many candidates failed to discuss the IAS 21 foreign exchange impact related to the initial measurement of the app. • Some candidates wasted time by discussing the subsequent measurements of the intangible asset, which were not required. <p>Part (e)</p> <ul style="list-style-type: none"> • A fair number of candidates missed some of the basic journal entries, for example, recognising amortisation and the interest expense. • Many candidates adjusted the initial cost of the non-monetary intangible asset with subsequent foreign exchange differences. • Many candidates were unsure of how to treat the deposit paid before recognising the app as an intangible asset. • Many candidates missed the foreign exchange on the interest expense, both recognising it and using the correct rate (average rate) to record that expense. <p>Part (f)</p> <ul style="list-style-type: none"> • A fair number of candidates did some calculations, but failed to bring in into their statements or provide context as to why those calculations were performed. • Many candidates did not read the required section properly. They wasted time by presenting irrelevant information, for example, presenting the app in the AFS. • Many candidates did not know which line items to include in the AFS and could not illustrate basic financial statement format requirements of IAS 1. • Many candidates could not illustrate basic equity accounting principles.

PROFESSIONAL PAPER 2

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

Part I

- (a) Candidates had to present the information relating to subsidiary based in the Netherlands in the statement of profit or loss and other comprehensive income of the Group for FY2022.
Candidates were instructed to –
- ignore the tax consequences that the Group would incur on the disposal of the subsidiary;
 - ignore the attribution of amounts to the equity holders of the parent and the non-controlling interests;
 - ignore note disclosures;
 - ignore comparatives; and
 - round amounts to the nearest ZAR.
- (b) A preparation of the journal entries that account for the information provided in respect of a coated paper production plant in the financial records of a company for FY2022.
Candidates were instructed to –
- ignore all forms of tax;
 - ignore dates of journal entries;
 - ignore closing entries; and
 - round amounts to the nearest ZAR.

Part II

- (c) A description of the substantive audit procedures that the auditors should have performed on the disposal of the investment in a subsidiary based in the Netherlands and the corresponding transactions in the separate financial statements of the group for FY2022.
- (d) A description of the substantive audit procedures that the auditors should have performed on the fair value less cost to sell calculation of land only for FY2022.
- (e) With reference to the information relating to restructuring of management share incentive awards, candidates had to –
- (i) critically evaluate the remuneration alternatives based on good performance evaluation principles; and
 - (ii) discuss any business ethics and corporate governance concerns they may have.

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)
58	32	761	402

1 General comments on the degree of difficulty of the question

Part (a): Moderate to difficult

Providers assessed the question to be moderate to difficult and the latter is attributable to the potential scope creep issue regarding the foreign subsidiary held for sale/discontinued operation. Providers anticipated that candidates may struggle with part (a) due to being 'thrown off' by the IFRS 5 issue.

Part (b): Easy to moderate

Providers noted that candidates could do well in this question, but expressed a concern of the repetitive testing of

depreciation and impairment calculations. Providers were of the view that instead of such repetition, there was scope to assess other financial reporting topics such as deferred tax.

Overall candidates' performance in parts (a) and (b) were comparable. Only a handful of candidates were able to provide the necessary presentation of a discontinued operation as required in part (a). This further confirmed the providers' concerns regarding the potential scope creep as it related to IFRS 5. Candidates struggled with part (b) with many not identifying IAS 36 issues but rather recognising the group of assets as a disposal group as per IFRS 5. While some marks were awarded, they were minimal. Some candidates did not attempt the full paper, resulting in the lower than anticipated performance.

Providers noted that insufficient marks were awarded that did not adequately compensate for the required time and effort in answering the question. These have been adjusted in a consistent manner. In some cases, providers noted that no marks were awarded altogether, although time was required for the amounts presented. This resulted in inconsistent awarding of marks which was not in line with how previous questions had been marked.

2 Feedback on the candidate responses

Exam technique: Candidates often computed amounts that were subsequently not used in answering the question. These were indicators of poor exam technique for both parts of this question.

Time management: Some candidates displayed a lack of time management skills in answering this question because some parts were inadequately completed or attempted.

Recommendation: Candidates should practice good exam technique by using computations in answering the required. Once amounts are calculated, the amounts should be used in answering the final answer as opposed to having 'hanging' calculations that are not used at all. Furthermore, calculations should be referenced.

Workings (and references to workings): Many candidates did not reference their workings, making it difficult to follow the candidates' thought processes and flow of answers.

3 Feedback per each required section of the part

3.1 Areas that candidates handled well

Part (a)

- Candidates who did well in part (a) prepared an analysis of equity and provided references to their workings.
- The majority of the candidates identified the disposal of a subsidiary and thus calculated a gain/loss on the sale of the subsidiary. This included identification of deferred consideration and its initial accounting.
- The majority of the candidates identified that three months' worth of profits for the subsidiary had to be consolidated before the actual sale.

Part (b)

- Most candidates identified that inventory though a part of the CGU, but did not allocate an IAS 36 impairment to it.
- Most candidates calculated and journalised the IAS 16 impairment adequately.
- Candidates identified the existence of the cash generating unit, although the impairment calculations were not well attempted.

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

Part (a)

- Candidates attempted parts of the question by providing only workings at times and not transferring the amounts to the actual statement.
- Many candidates incorrectly adjusted for the revaluation of late post-acquisition aspects. Candidates did not adjust for the fair valuation that occurred at acquisition and incorrectly recognised the full R450 000 as a post-acquisition gain.
- Despite the fact that the capital gains tax inclusion rate was stated as being 0%, some candidates continued to calculate deferred tax on adjustments made.
- Many candidates struggled with the FCTR calculation although fair attempts were made. Where this was done, some candidates did not split FCTR computation between one arising from NAV to FCTR arising from goodwill.
- A limited number of candidates presented discontinued operations on the face of the statement. The majority of

candidates who did present the statement, presented Maastricht as a normal/continuing operation. Ultimately, most candidates did not identify that discontinued operation presentation was required or applicable.

- A limited number of candidates processed a reclassification of the FCTR from OCI to P/L.
- Some candidates wasted time presenting attribution profits between the parent and NCIs, a section of the statement which was scoped out of the required.
- Poor planning was also evident where deferred payment would be accounted for correctly initially, where a present value was computed. But then, no finance income – subsequent accounting is performed. A limited number of candidates calculated a forex gain or interest income on deferred consideration.

Part (b)

- Candidates attempted parts of the question, providing only workings at times, and not the journal entries. Workings were not transferred to the actual journal entries.
- The majority of the candidates accounted for depreciation correctly in part (b), but struggled with impairment of the CGU. Candidates incorrectly performed the impairment calculation for individual assets and applied the limits incorrectly for individual assets as if those were recoverable amounts.
- Very few candidates computed the second round of allocating the excess impairment loss.
- Some candidates ignored IAS 36 and incorrectly reclassified the various assets to IFRS 5 as a disposal group.
- Some candidates made an error with splitting the depreciation expense among the various asset types, instead of splitting the accumulated depreciation account to the various types of assets.
- Candidates lost communication skills mark for not providing journal narrations.
- Some candidates did not indicate P/L, SFP or SCE in their journal entries.
- There was an evident lack of knowledge with respect to impairing a CGU, especially where some limits to the amount that could be impaired for individual assets was provided. This information was used and applied incorrectly.

PAPER 2 PART II

Maximum mark	Average mark	Marks > 50% (pass)	Marks < 50% (fail)
42	18	347	817

1 General comments on the degree of difficulty of the question

The paper as a whole covered several disciplines, including financial accounting, financial management, strategy and risk management and governance, and ethics, and required a great deal of application of critical thinking skills throughout. The substantive procedures were more manageable.

The question was rated by the providers as moderate to difficult. The providers suggested that the main reason that candidates might struggle in parts (c) and (d) was because of the integration with financial accounting. If candidates struggled with the accounting part, they would also struggle with the auditing section. The mark plan does however compensate to a degree with more available marks which may have been easier to obtain.

Part (e) was moderate to difficult. The question itself was not necessarily difficult, but the lack of practical experience with remuneration and performance was more challenging for candidates, and marks were lower for this required.

Management of time was important, and was challenging for candidates due to integration, the wording of the required (part (ii) as opposed to a separate required for a separate competency area), and that is was also conceptually difficult.

2 Feedback on the candidate responses

Overall the section was manageable and candidates were able to handle the discussion sections of the questions. Due to the extend of discursive areas, however, there was a time pressure.

The substantive procedures in parts (c) and (d) were handled well by candidates, and on average candidates provided comments that were specific to the information provided in the scenario, which was very encouraging.

A significant number of candidates appeared to have struggled with the performance evaluation required in (e) and related governance and ethical issues. This section was conceptually challenging for candidates, and where they battled with an understanding of the instruments, they tended to battle with the ethical considerations as well. This was also impacted by the lack of practical experience with remuneration and performance measurement and resulted in underperformance.

The ethics in part (ii) on the directors' remuneration is innovative and has not been examined before. The business ethics for a business process was conceptually more challenging, for candidates did not have for example the CPC or APA to fall back on, although King IV and the Companies Act were relevant here and could be used. To perform a proper consideration of the issue would have required thinking and reflection time.

3 Feedback per each required section of the part

3.1 Areas that candidates handled well

Part (c)

Substantive procedures were addressed well, procedures were well worded and identified well for the transaction.

Part (d)

Candidates performed particularly well on the provision of substantive procedures for the fair value less cost to sell of the land as they were more comfortable with the financial accounting aspects.

Part (e)(i)

Candidates in general identified the control issue within performance evaluation, as well as that non-financial considerations should be included in performance measures.

Part (e)(ii)

Candidates identified the issue with the CRIO, suggesting that the instruments were not appropriate, and that a remuneration committee should rather be used. Candidates also often identified issues related to King IV contravention, and Companies Act issues.

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

Part (c)

- Candidates often missed that the question specifically required consideration of the separate financial statements (which was measured at cost) and consequently the candidates lost a lot of marks for going into the audit of the group gains, and therefore tended to overcomplicate the audit procedures.
- Because the candidates started to focus on the more difficult consolidation procedures, they neglected good exam technique to first describe the basic general audit procedures.
- Candidates often considered IFRS5 procedures, which was not asked for.
- Some candidates audited the initial purchase of the investment in 2008, which was not necessary as they had already been audited.
- In many cases candidates did not formulate their audit procedures correctly and most often marks could not be awarded because the candidates did not sufficiently explain the action the auditor should perform, or they did not explain what they are doing, or they did not provide the reason they were performing the procedure. The for example used statements such as 'ensure the exchange rate is correct', which does not demonstrate where and how it should be done by the auditor.

Part (d)

- Candidates lost marks in this question because they were not specific in what audit evidence would be necessary to verify the calculation. For example, they would state 'verify that the expert is independent', without going into any details, which caused marks to be lost.
- Some candidates may have gone wasted time by providing audit procedures that were too detailed for 7 marks.

Part (e)(i)

- Candidates tended to battle with the more advanced financial instrument performance evaluation principles, and consequently attempts tended to focus on general concerns based on information provided without addressing these principles in detail.
- Candidates also tended towards rewriting the information from the scenario with no application or link to relevant theory.
- Candidates often missed the easier to obtain marks, perhaps a consequence of them being trapped in the more

technical aspects.

Part (e)(ii)

- Instead of dealing with the business ethics dilemma, candidates often discussed the SAICA Code of Professional Conduct, forcing this in by assuming that the role players were CAs and did not recognise that these role players are directors.
- Some candidates misread the required and listed business risks.
- Candidates often provided theory from KING IV with no application to the information provided.
- Candidates often discussed ethical concerns on page 1 (the auditor's independence), which was outside of the scope of the required.

PROFESSIONAL PAPER 3

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

Part I

- (a) A discussion, based only on the information in the scenario, of the matters of concern that an audit firm should have considered before it accepted the audit engagement with a company for FY2022.
- Candidates did not have to address any safeguards or courses of action the audit firm should have implemented to address the concerns.
- (b) A discussion of the professional conduct of three third-year trainee accountants in terms of the SAICA Code of Professional Conduct.
- Candidates did not have to address any safeguards or courses of action.
- (c) A discussion of any ethical concerns for the audit firm arising from chocolate hampers and vouchers received by its audit team members.
- Safeguards did not have to be addressed.
- (d) Candidates had to prepare, based on the information in the scenario, the directors' remuneration note that should be included in the company's financial statements for FY2022 in accordance with the Companies Act of 2008.
- Candidates had to assume the directors attended all the meetings they were required to attend.
 - Candidates had to ignore comparative figures.
- (e) A description of the substantive audit procedures the candidate would perform to obtain sufficient appropriate evidence regarding the loan guarantee granted to the chief marketing officer.
- Candidates did not have to include any procedures dealing with the accuracy or valuation of the guarantee.

Part II

- (f) Candidates were required to calculate the cost of cream liqueur chocolate truffles manufactured during the last production week of FY2022.
- (g) A discussion of the key considerations that should be taken into account when deciding on the purchase of a new Swiss truffle-making machine.

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)
68	33	631	533

1 General comments on the degree of difficulty of the question
<p>Overall, the team felt the paper was easy to moderate.</p> <p>There were some candidates who addressed concerns relating to required (c) (<i>CPC gifts & hospitality</i>) as part of required (b) (<i>Other CPC concerns</i>), but these were dealt with by being cross marked by the marking team. While this was the case, only a few candidates had addressed required (c) in required (b) and that none had wasted time repeating the same CPC issues later in required (c). Accordingly, there was no indication of candidates being disadvantaged due to the layout and structure of the required.</p>
2 Feedback on the candidate responses
<p><u>Exam technique:</u> Candidates who did well were those who used their basic knowledge of directors' disclosures to tackled required (d) instead of regurgitating the scenario as given. Workings were not referenced appropriately nor did the candidates have the necessary presentation layout to earn the easy marks.</p> <p><u>Time management:</u> The candidates managed their time well with most of the required being attempted.</p> <p><u>Relevance:</u> The candidate's responses lacked application to the scenario, especially with regard to the required sections which which they battled. The impact and reasons with explanations were lacking.</p>
3 Feedback per each required section of the part
3.1 Areas that candidates handled well
<p>Part (a) The following client acceptance factors were sufficiently discussed:</p> <ul style="list-style-type: none"> • Impact of listing on the AltX; • Integrity of management relating to false marketing; • Personal travel expenses paid using business funds; and • Technica not having sufficient audit resources, and specifically insufficient audit managers. <p>Part (b) Generally, this section was well discussed. Candidates could identify the issue, address the threat and fundamental principles with some explanations. However, there was limited evidence that they were able to assess the level of the threat</p> <p>Part (c) Generally, this section was well discussed. Candidates could identify the issue, address the threat and fundamental principles with some explanations. Again, there was limited evidence that they were able to assess the level of the threat.</p> <p>Part (d) Some candidates applied themselves to the basic information given, such as the fee per meeting, number of meetings attended and different fee structures applicable to each director.</p> <p>Part (e) Candidates performed well if they were able to identify both sections that related to section 45 of the Companies Act, relating to financial assistance and section 75 that deals with directors' personal interest.</p>
3.2 In what respect candidates' answers are considered to fall short of requirements
<p>Part (a) The candidates did not identify sufficient concerns in relation to client acceptance, although they presented good discussions on independence. In general, candidates provided –</p> <ul style="list-style-type: none"> • limited CPC considerations; • limited ISA's considerations; and • repetition of the information provided in the scenario but failed to apply it.

Part (b)

Despite most candidates coping fairly well with this required:

- Some candidates struggled with identifying the concerns and discussing the issues with sufficient explanations.
- Mainly the concern relating to Fundiswa offering training to the client and preparing deferred tax computation on behalf of the client is not addressed.

Part (c)

While most candidates coped well with this required, some struggled with identifying the concerns and a discussion of the possible threats and mainly concluded on the significance/materiality of the gifts that had been received by the audit team.

Part (d)

The candidates struggled with exam technique, for example by providing calculations without reference to specific directors and related disclosure per director.

- Not all categories of the directors' remuneration note were disclosed. Candidates missed the impact of audit committee and remuneration committee meeting fee.
- Candidates used the same calculations for all the directors, thus assuming that all had the same salary structure.
- Basic information such as the number of meetings was not used in calculations.
- Presentation and layout of responses did not favour earning of easy marks for the disclosures.

Part (e)

- Candidates appeared to be addressing section 45, relating to financial assistance, rather than section 75 relating to directors' personal interest.
- They lost all the marks allocated to addressing section 75.
- Substantive audit procedures outside the Companies Act relating to meeting notices and logistics and the MOI were not addressed appropriately, and were either incomplete or did not fully address the issue.

PAPER 3 PART II

Maximum mark	Average mark	Marks > 50% (pass)	Marks < 50% (fail)
32	19	942	222

1 General comments on the degree of difficulty of the question

This question was moderate to difficult. The complexity of the process and complex mathematical calculations elevated it to a difficult level.

The difficulty per sub-section was perceived to be as follows:

- Section (f) Difficult
Section (g) Moderate

Providers felt that the information presented on the manufacturing process was long and complex to understand under examination conditions. The complexity required re-reading and analysing which was difficult under the time pressure of an exam setting. Most providers agreed that the question was mathematically complex.

There was very little information in the scenario to inform the strategic factors to be taken into account in part (g). Initially it was a concern, but this actually seemed to help candidates who were able to discuss generic issues. The fact that two marks were awarded per fact or point also made this easier for candidates to earn marks in this section.

It appeared as if the majority of candidates opted to do the discussion question (g) first as opposed to the costing question (calculations). This is in contrast to the usual situation, in which candidates attempt the calculation-type questions first. This is possibly a further indication of the perceived difficulty of the process.

2 Feedback on the candidate responses

- Overall, candidates seemed to have chosen one of the sections and performed better in one section. In many cases

<p>one of the sections was not attempted at all.</p> <ul style="list-style-type: none"> • Candidates failed to understand the process of manufacturing the chocolates and more specifically, the truffles. • Time management was an issue in this question. Some candidates wrote the whole process (trying to make sense of it) but thereby wasting time and not actually answering the question. • In this paper a lot of candidates opted to attempt the discussion question first and left the calculations for last. • Many candidates did apply their discussions to the scenario, merely listing factors to be considered. Some discussions were very short and there was limited discussion of the impact of the factors listed on the company. There were also pre-prepared answers leading to issues being discussed that had no bearing on the scenario.
<p>3 Feedback per each required section of the part</p>
<p>3.1 Areas that candidates handled well</p>
<p>Part (f)</p> <ul style="list-style-type: none"> • Candidates did well in the presentation of calculations. Although it was evident that some candidates did not understand the fact pattern, they nevertheless showed all their calculations and it was only in limited cases where it was unclear how an answer or amount was derived. • Most candidates managed to calculate the rate per hour for the overheads of the different phases of the manufacturing process.
<p>Part (g)</p> <ul style="list-style-type: none"> • Candidates performed well in identifying considerations that would generally be considered in a capital investment decision. • Many candidates did apply the information to the question and explained the impact of the considerations identified instead of merely listing factors. • There were a few who gave a laundry list, but for the most part candidates presented full sentences and applied the information given in the scenario, e.g. they mentioned the unemployment problem given in the scenario, they wrote about the quality of the product losing its uniqueness. As a result, they did very well in this question.
<p>3.2 In what respect candidates' answers are considered to fall short of requirements</p>
<p>Part (f)</p> <ul style="list-style-type: none"> • Candidates seemed to struggle to understand the scenario. Some wrote down the whole process (as if to try to establish a flowchart) in an attempt to understand the process but never actually got around to answering task (f). In some cases, it seemed as if they just cut their losses after an attempt to understand the process and moved on to task (g). • Candidates struggled to keep up with the volume of the mixture, i.e. taking into account by-products, spillages and material added. • It was a complicated mathematical problem and candidates struggled with the calculations, for example applying percentages and fractions correctly. • Candidates struggled to identify the fact that the proceeds from by-products should be included in the costing. • Knowing the difference between normal and abnormal losses and how to take these into account in costing seemed to be a problem. • It was stated in the scenario that 20% of chocolate was used for truffles. However, for the cream liqueur truffles it was specifically mentioned that 40 kg of chocolate was used for this. However, candidate became confused by the 20% and multiplied production volume after the processes of preparing the chocolate with 20%.
<p>Part (g)</p> <ul style="list-style-type: none"> • In some cases there was lack of proper discussion, with some candidates just providing a list instead of a discussion as required in this section. • Some answers were very generic. While the limited information provided in the scenario might have encouraged this, some discussions were very superficial. For example, candidates simply mentioned that currency risk should be considered without explaining why this should be taken into account or what the impact of this would be on the company.

PROFESSIONAL PAPER 4

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

Question 1

- (a) Candidates were required to calculate the taxable income of a family trust, and that of each of its individual beneficiaries, for the 2022 year of assessment, based on the information in a section on the trust.
- Candidates had to indicate each item not included in or removed from the trust's taxable income calculation.
 - Candidates had to provide a brief reason for the accrual or attribution of any amounts, where applicable.
- (b) A calculation of the effect of different long-term investments on the taxable income of Vincent (one of the trust beneficiaries) for his 2022 year of assessment.
- Candidates had to show all nil effect items, supported with a reason.
 - Candidates were instructed to ignore the effect of any double tax agreements.
- (c) Candidates had to indicate which of two possible options to finance new investments was the most tax beneficial for Vincent.
- Candidates had to support their answer with an explanation of the different tax implications for Vincent of the two options.
 - Calculations did not have to be provided.
- (d) Candidates had to assume for this part only that Vincent died on 28 February 2022 and then explain the following tax consequences for Vincent, supported by calculations where relevant, that would have been triggered by his death:
- (i) Income tax consequences in his last income tax calculation; and
 - (ii) Estate duty consequences for his deceased estate.
- (e) A discussion on whether the candidate agreed or disagreed with the assessment SARS issued to Vincent for his 2021 year of assessment.
- Candidates had to ignore the penalty imposed by SARS.
 - Candidates were not required to criticise the calculation.

Question 2

- (a) A description, with reference to a workpaper on a client planning meeting, the risks of material misstatement at the overall financial statement level for a large property company.
- (b) With respect to a shareholder's loan –
- (i) a discussion of the matters that the audit partner should consider in determining whether the financial statements of the company are fairly presented in all material respects in terms of the applicable financial reporting standards, and whether it complies with relevant legislation; and
 - (ii) a discussion of concerns with regard to the decision made by the audit partner to exclude a waiver of a loan to the CEO from the summary of unadjusted differences.
- (c) Candidates had to calculate the impact of the loans granted to Pete (the CEO) and Max (the CFO) on the total tax payable to SARS by –
- Pete for the year of assessment ended 28 February 2022;
 - Max for the year of assessment ended 28 February 2022; and
 - the company for the year of assessment ended 30 June 2022.
- Candidates had to provide reasons for nil effects.
 - Candidates did not have to consider the waivers.
- (d) A discussion of the normal tax implications regarding the waiver of the loans for the year of assessment ended 28 February 2022 for Pete and Max.
- Candidates were not required to discuss any potential capital gains tax consequences for Pete.
- (e) A discussion, supported by calculations, of the tax implications regarding the waiver of the loans for the company for the year of assessment ended 30 June 2022.

- Candidates had to assume that para. 12A of the Eighth Schedule did not apply to the waiver of the loan to Pete.

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

PAPER 4 QUESTION 1

Maximum mark	Average mark	Marks > 50% (pass)	Marks < 50% (fail)
50	23	503	661

1 General comments on the degree of difficulty of the question

This question paper includes good coverage of tax law principles relating to natural persons including trusts, dividends tax, section 24J, foreign exchange, capital gains tax and estate duty.

The tax law principles examined were not complex, but the integrated nature of this paper – considering various taxes income tax, estate duty, the number of taxpayers (natural persons and trusts) and the various income streams – increased the level of difficulty to a moderate level.

The paper assessed relevant practical issues, considering natural persons and income received from trusts and the structuring of affairs in the most tax efficient manner.

The paper contained both easy marks and more moderate discussion required parts.

2 Feedback on the candidate responses

Exam technique

- Candidates who did well in required (a) presented their solution in a table format where they clearly presented the flow of income from the trust to the beneficiaries and where section 7 applied back to the donor.
- Candidates who did well in required (b) took each bullet in note 3.3 and provided all normal tax implications on Vincent's taxable income for the 2022 year of assessment.
- Candidates who did well in required (c) read and planned the instructions in the required in attempting the 2 options.
- Candidates who did well in required (d) discussed and calculated the application of section 9HA of the Income Tax Act and perform an estate duty calculation.
- Candidates did well in required (e) read and planned for the instructions in the required.
- Candidates did not display an ability to plan their answers properly.
- The format followed for dealing with trusts was often lacking, with no clear approach followed.
- Candidates who did well were those who attempted all sections of the requireds, as there was some easy marks in more than 50% of the required sections.
- Numerous candidates undermined their potential for success in the paper by failing to complete the necessary requirements thoroughly. This issue was particularly pronounced in part (a), where candidates omitted reasons for attributions/accruals, and in part (b), where discussions were not supported by calculations.
- Overall, this still requires attention by candidates for the ITC level.
- Most candidates lacked exam technique, which resulted in them wasting time and losing out on easy marks.

Time management

- Candidates who started with required (a) and did the taxable income calculation of the trust and each of the beneficiaries separately ended up with having less time to attempt the other requireds.
- Candidates were not able to manage their time well and this resulted to some candidates not completing the last required of the paper. They also tended to write down information that was not required, which was wasted time.

- Candidates lacked an understanding of the required, resulted in wasting time on different parts – i.e., part (b) restricted then to section 3.3 of scenario, but some candidates factored in information from the trust distributions.
- Candidates seemed to either lack the required technical knowledge, resulting in inappropriately answers/poor attempts on later sections. This could point to a time management issue.

Communication

- Candidates need to pay attention to the use of correct terminology. Candidates cannot refer to a deduction as an exemption and vice versa.
- Candidates tended to repeat themselves.
- Candidates faced difficulties with the discussion questions and struggled to apply their theoretical knowledge to the scenario's information. A few of the candidates also misunderstood the instructions, discussing instead of calculating, and vice versa. This could be interpreted as inadequate planning and a waste of time..
- A grasp of the English language was still a challenge for some candidates.

Layout, structure, and presentation

- Candidates did well in using headings for the various tax payers in required (a); when discussing the various options in required (c) and then doing the normal tax and estate duty calculations in required (d).
- Candidates who gave a conclusion, in line with the required in (c) and (e) got a very easy mark (provided the conclusion was in line with the candidate's discussion).
- Some candidates had good structure but there were still some candidates who were not using time efficient structures in their answers. This caused several problems in part (a)
- Poor handwriting was a barrier for some candidates.
- Part (a) layout/structure/presentation in general was poor.

Relevance

- In required (c) candidates did not link the amounts distributed to the sources of income that the 'trust' received. By linking their discussion to the original source of income, candidates would have been able to earn more marks.
- In required (e) candidates needed to first establish the underlying reason for Vincent's free use of the house to be able to conclude on whether the right of use was a fringe benefit or not. Most candidates did not consider the fact that Vincent was a beneficiary of the trust.
- Candidates failed to identify the subject matter of the question and ended up discussing sections that were not triggered by the required. Some candidates included information that they were specifically told to ignore.

Recommendations

- Candidates should make sure that they planned their required and considered the mark allocation.
- In a required where a conclusion is required, candidates should ensure the conclusion is in line with the required.
- Candidates should always present their solutions in a format that saves time.
- Time management and exam technique are essential for success.

Workings (and references to workings)

- Always support any amounts with a full calculation.
- Always support a discussion with a calculation unless the required specifically asks one not to consider calculations (as was the case in required (e) in this question paper).

3 Feedback per each required section of the question

3.1 Areas that candidates handled well

Part (a)

- Most candidates calculated the total dividend received by the trust correctly.
- Most candidates indicated that the return of capital is capital in nature and did not include it in taxable income.
- Most candidates worked with the R50 000 distributed to the beneficiaries.

- Most candidates included the R60 000 interest in the hands of the trust.
- Most candidates identified that section 7(3) would apply to minor children and that section 7(8) applied to a non-resident beneficiary.
- Most candidates indicated that section 10(1)(k) would exempt local dividends.
- Most candidates indicated that the rental income received by the trust amounted to R360 000 and that R80 000 was distributed to the beneficiary, Hope.
- Most candidates considered a section 13quin capital allowance.
- Most candidates were able to identify the applicable dividend exemptions.
- Most candidates were able to deal with the basic distributions and attribution to a parent.
- Most candidates did separate calculations for the trust and the beneficiaries.
- Most candidates calculated the dividend correctly as R300 000 – R200 000 (return of capital).
- Most candidates included the rental and interest income in the trust.
- Some candidates indicated that the section 13quin capital allowance could not be claimed because the building was not new and unused.
- Most candidates applied the section 10(1)(k) exemption correctly.
- Some candidates identified and applied the section 7(3) and 7(8) attributions correctly and included the income in the correct donor's hands.
- Candidates who calculated and provided reasons for accruals and attributions for all beneficiaries did well for that part of the question.
- The question did not seem to be too difficult if taken at face value. Candidates that performed well on this question were those that managed to provide a framework approach in their responses. Structuring the response in a framework approach enabled those candidates to properly plan the impact on each beneficiary's calculations. Those who attempted to write out the response struggled to present all the points.

Part (b)

- Most candidates included the cash dividend received and considered an exemption.
- Most candidates discussed the foreign interest received.
- Most candidates were able to include the table at the correct rate.
- Most candidates were also able to calculate the interest income correctly, using the correct forex rate.
- Most candidates calculated the section 10B(3) exemption in respect of the foreign dividend received.
- Some candidates included the table as a dividend in specie.
- Most candidates indicated that the acquisition of foreign assets was of a capital nature.
- Most candidates were able to calculate the effect on note 3.3 and clearly indicated what formed gross income, exemptions, and the deductions.
- Despite no information being provided on the ownership of the foreign company, many of the candidates made assumptions to base their foreign dividend calculation on, which was well handled.

Part (c)

- Most candidates discussed the fact that a cash distribution will have normal tax implications and that a loan will not have tax implications.
- Most candidates elected an option in the conclusion.
- Candidates battled with exam technique in this question. Many did not identify all elements that they were supposed to discuss when it came to the different streams of income that would be generated by the investments purchased using the loan. As a result, they did not discuss all the income tax implications from producing income and not producing income.
- There were still some candidates who did not conclude on which option would be more beneficial to the taxpayer.
- Most candidates were able to identify that something would go into the gross income of the taxpayer under option 1.
- Most were also able to identify that the capital portion would not go into gross income.
- Most candidates indicated two options and gave a conclusion to indicate the most tax beneficial option.
- Most candidates identified that the loan in option 2 was of a capital nature and would not be included in gross income.
- Some candidates identified that Vincent qualifies for the section 24J interest deduction.

- In many cases the candidates discussed option 1 well and concluded on the most beneficial option.
- Candidates were able to score some marks based on principles. Also, in general the candidates were comfortable with discussing the two different options.
- Candidates in general concluded and indicated the most beneficial option, thus scoring an easy mark for addressing that part of the required.

Part (d)(i)

- Most candidates identified that section 9HA of the Income Tax Act would deem all capital assets to be disposed of at market value and calculated the capital gains and losses on the 'deemed' disposal of Interest in DiT Plc and in the Crypto assets.
- Most candidates discussed the fact that the sum of capital gains or losses had to be reduced with an annual exclusion that increased to R300 000 in the year of death of a natural person.
- Candidates who were able to apply their answers through an actual calculation of CGT on death did very well here.
- Basic CGT and annual exclusion were well handled.
- Most candidates correctly stated that there would be a deemed disposal of Vincent's assets at date of death and some candidates correctly stated at market value.
- Most candidates correctly calculated the capital gain/loss for the interest in DiT Plc as well as the crypto assets.
- Some candidates correctly applied the R300 000 exclusion and limited it to the sum of capital gains and losses.
- Candidates correctly addressed and identified the obvious assets to be considered, i.e., the interest in DiT Plc and crypto assets.

Part (d)(ii)

- Most candidates included property at its market value in the estate duty calculation.
- Most candidates referred to the R3,5 million abatement and that estate duty would be calculated at 20% on the first R30 million of the estate.
- Most candidates included the market values of the DiT investment and crypto assets as property in the estate.
- Most candidates did not understand the rules under income tax and estate duty as they confused the two, especially when it came to which MV to use to value the assets on date of death and in the estate duty. The first few marks of the assets to be included in the Estate Duty were easy marks and it was easy to spot whether the candidates understood estate duty or not. If candidates kept a clear head, they could have generated most of these marks with most of them being easy.

Part (e)

- Most candidates discussed the fringe benefit value and provided a conclusion.
- Some candidates stated correctly whether they agreed or disagreed with the additional assessment.
- In general candidates did consider that it was a fringe benefit and linked it to employee/employer relationship.
- Most candidates discussed the fringe benefit value and provided a conclusion.

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

Part (a)

- The required asked for a brief reason for attribution and a number of candidates failed to provide reasons for the distribution of amounts from the trust to the beneficiary.
- Candidates identified that section 7(3) would apply to minor children and that section 7(8) applied to a non-resident beneficiary but instead of attributions to the donor candidates, attributed the amounts back to the trust.
- Few candidates identified that dividends and rental retained in the trust would be attributed back to the respective donors in terms of the application of section 7(5).
- Several candidates became confused with the names and the relationships between the various taxpayers mentioned in the scenario and therefore made mistake in the attributions to the correct donors.
- A number of candidates incorrectly provided the trust with an interest exemption and lost the interest received amount.
- Most candidates applied the provisions of section 7(3) incorrectly to Gift, who was not the child but the grandchild of the donor or tried to attribute the amount to Gift's mother, who was not the donor.
- Many candidates displayed a lack of knowledge on the taxation of trusts.
- Many candidates failed to give reasons for their treatment of distributions.

- Most candidates incorrectly treated the non-attribution to Gift.
- The attribution of income which remained in the trust and the attribution back to the original donors were poorly dealt with.
- Some candidates did not realise that there were five beneficiaries and divided the distribution by four.
- Most candidates taxed the trust with dividends and rental that remained in the trust (not distributed) instead of attributing it to the relevant donor in terms of section 7(5).
- Most candidates did not plan their answers properly and did not use efficient structures for their answers. There were a few candidates who displayed a severe lack of knowledge when it came to the taxation of trusts and its beneficiaries.
- Some candidates did not apply section 7(8) to the rental that was distributed to Hope (non-resident). This rental of R80 000 should have been attributed to the donor, Vincent.
- Some candidates incorrectly attributed Candice's dividends to Elvis.
- Some candidates incorrectly attributed Gift's dividends to Elvis/Joy. Elvis is the grandfather and section 7(3) could not have been applied. Joy did not donate the shares and therefore the dividend could not be attributed to her.
- Some candidates applied section 7(3) and 7(8) but then incorrectly included these dividends in the trust.
- Candidates failed to provide reasons for accruals and attributions.
- Some candidates lacked knowledge of the anti-avoidance provisions in section 7 (3), (5) & (8).
- Candidates displayed a very haphazard and inconsistent application of trust principles.
- Various candidates included additional tax issues that were outside the scope of the part (a), which specifically required section 2 of the information to be considered. This related to providing an extended tax calculation for Vincent, incorporating later requirements (i.e. (b)) information as well.

Part (b)

- Few candidates remembered to gross-up the amount of the foreign cash dividend before its inclusion in gross income.
- Most candidates forgot to also add the 'dividend in specie' to gross income per para. (k).
- No exemption was available on the foreign interest, but several candidates tried to provide a local interest exemption.
- Few candidates applied the same foreign dividend exemption to both the foreign cash dividend and the foreign dividend 'in specie'.
- Few candidates discussed the fact that the acquisition of capital assets would not qualify for a deduction against taxable income.
- The cash dividend was often included at a net value.
- Some candidates did not gross up the foreign dividend received.
- Some candidates did not include the R20 000 for the tablet as a dividend in specie. Some candidates incorrectly indicated that it was a fringe benefit.
- Most candidates did not calculate the section 10B(3) exemption in respect of the R20 000 dividend in specie.
- Some candidates translated the foreign interest received on the fixed deposit using the incorrect foreign exchange rate.
- Interest was sometimes exempted once it was included and was also on occasion simply deducted rather than included.
- Most candidates failed to recognise that the tablet received was a dividend in specie which formed part of gross income. Many candidates also missed the principle that the dividends in specie also qualify for an exemption.
- A few candidates misunderstood the required and thus wasted time on including irrelevant information in the computation.
- Candidates considered information outside the scope of part (b), which specifically stated that section 3.3 was not to be considered in the calculation.
- Most candidates did not gross up the dividend. There were a lot of candidates who did not know that a dividend in specie is a dividend as defined and as a result did not include it in the taxable income calculation.

Part (c)

- Under option 2: several candidates incorrectly indicated that Vincent is the holder of an instrument instead of the issuer and failed to consider whether interest expenditure was allowable for purposes of trade and the production of income. By failing to discuss the various sources of income of the trust, they also failed to discuss possible prohibited

deductions.

- Not concluding when the required asked to provide the candidate to choose between two options.
- Very few candidates were able to identify that there could be three sources of income and that each could be treated differently.
- Many candidates did not explain why interest would be deductible.
- Under option 1 most candidates did not identify that the income kept its nature and therefore did not explain the dividends and rental separately.
- Under option 1 most candidates did not identify the option that the R600 000 distribution that could have been from income retained in the trust in prior years which would already have been taxed in prior years.
- Under option 2 some candidates considered whether interest was deductible in terms of section 11(a) instead of section 24J.
- Under option 2 candidates did not identify the various elements that the loan relates to and did not explain whether the interest relating to each element could qualify for the deduction. Thus that the interest in respect of foreign shares was prohibited in terms of section 23q, that the interest in respect of the crypto assets could not be deducted as there would not be income, or that the interest in respect of the foreign fixed deposit could qualify for a deduction.
- Under option 2 candidates did not identify that a third of the non-deductible interest could be added to the base cost of the shares in DiT Plc as the shares were listed on a recognised exchange.
- Under option 2 candidates did not discuss after tax cash flows.
- Option 2 required a lot more in depth exploration and the candidates failed to recognise that there was more than one issue to discuss.
- While candidates did earn a few marks, most were unable to pick up the depth of issues that could earn easy marks.
- Candidates in general scored low marks for this part, by not appropriately addressing the various aspects relevant to option 2 (the loan from the trust) specifically.

Part (d)

- Candidates struggled regarding both the normal tax and the estate duty calculations with the correct treatment of the two life insurance policies.
- Most candidates failed to identify that the fixed deposit in the US Bank account was an asset and what the normal tax implications would be subject to para. 43(5) of the Eighth Schedule.
- Several candidates failed to apply the R300 000 annual exclusion to their CGT calculation and lost the mark if they only mentioned it.
- A few candidates did not know that the annual exclusion not only reduced gains but also losses.
- In the estate duty calculation candidates failed to reduce the value of the estate with the income tax liability and the loan to the trust.
- Many treated this part from a purely theoretical perspective, stating what should be done rather than doing it. This meant there was no application at all.
- Candidates also often confused the terms estate duty and deceased estate.
- Treatment of the life insurance policies was generally poor, and only one candidate got the 1/3 interest.
- Most candidates did not explain that capital gains/losses on life insurance policies need to be disregarded in terms of para. 55 of the Eighth Schedule.
- Candidates did not interpret the life insurance policies correctly. They did not consider that the policy taken out by his sister in Namibia was an asset in Vincent's sister's hands and not property in Vincent's hands.
- Most candidates did not explain that the base cost of the interest in DiT Plc would have to be increased by a third of the interest from the loan from the trust relating to the acquisition of the shares in DiT Plc.
- Most candidates did not explain that the capital gain/loss on the tablet should be disregarded because it is a personal use asset.
- Candidates incorrectly indicated that the fixed deposit was currency instead of a right to receive currency as defined in para. 1 of the Eighth Schedule.
- Some candidates correctly indicated the R300 000 exclusion but did not limit it to the sum of capital gains and losses.
- Some candidates did not indicate that the exclusion increased to R300 000 on death.

- Some candidates only did calculations without providing explanations as was required.
- Candidates did not interpret the life insurance policies correctly. They did not consider that deemed property only includes domestic policies on the life of the deceased and the person paying the premiums did not determine whether it was deemed property. The policy taken out by his sister in Namibia was not a domestic policy and the policy held on Vincent's (deceased) father's life was not on the deceased's life. Both these policies were therefore not deemed property of the estate.
- Many candidates did not consider that the tablet and fixed deposit were property in the estate.
- Some candidates did not indicate that the value of the estate should be reduced with a tax liability as well the loan that Vincent still owed the trust.
- Candidates mixed up the estate duty principles with the income tax principles.
- Many of the candidates chose to answer the CGT part of the question, showing that they had limited estate duty knowledge or time constraints.
- Candidates lacked knowledge in terms of applying para. 43(5) of the Eighth Schedule.
- Some candidates confused income tax vs estate duty principles and hence were unable to earn marks in the respective sections.
- Candidates missed various easy marks, by for example not correctly applying the annual exclusion.

Part (e)

- The taxpayer's onus to prove was mentioned BUT most candidates failed to indicate what the taxpayer needed to prove, the lack of which resulted in no mark being awarded.
- Candidates ignored the required and recalculated the right of use value.
- Most candidates simply assumed that there is an employer-employee relationship despite the facts in the scenario and required being silent in that regard.
- Many candidates did not pick up the core issue of whether the item came from the trust or employment.
- Many candidates were not able to conclude on the correct item and rather critiqued the calculation, which was specifically excluded.
- Candidates did not always answer the required by stating whether they agreed/disagreed with the additional assessment' and sometime indicated other aspects with which they agreed/disagreed.
- The taxpayer's onus to prove amounts are no taxable (section 102 of the Tax Administration Act) was seldom considered.
- When candidates did consider the burden of proof, they did not always mention that the burden of proof related to whether an amount was not taxable.
- Very few candidates discussed SARS's right to issue an additional assessment within three years.
- Some candidates did not link the relationship of the sole director to an employee/employer relationship.
- Very few candidates considered that the right of use was given to Vincent for his status as a beneficiary.
- Candidates failed to recognise the employer-employee relationship.
- Candidates did not identify the trust element and hence were unable to answer this part correctly.
- Candidates in general did not appropriately address this part, missing 'Why the right of use was given' in terms of the employer/employee relationship (sole director) vs being a beneficiary of the trust.
- Many candidates missed the crux of this question, for even the candidates who answered this question were not addressing what was being asked. They did not identify the subject matter.

PAPER 4 QUESTION 2

Maximum mark 50	Average mark 17	Marks > 50% (pass) 55	Marks < 50% (fail) 1109
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1 General comments on the degree of difficulty of the question

The question integrated two disciplines, namely auditing and taxation, but the different aspects were easily identifiable. Parts (a) and (b) assessed auditing and related principles while parts (c) to (e) assessed taxation principles. The overall question was considered to be moderate, although it contained a balance of straightforward and challenging parts.

Part (a) was a basic audit 'risk of material misstatement' question, and candidates performed satisfactory in this required. Part (b) was considered to be more challenging since candidates were required to apply higher levels of critical and integrated thinking to identify and articulate issues pertaining to the fair presentation of the financial statements and the conduct of the audit partner. It appears that candidates found part (b) challenging. Part (b) was split into two sections, (b)(i) and (b)(ii). Candidates appeared to have misinterpreted the required, as many candidates incorrectly provided responses for part (b)(ii) in part (b)(i) and vice versa.

The taxation parts assessed the following principles:

- Part (c) a loan granted to a holder of shares (dividend in specie) and a loan granted to an employee (taxable benefit). Candidates had to calculate the total tax payable by the employee, holder of shares and the company.
- Part (d) assessed the waiver of a loan for a holder of shares (distribution, which is a dividend) and employee (taxable benefit).
- Part (e) assessed the tax implications for the company due to the waiver of the loan to the holder of shares (dividend in specie and deemed disposal for capital gains tax purposes) and employee (deemed disposal for capital gains tax purposes).

Individually, the tax topics that were assessed to be fair and straightforward, and the taxable events were clearly articulated in the scenario. However, candidates may have experienced the integration of the tax principles (granting of a loan, followed by the waiver of the loan), and multiple taxpayers as challenging. Another observation is that all three parts of the tax required revolved around one matter, namely a loan granted in different capacities, and it appears that candidates may have found it challenging to move between the different taxing events and taxpayers for each part of the required. This led to candidates discussing the waiver in the wrong part, discussing the tax implications for a wrong taxpayer, etc. As a result, some candidates' answers were repetitive. The view is therefore that this might have added an element of complexity to the paper.

Overall, the paper required the candidate to apply critical thinking, considering the intricacies of the required. However, a well prepared and calm candidate would have done well in this paper. An unprepared and uncomposed candidate did not perform well, not so much from a lack of understanding of the content but from misreading/misinterpreting the scenario and required.

2 Feedback on the candidate responses

Exam technique

Candidates who did well were those who interpreted the required correctly and were further able to identify the relevant issues (for parts (a) and (b)) and the tax implications for the correct taxpayer in the different parts of the required. Candidates who fell short of the requirement generally did not seem to have planned well for this paper. There was limited evidence of a logical thought process in the way arguments were structured for discussion questions. Many candidates also hopped between questions, which may have led to confusion for some of the candidates who then answered the wrong required (especially between part (b)(i) and part(b)(ii)). As a result, they did not score the maximum number of marks.

Inaccurate interpretation of what was required resulted in many candidates failing to address the question and, therefore, not scoring the maximum marks. Candidates who did well are those who answered clearly and in a well-structured manner, e.g., addressed all the 'going concern' points in required part (a) before moving on to the next risk factor, whereas others tended to write randomly, which caused them to lose out on 'easy' marks.

Most candidates tried to attempt all parts of the required. However, some candidates seem to have still spent a bit more time on certain parts of the required, leading to them writing for the sake of writing in other parts of the required.

Time management

Several candidates do not seem to have managed their time well and as a result, did not attempt one or two parts of this question, which was mostly the tax part of the question ((c) to (e)). Several candidates seemed to be unsure about how much to write. For example, candidates spent too much time answering required part (a), worth 12 marks, writing between two to three pages, and only writing two to three pages on required (b), which was the largest required and worth 20 marks.

Communication

Several candidates struggled to communicate clearly, and this disadvantaged them significantly. This needs to be a key focus point for candidates. It is disheartening that some candidates may know the content but cannot communicate it clearly in the exam. Even where candidates did receive a mark for a discussion point, they had to write much more to get the point across, resulting in a loss of time to answer other questions.

There were candidates who failed to apply the instruction of the required (for example: ignore the capital gains tax consequences for Pete). Candidates must concentrate on planning their responses, as this is a pervasive skill that will be assessed in every work assignment or project that they will be involved in for the rest of their careers. Some candidates only had calculations in parts they were meant to discuss (for example, in part (e) of the question).

Layout, structure and presentation

Several candidates confused themselves by jumping between required parts. It seems they had a 'strategy' of answering the 'easier' questions first but did this without understanding the required. Had they taken the time to understand the required, they would have planned their answers better.

Some candidates did not have legible handwriting, making it extremely difficult to read and provided no clear spacing between answers. This is something that candidates really need to pay particular attention to, as this may have a negative impact on their overall performance.

Candidates need to make use of headings to clearly indicate to the markers what they are discussing or calculating and to help to order their responses. Care should be taken that the solution is presented in a logical and structured manner.

It is encouraging however to note that some candidates' answers were well-structured, especially in required part (a).

Relevance

Candidates' answers often lacked application, for example in required (a), candidates would identify the risk factor, without applying the risk factor to the risk of material misstatement at overall financial statement level. There were candidates who also provided detection risks, risks at assertion level and business risks, which were all not addressing the required. Some risks were correct but not complete. For required parts (b)(i) & (b)(ii), and (c) to (e), candidates provided answers for the wrong required. For example, most candidates did not know the difference between part(b)(i) and part (b)(ii) and most answers in part (b)(i) related to part (b)(ii), and vice versa.

Candidates' answers often lacked application. This could be partly due to how the required was structured. There was also a lot of theory dumping, especially in required part (b). In required part (a) several candidates dumped information from the scenario into the solution without application.

Recommendations

- The questions seemed to have posed a significant challenge to many of the candidates. The tax section was not particularly difficult, but most of the time was spent on parts (a) and (b) and thus candidates lost out on easy marks because they were not able to fully apply themselves to parts (c)–(e).
- In preparing for the ITC, candidates should ensure that they understand the tax legislation to enable them to apply the

relevant sections to practical scenarios.

- It is important that candidates should read the scenario thoroughly before reading the required part and then go back to the scenario and required again to ensure they correctly respond to the required.
- In a specific scenario where the required refer to specific events, periods or specific taxpayers, candidates should ensure their responses are not generic, but applicable to the events, persons, and periods.

Workings (and references to workings)

- Candidates need to show all calculations even if the calculation will have a Rnil effect on taxable income.
- In many instances where workings were provided, it was not relevant.
- For some candidates, the layout of the calculation was difficult to follow, evidencing the candidates' lack of understanding of the tax principles.

3 Feedback per each required section of the question

3.1 Areas that candidates handled well

Part (a)

- Most candidates were able to correctly identify sufficient risk factors (such as the listing, acquisition, going concern, new auditors, finance structure and some control environment considerations) and link them to an appropriate risks of material misstatement at the overall financial statement level.
- Candidates also had a good sense of business risk and how it could affect the control environment.
- As a result, this is the part of the paper that most candidates scored the most marks even though it was poorly answered.

Part (b)(i)

- Most candidates demonstrated a good theoretical grasp on the Companies Act.
- They were at times able to identify the appropriate sections of the Act, particularly section 29 and section 75.
- Several candidates were able to identify the fair presentation requirement and the non-compliance with IAS 24 disclosure in terms of IFRS.

Part (b)(ii)

- Candidates who did not answer this section under part (b)(i) were mostly those who did well in this part.
- Those who did well identified the qualitative nature of the matter and concerns related to compliance with the APA (reportable irregularity) and fundamental principles of the SAICA Code of Professional Conduct.
- Several candidates were able to identify that the misstatement was qualitative in nature and had an impact on the audit opinion.

Part (c)

- Some candidates were able to identify that there was a taxable benefit (for Max) or a dividend in specie (for Pete).
- The technical understanding of the question came through quite well.
- The impact on Max was well answered by most candidates.
- Some candidates were able to deal with the tax implications for all three taxpayers due to the loan granted to the holder of shares and the employee.

Part (d)

- Generally, most candidates identified the taxable benefit for Max and that it must be included in his gross income.

Part (e)

- Several candidates were able to identify that the waiver triggered a disposal for capital gains tax purposes.
- Some of the candidates who correctly identified the taxable benefit and/ or *dividend in specie* in part (c) were able to correctly continue with the discussion in this part.

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

Part (a)

- There was a general lack of application.
- Candidates seldomly phrased their answers as a risk of material misstatement at the overall financial statement level. Instead, candidates identified and dumped the risk factors/indicators, without application (i.e., several candidates did not link the risk factor/indicator to an appropriate and well-described risk of material misstatement).

- Several candidates identified that there was an issue, but their answers fell short as they struggled to clearly articulate how this would affect the financial statements.
- There were triggers in the question that candidates seemed to latch on to and center their responses around – e.g., the issue of funding and how financial statements would be manipulated to acquire funding. This was a consistent feature in the responses.
- Several candidates addressed detection risk instead of the risk of material misstatement (inherent and control risk).
- Some candidates seemed to think they had to assess the risk of material misstatement.
- Some candidates described assertion level risk of material misstatements instead of overall financial statement level risks. For example, instead of discussing that the incorrect foreign exchange translation rates might be used in the consolidation of all assets, liabilities, equity and profit or loss items, candidates described that the incorrect spot rate would be used to account for the investment in the foreign subsidiary (which relates to separate financial statements).

Part (b)(i)

- The major challenge experienced by most of the candidates was the identification of the issue that was being assessed: the waiver of the loans and the disclosure requirements (related parties).
- Many candidates failed to identify that the waiver of the loan is a distribution in terms of section 1 of the Companies Act and that the waiver should be classified as remuneration and be approved in terms of the requirements of the Companies Act.
- Furthermore, many candidates did not discuss the waiver, but rather the requirements (section 45) that should have been met at the point of the actual granting of the loans.
- There were several instances where the issue was correctly identified, but there was poor application of the theoretical knowledge.
- Several candidates did not seem to understand the required.
- Elements of required (b)(ii) were discussed and featured quite a lot in this required. This included the discussion on materiality (qualitative vs quantitative), audit opinion and reportable irregularity.
- Candidates consistently mixed up the relevant points between requireds (b)(i) and (b)(ii). Some candidates could have scored well but the points related to (b)(i) were discussed under (b)(ii).
- Candidates did not seem to have properly understood the question or difference between the two requireds and this resulted in many candidates losing marks. Valid points were provided but responding to the incorrect required.
- There were some candidates who incorrectly provided substantive audit procedures that the audit team should have performed, which were not required.

Part (b)(ii)

- This was the part that was consistently mixed up with part (b)(i) by many candidates. Having already incorrectly provided the answers to this part in part (b)(i), most candidates then did not repeat what they had already stated, and this resulted in many candidates losing marks.
- The majority of candidates did not identify that the misstatement pertained to a disclosure misstatement. Hence, many candidates missed that the misstatement should be included in the summary of unadjusted differences regardless of its value.
- The following aspects, most of which were quite obvious, weren't considered by many candidates: The audit partner disregarding fraudulent financial reporting (intentional misstatement), audit quality control requirements, SAICA Code of Professional Conduct and the fundamental principles non-compliance, and reportable irregularity. This could be an indication that many candidates lacked theoretical knowledge.
- Those who were able to identify the issues fell short on application. For example, where the candidates identified a breach of the integrity fundamental principle, they would merely define the principle and not apply it to the scenario.

Part (c)

- Several candidates lacked some technical knowledge and understanding in this question.
- Overall, candidates did not seem to follow the required, which was a calculation question, supported by reasons for nil effects only. This resulted in many candidates not scoring the maximum marks because reasons for nil effects were lacking or because only a discussion was provided in the answer and no calculations were shown.
- Candidates did not identify the type of relationship that the two taxpayers (Pete & Max) had with Buy2Rent, which would lead to different tax treatments for a holder of shares and for an employee. Put differently, many candidates

- failed to identify that the loan had different tax implications for Pete (holder of shares) and Max (employee).
- Other common mistakes were the following:
 - The required asked candidates to calculate the total tax payable for Pete, Max and Buy2Rent. However, there were instances where candidates omitted to deal with Buy2Rent, the company.
 - Some candidates incorrectly identified the loan as a donation.
 - Candidates who did identify that the interest-free loan would be a *dividend in specie* were unable to identify that the amount was a dividend for dividends tax purposes only.
 - The reason for a nil inclusion was also missed by many candidates.
 - Some candidates addressed the impact on taxable income and not tax payable.
 - Candidates did not multiply the impact on the taxable income with the tax rate.
 - Several candidates mixed up the figures for Max with those for Pete.

Part (d)

- Responses for this part of the required were brief and may be indicative of poor time management.
- What was shown or discussed was usually incorrect.
- Several candidates provided answers for required part (e) in this required.
- There was also incorrect interpretation of the required and information – many candidates discussed the underlying assets (holiday home) and resultant CGT effects.
- Some candidates dealt with the waiver of the loan as either a taxable benefit or a dividend.
- Very few candidates identified that the waiver of the loan had different tax implications for Pete (holder of shares) and Max (employee).
- The required stated, 'Do not discuss any potential capital gains tax consequences for Pete'. However, many candidates discussed the potential capital gains tax consequences for Pete.
- Some candidates did not see the difference of tax treatment between Pete and Max.
- There was some confusion with gross income vs income, deduction vs exemption.

Part (e)

- Candidates seem to have read the required in a rush, which might have been due to having run out of time.
- The required stated, 'Assume that para. 12A of the Eighth Schedule does not apply to the waiver of the loan to Pete'. However, many candidates still discussed para. 12A for Pete.
- Candidates do not seem to have had enough time to attempt this required. This is the required which was less attempted by many candidates.
- Some candidates failed to identify that each loan is a separate asset for capital gains tax purposes, and the tax implications need to be considered separately. As a result, many candidates missed out on part marks because they grouped the discussion together instead of separating the discussion between Pete, Max and Buy2Rent. This also caused confusion when they had to conclude as they did not know how to now conclude on the treatment for Buy2Rent.
- There were some candidates who identified the waiver as a donation.