

**EXAMINERS COMMENTS
INITIAL TEST OF COMPETENCE
SEPTEMBER 2021**

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 September 2021. Its objectives are to –

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

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

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

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

- Statistics for the ITC September 2021;
- Background information on the setting, marking and adjudication of SAICA examinations;
- General comments on the ITC September 2021; and
- Detailed comments on each of the four professional papers.

STATISTICS FOR ITC SEPTEMBER 2021

		PASS	FAIL	TOTAL
All candidates	58,7%	1175	827	2002

Average marks per question (all candidates)

	Question 1	Question 2	Total
Paper 1			
Total marks	50	50	100
Average marks	27,95	21,57	49,52
	Part I	Part II	Total
Paper 2			
Total marks	52	48	100
Average marks	24,31	23,36	47,67
	Part I	Part II	Total
Paper 3			
Total marks	55	45	100
Average marks	31,84	20,15	52
	Question 1	Question 2	Total
Paper 4			
Total marks	50	50	100
Average marks	22,60	26,45	49,05

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

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

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

1 Source of the questions

The ITC Examco is a sub-committee of the SAICA Initial Professional Development Committee (IPD Committee), and takes overall responsibility for the setting of the examination papers. Examination questions are drawn from different sources:

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

Academics or former academics are also involved in reviewing exam questions in each of the core subject areas. 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, two 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. An alphabetical list of all the people involved in various roles, including members of the ITC Examco, question composers, subject specific reviewers and external examination sitters, is as follows:

Alwyn Visser	Eihorere Wesigye	Janine Claassens	Rika von Weil
Amber de Laan	Elmarie Goodchild	Johann Steyn	Ross Peasey
Andrea Herron	Frans Prinsloo	Khetho Tshipala	Shelly Nelson
Ane Church	Gary Swartz	Lisa Vidulich	Stéfani Coetzee
Anet Knoetze	Giel Pieterse	Makhosazane Luthuli	Sumalya Jeewa
Anri Smit	Greg Beech	Mandi Olivier	Surika van Rooyen
Bendon Smith	Helouise Burger	Marielienne Janeke	Thembi Kganane
Carlos de Jesus	Herman van Dyk	Muneer Hassan	Veryl Mulder
Carmen Westermeyer	Jack Jonck	Piet Nel	William Arthur Bishop
Denice Pretorius	Jackie Viljoen	Reghardt Dippenaar	Zwelodumo Mabhoza
Denise Mare	Jacobus Rossouw	Reinhart Rudd	Zuleka Jasper
Depika Singh			

2 Security and confidentiality of examination papers

The examination papers for each year are compiled, printed and sent to each examination centre under very stringent conditions of security.

3 The marking process

The ITC Examco devotes a great deal of time to the review and refinement of mark plans to ensure that the plans are consistent with its expectations for each question.

Before marking of the scripts commences, copies of the examination papers and suggested solutions are forwarded to all accredited 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, who are on the whole equally capable of marking both English and Afrikaans scripts. Markers and umpires are assigned to specific questions based on their fields of expertise.

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

Marking of the ITC September 2021 took place at a central mark centre. An administration hub was set up, from which administrative personnel controlled which scripts were signed out, to whom, and when the marked scripts were returned. Each script was marked independently by two persons, using an electronic marking tool. The tool records marks per subsection, section and question automatically. Only once the double blind marking of each batch of scripts had been completed did the markers confer and jointly decide on the final raw mark to be awarded for a particular answer. This was also recorded on the marking tool. If the markers were unable to agree upon the number of marks to be awarded for a particular answer, the script was referred to the umpire, who then awarded the final mark. The electronic tool automatically captures the final marks of all candidates and 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.

4 Adjudication

Adjudication is a process during which the IPD 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 or overall was appropriate for the ITC;
- Possible ambiguity in the wording or translation; and
- Any other problems that may have been encountered relating to the examination.

The members of the IPD 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 IPD 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.

It is important to note that no person from the academe who is a member of SAICA's IPD Committee is allowed to serve on the 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.

5 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 IPD Committee); who achieved less than 25% for the exam as a whole; or who did not achieve the requirement of a 40% minimum per paper (see par. 4.12 of the section on the general comments below) are extracted and a third and final review is undertaken of such candidates' scripts.

This review is undertaken by the umpire and assistant umpires, being the most senior and experienced members of a mark 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 IPD Committee then meets to discuss the outcome of the borderline review and thereafter the pass percentages and other detailed statistics for the examination are prepared.

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

In view of the above stringent marking process 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 SEPTEMBER 2021

1 Objective

In view of the primary objective of the ITC, namely to test the integrated application of technical competence, candidates are tested on their ability to –

- apply the knowledge specified in the subject areas set out in the prescribed syllabus;
- identify, define and rank problems and issues;
- analyse information;
- address problems in an integrative manner;
- exercise professional judgement;
- evaluate alternatives and propose practical solutions that respond to the users' needs; and
- communicate clearly and effectively.

2 Analysis of topics

	Accounting and external reporting	Strategy, risk management and governance	Audit and assurance	Tax	Management Accounting and Finance	Ethics	Communication	
Required ranges in terms of the SAICA guidelines	60 – 100 marks	40 – 60 marks	60 – 100 marks	60 – 100 Marks	60 – 100 marks	20 – 60 marks	20 – 30 Marks	Total
	15 – 25%	10 – 15%	15 – 25%	15 – 25%	15 – 25%	5 – 15%	5 – 7,5%	
P1 Q1		10		10	27		3	50
P1 Q2	20				18	10	2	50
P2 Part I		10			40		2	52
P2 Part II	23		14			8	3	48
P3 Part I	7		30			15	3	55
P3 Part II		10		18	15		2	45
P4 Q1				48			2	50
P4 Q2		14	17			16	3	50
TOTAL	50	44	62	76	100	49	20	400
% of total	13%	11%	15%	19%	25%	12%	5%	

3 Overall comments on the papers

The September 2021 ITC examination was considered to provide a fair assessment of technical competence overall, with a mix of easier and more challenging areas. There was a good balance between easy, moderate and difficult sections within each paper and the themes and scenarios were topical and relevant.

Paper 1 consisted of two questions, the first dealing with **strategy, risk management and governance, taxation and management accounting and finance**. Question 2 dealt with **accounting and external reporting, management accounting and finance and ethics**.

The two questions were highly integrated, covering five to six competency areas. This raised the difficulty level and added a layer of complexity that would not have been evident from the individual question and required analyses. There was a significant amount of intragration in the management, decision making and control discipline, which covered a variety of topic areas and included activity-based and standard costing, transfer pricing and a performance evaluation.

The fact that there were two different scenarios, with fairly complex industries, added to the level of difficulty.

Universities agreed that question 1 contained some fairly easy calculations for activity-based costing, and while the transfer pricing discussion was more difficult, there were many available marks. The discussions were more challenging and required a high level of application to provide meaningful discussion points. The integration of core subjects into a single question scenario assessed candidates' integrated and critical thinking and application skills and abilities. Some of the requireds were open ended and required the application of higher-order thinking. However, the requireds were well balanced with an appropriate mix of easy and difficult marks.

The cost allocation method and the concept of the royalty fee charge were unusual, with the question integrating the testing of costing principles with their impact on performance evaluation.

The tax was integrated into the rest of the scenario, with VAT and normal tax consequences being set within the broader context of management decision making and control. Most universities considered the tax consequences to be of a moderate level of difficulty. Some universities were of the opinion that the integration of transfer pricing and VAT on imported services into other transactions made the question more challenging and increased the level of complexity.

As far as the accounting aspects were concerned, the use of operating segment information in terms of IFRS 8 was considered to add an interesting element to this scenario. Although IFRS 8 was not examinable for financial reporting, this should not have impacted on the candidates' ability to answer this question.

Universities commented that question 2 had a relevant scenario in the context of the current pandemic with regard to the National Health Insurance scheme. The concepts were appropriately integrated within accounting and management accounting and auditing. The scenario provided candidates with a good understanding of the industry and business, and clearly communicated the information relating to the required.

In the testing of impairment principles, candidates had to discuss their own variance calculations and then consider other variances mentioned in the scenario which did not contain figures or an indication of their materiality. This was an unusual approach, which required candidates to calculate the value-in-use and fair value less costs to sell. It tested understanding by taking the question beyond the mere application of formulas and methodology.

Universities commented favourably on the assessment of business ethics, from a stakeholder inclusiveness perspective, bringing in a business/corporate level. Candidates had to apply critical thinking and their knowledge of ethics to a more complex issue and could not rely on general theory from the SAICA Code of Professional Conduct

and King IV. The governance context forced candidates to draw from various sources of ethical conduct, including classical ethical theories, such as utilitarianism, and to provide more holistic responses.

Paper 2 consisted of two parts, the first dealing with **strategy, risk management and governance** and **management accounting and finance** and the second with **accounting and external reporting, audit and assurance**, and **ethics**.

Most universities commented that the scenario, while covering a topic that was less frequently examined, provided sufficient information to enable candidates to provide good answers. It was a rich scenario, which was relevant to manufacturing changes, with the interesting introduction of robotics. There was a fair balance of calculations and applied discussion. It was considered to be a good question that tested a number of different concepts and candidates' ability to critically evaluate a very plausible business situation. The combination of the calculation, risk identification and business reconstruction contributed to a well-rounded question that tested candidates' ability to integrate their knowledge and form an opinion.

Part I of the paper was considered to be of moderate difficulty. The scenario was interesting and contained topical issues, which allowed for the testing of principles in a more practical manner. The free cash-flow valuation was of a good technical standard but fairly straightforward and entailed testing of IFRS16 considerations. The question contained clear valuation (discounted cash flow and liquidation basis) and risk triggers. It assessed both quantitative and qualitative competencies, through the integration of valuations with risk and restructuring.

While the discussion sections were broad, there were sufficient available marks for the questions to be accessible. As is always the case, the discussion aspects (on risk and strategy) were considered to be the more challenging parts of the question. However, they were a good representation of the curriculum. The discussion of a valuation in the context of a business required a high level of application. Because the scenario was open ended, it may have resulted in different restructure options. It also required a degree of practical experience, relying as it did on business knowledge and market reactions of customers and suppliers.

Universities considered it to be a fairly technical paper, but well balanced with difficult cash flow valuations and an easier risk section. The level of integration with IFRS 16 and VAT was fair. The question was practical and assessed skills very effectively.

Part II of the paper contained a good integration and balance between management accounting and finance, audit and financial accounting. It offered a relevant consideration of matters relating to the topical and significant issue of fair value accounting, particularly in terms of its measurement and disclosure aspects. Fair value measurement and disclosure were examined in an integrated manner by including other accounting topics relating to investment property, lease accounting by the lessor and deferred tax.

It dealt with the disclosure requirements for IFRS 13 and provided a good integration between related concepts in IFRS13 (determination of fair value), IAS 40 (accounting for investment property at fair value) and IAS 12 (deferred tax). Most universities were of the opinion that the question tested the accounting principles appropriately for candidates at this level. The solution contained a variety of alternative options which catered for different candidates' backgrounds and experience in a situation that considered replacing employees with robots. The requirement for additional journal entries offered candidates an opportunity to demonstrate their critical thinking skills.

Both part (d) and (e) were considered to be well structured. Part (d) dealt with the leadership of the board of the company (King IV) and part (e) with the substantive procedures of forecast information in view of the major decisions within the company and a projected increase in revenue.

Paper 3 consisted of a single scenario with two parts. The first dealt with **accounting and external reporting, audit and assurance** and **ethics** and the second part assessed **strategy, risk management and governance, management accounting and finance** and **tax**.

Paper 3 Part I was considered to be a robust question with good integration, and to be of a moderate level of difficulty by most universities. The mark allocation was fair, scenario clear and unambiguous and the required sections were in line with the context presented in the scenario. The general comment from the universities was that the question was well integrated and required candidates to use knowledge from different disciplines to be able to answer the required sections.

Most of the universities commented that part I the question was moderate and fair and well thought out. It integrated amongst others analyses of the cash-flow forecast with management accounting and finance aspects. Although part (a) was considered to be easy, dealing with the appropriateness of a provision, the level of difficulty was slightly elevated because it concerned a construction contract that required some understanding of construction contract accounting.

Some of the required sections, particularly parts (b) and (d), were rated as difficult. The difficulty rating in part (b) stemmed from the comments that the IFRS 9 paragraph on modifications, namely accounting for a financial liability modification, is at an awareness level in the ITC syllabus. However, the assessment of a provision for an onerous contract and modification of the loan provided a good application of accounting principles to the implications of current events, such as Covid-19. The modification of the financial liability tested de-recognition principles and required the application of the de-recognition guidance in IFRS9.

Part (d) dealt with evaluation of work on going concern. It was considered difficult, because although candidates may have been able to identify the errors in the cash flow, they also needed to link it to an evaluation of the audit work performed by a second-year trainee. Thus, the answer should have been from an audit perspective, which is highly topical and relevant in the current situation. It also gave a different perspective to the auditing of going concern, which allowed for critical thinking in terms of the evaluation of the cash flow. The question is also practical in the current South African economic climate.

Part (c) concerned ethical considerations regarding an audit fee, which were considered to be a fair test of knowledge. The emphasis on ethical considerations and current focus on going concern were considered appropriate by most universities. The level of integration within the subject of ethics, auditing and governance, as well as between the other subjects, was commended.

Paper 3 part II, which dealt with standard business risk and source of finance topics, was considered to be easy to moderate. The risk discussion was topical and there were sufficient marks available from triggers in the scenario to enable the candidates to perform well. Universities were of the opinion that question on the sources of finance was easy.

The business risk scenario was topical given the Covid-19 pandemic and one through which candidates should have been able to navigate, given everyone's awareness of Covid-19 risks. The risks were also clear from the scenario and many of the aspects addressed in the solution had often been in the news. The choice of finance question had a format and thought process that has been seen in the past in SAICA ITC questions. The part also dealt with the calculation of effective cost and qualitative factors. The information and the requireds were straight forward, requiring the calculation of basic instruments with simple interest and simple terms.

The tax portion of the paper dealt with a barter transaction, which is prevalent currently in the market and hence was practical and relevant. However, the tax implications of a barter transaction are fairly complex, and the integration with accounting and auditing increased the level of difficulty. The scenario of the barter transaction between connected persons with a consideration mismatch also increased the complexity. In addition, one of the parties was a vendor and

the other one not and in one case the consideration included VAT while the other excluded VAT. This tested candidates' knowledge on the VAT supply rules pertaining to a transaction between connected persons for a consideration not being in money. The last required in part (g) tested the application of section 23(g) and section 11(a) and universities commented that most candidates should have been able to address all the income tax issues related to this transaction. Candidates had to apply their taxation knowledge in a highly practical scenario.

Paper 4 consisted of a two separate questions. Question 1 examined **tax** and question 2 assessed **strategy, risk management and governance, audit and assurance, and ethics**.

Most universities considered question 1 of paper 4 to be fair and of a moderate difficulty level, with a reasonable scenario length. The required sections gave the candidates a clear indication, with references to the scenario, of the information that needed to be considered. There was a balance between calculation and discussion sections. Overall, universities noted that it dealt with relevant tax matters and covered various tax principles from the syllabus. There was a fair distribution between easy, moderate and difficult marks.

The question included the taxation of both natural persons and companies, dealing with trusts, anti-avoidance, tax-free savings and the consequences of value-added tax, dividends tax and normal tax. Some transactions were tested from the perspective of both parties, thus assessing whether candidates understood the implications for all parties involved in a specific transaction. The question also assessed some recent legislative amendments. There were some challenging aspects, such as section 8F and the discussion of the VAT and income tax treatment of the disposal of cash gift cards. The advice-type question on the advantages and disadvantages of the section 12T investment decision as well as the voice note created a practical and real-life scenario. This was a new and innovative way of assessing candidates' critical thinking skills and practical understanding of tax legislative provisions and insight as well as technical knowledge.

The question was considered to be set in a highly practical scenario that required candidates to address typical practice-based matters that a tax practitioner would have to deal with.

Most universities considered the required sections of question 2 of paper 4 to vary from easy to moderate, with some difficult sections. The level of detail provided was clear and unambiguous and all required sections were clearly worded, specific and unambiguous. The nature of the entity and its operations were straightforward and would have been familiar to most candidates through their day-to-day interactions. It was a suitable industry as candidates would have been exposed to a POS system in a grocery store, and it contained a detailed description of the processes followed in the store. Universities commented that it was interesting that this was a statutory audit, which was not mandatory but requested by a third party. Because these business processes are not tested often, it increased the level of difficulty to some extent.

The audit section revolved around the cash and cash equivalents balance of the store, and candidates had to discuss the factors that increased the risk of material misstatement for the existence, completeness and accuracy, and valuation and allocation assertions. Candidates also had to describe additional controls that should be implemented to prevent or detect the risks and also discuss the factors that increased the risk of material misstatement for these assertions. The required sections were well structured, but the level of difficulty of parts (a) and (b) was elevated because only specific controls were required. However, some could be answered by applying common sense and using real-world experience. Candidates should have been able to apply their theoretical understanding of computerised systems in a practical manner.

The ethics required section dealt with matters that an audit firm needed to consider before accepting an audit engagement of the store.

4 General comments

From a review of candidates' answers to the eight required sections for the ITC September 2021 examination, the general deficiencies set out below were identified. These problems affected the overall performance of candidates, and it is a matter of concern that candidates make the same mistakes year after year. Although these aspects seem like common sense, candidates who pay attention to them are likely to obtain better marks, and it may even turn a low mark into a pass.

4.1 Application of knowledge

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

This is a major concern, because by the time candidates qualify for entry to these examinations, one would expect them to have assimilated the knowledge, at least to the extent of being able to apply it to simplified facts as set out in an examination question. Obviously, candidates who are unable to identify the correct issues did not do well in the examination.

4.2 Workings

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

4.3 Communication

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

In addition, markers found that candidates used their own abbreviations (sms messaging style) in their answers. Marks could not be awarded here as it is not up to the markers to interpret abbreviations that are not commonly used. **Candidates should pay specific attention to the way in which they write their answers, and bear in mind that this is a professional examination for which communication and presentation marks are awarded.**

4.4 Journal entries

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

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

4.5 Time management

Candidates are advised to use their time wisely and budget time for each question. The marks allocated to each question are an indication of the relative importance the examiners attach to that question and thus the time that should be spent on it. Candidates should beware of the tendency to spend too much time on the first question attempted and too little time on the last. They should never overrun on time on any question, but rather return to it after attempting all other questions. It was evident that candidates had not managed time appropriately, for they left out many sections, often relating to easier marks, while the difficult sections that were attempted had clearly taken more time to address, but resulted in few or no marks.

4.6 Layout and presentation

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

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

Separate books are used to answer each question of the ITC. Each book is clearly marked and colour coded. Candidates are given explicit instructions to write the correct answer in the correct book. Despite this some candidates did not write the correct answer in the correct book (the secretariat did ensure that candidates who wrote answers in the incorrect book were marked by the correct mark team, but this adds to the marking time).

4.7 Irrelevancy

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

4.8 Drilling down

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

4.9 Recommendations / interpretations

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

words, whether they are relevant to the actual case and whether the final recommendation is consistent with those arguments. Unnecessary time is wasted by stating all the alternatives.

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

4.10 Examination technique

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

4.11 Open-book examination

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

- **No loose pages** (of any kind) may be brought into the exam.; and
- Writing on flags – as per section 4.4 of the SAICA examination regulations:
Candidates are only allowed to highlight, underline, sideline and flag in the permitted texts. Writing on flags is permitted for reference and cross-referencing purposes only, that is, writing may only refer to the name or number of the relevant discipline, standard, statement or section in the legislation.
Any contravention of regulation 4 will be considered to be misconduct.
- Candidates are advised to familiarise themselves with SAICA's Examination Regulations prior to writing the examination.

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

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

4.12 Paying equal attention to all the competency areas

It is disappointing to note that candidates still appear to be most prepared to respond to accounting and external report questions and fare considerably poorer in some of the other disciplines – most notably management accounting and finance. Candidates are reminded that the accountancy discipline is a broad one and the other disciplines are equally important.

We draw your attention to the following ITC Examination Regulations:

4.2 A minimum of 200 marks (thus 50%) are required to pass the ITC.

4.3 Candidates need to demonstrate an appropriate level of competence in ALL areas and disciplines, and therefore the overall pass mark of 50% shall be subject to the candidate achieving a sub-minimum of 40% in at least three of the four professional papers.

We have been in the position, in the past, where we unfortunately had to fail a candidate because that candidate did not achieve the 40% subminimum in two of the four papers. This is really unfortunate and candidates are advised to pay equal attention to all the competency areas in order to obtain an overall pass in the ITC.

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

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

Best of luck!!

DETAILED COMMENTS ON EACH OF THE FOUR PROFESSIONAL PAPERS

PROFESSIONAL PAPER 1

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

Question 1

- (a) Candidates had to calculate the impact that the implementation of a proposed activity-based cost allocation methodology would have on the FY2020 profit of three each geographical segments.
- (b) An evaluation of the royalty fee transfer pricing model currently in place for management decision-making purposes.
- (c) An evaluation of each geographical segment's performance in relation to the key performance indicators presented in the background section (section 1). Candidates had to support their answers with appropriate calculations where necessary.
- (d) A discussion of the income tax and VAT consequences for one geographical segment (SITS SA) arising from the Go-Mobility programme (a staff sharing programme).

Question 2

- (a) Preparation of journal entry/entries required to recognise the impairment loss on an influenza medication formula in the accounting records of a private company for FY2021.
 - Candidates had to support their answers with a detailed impairment calculation.
 - All calculated amounts had to be rounded to the nearest R1 000.
- (b) An evaluation of the impact of the production challenges in September 2020 by –
 - (i) calculating all relevant variances in respect of material for the production of influenza medication for children, as follows:
 - Material price and mix variances in detail per material type;
 - A material yield variance based on the total variance only; and
 - (ii) recommending improvements that could be made to the production and procurement processes for the influenza medication for children, based on the variances calculated in (b)(i), as well as those noted by management.
 - All amounts were to be rounded to the nearest cent.
- (c) Candidates had to discuss any ethical considerations that would arise for the company from employing a key-stakeholder relationship manager, based on the discussion and resolutions at a board meeting of the company.

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

PAPER 1 QUESTION 1

Maximum mark	Average mark	Marks > 50% (pass)	Marks < 50% (fail)
50	27.95	75,5%	24,5%

1 General comments on the degree of difficulty of the question

The extent of integration in the paper adds a layer of difficulty to the paper overall. A good critical thinking question requiring application of principles.

Most universities and institutions commented that they did not think the results for this question would be good due to the

level of integration which was described as significant, as well as the specific difficulty in the required themselves. Therefore, a difficult paper that was elevated further by integration.

The calculation part of the question is considered to be easy while discussions including taxation are difficult. Candidates therefore did not score well on the discussion if they do not have the skills to cope with an unstructured thought required or are not able to think critically and apply their skills within the context provided.

Overall and all considered, the mark team felt the question was difficult. The individual parts of each question on their own were difficult, except for required (a) which was easy. The paper as a whole was further elevated to a difficult rating by the integration with so many disciplines, and the time constraints in a long paper, with two scenarios to get acquainted with.

2 Feedback on the candidate responses

General matter where candidates battled included the following:

- Candidates performed well on the activity-based costing calculations in required (a).
- For the discursive requireds, in general candidates did not write enough – insufficient attempts were evidenced in integration, time, and lack of knowledge or difficulty.
- In required (b) candidates battled to distinguish between the intended cost allocation, and the implemented royalty turning the recovery into a profit centre, resulting in a potential over- or under-recovery. They also did not identify the arbitrary nature that this resulted in from a cost allocation perspective, and therefore may not have allocated costs correctly (the costs allocated were not necessarily driven by revenue, resulting in a non-economic allocation of the costs to the divisions, unfairly penalising some divisions).
- Candidates generally missed the significance of the go mobility impact on part (c) of the question, resulting in many lost marks.
- Candidates battled to find reasons for increases or decreases in the various performance metrics, and also did not highlight where movements were significant.
- In general, there was little structure in candidates' answers to part (c), which was a requirement.
- The taxation required was poorly attempted, possibly because they did not manage their time well.
-

3 Feedback per each required section of the question/part

3.1 Areas that candidates handled well

Part (a)

Candidates performed well here, with accurate calculations earning them most of the marks.

Part (b)

Candidates often identified that the method of allocation was unfair to the divisions.

Part (c)

Candidates commented well on the profitability and on the return on assets. Candidates also compared the three geographical segments as per the required.

Part (d)

Candidates identified more than one tax aspect to discuss.

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

Part (a)

- Completing the calculation. Candidates often did not work out how this had changed from the previous which is what was required. Candidates should always re-read the required after completing their attempt.

Part (b)

- Candidates did not write down sufficient points to earn sufficient marks. Often thinking was superficial around the direct impact of the royalty, rather than thinking more broadly about the additional impacts.
- Candidates battled to see the difference between the intended cost allocation, and the implemented royalty turning the recovery into a profit centre, with a resultant potential over- or under-recovery.

- They did not identify the arbitrary nature that this resulted in from a cost allocation perspective, and therefore may not have allocated costs correctly (the costs allocated were not necessarily driven by revenue, resulting in a non-economic allocation of the costs to the divisions, unfairly penalising some divisions).

Part (c)

- Candidates did not write down sufficient points to earn sufficient marks. Often thinking was superficial around the increase or decrease in the variables, rather than thinking more broadly about the additional impacts.
- Candidates generally missed the significance of the Go-Mobility impact on the question, resulting in many lost marks.
- Candidates battled to find reasons for increases or decreases in the various performance metrics, and also did not highlight where movements were significant.
- In general there was little structure in candidates' answers.

Part (d)

- Candidates identified the basic tax issues, such as deductibility of the charges, but missed the more complex implications, such as S31 impact, and the need to consider the intricacies in the VAT on the royalties. Quite a few candidates also missed the fact that the Go-Mobility charge was an expense from SITS SA's point of view and discussed the charge being included under gross income, which was not correct.

PAPER 1 QUESTION 2

Maximum mark	Average mark	Marks > 50% (pass)	Marks < 50% (fail)
50	21,57	32,4%	67,6%

1 General comments on the degree of difficulty of the question

Most universities noted that although the individual transactions / parts on their own are not as technically difficult, the fact that Financial Reporting, Ethics and MDMC were all tested within the same scenario, require candidates to identify what information is applicable to which part, does increase the difficulty level. However, SAICA was commended for setting a good integrated question. Specific concern was also raised on the difficulty level of required (b)(i), as the variances alone were not too difficult but the inclusion of losses elevated the complexity. The latter is however examinable and was therefore still appropriate to assess. Most universities noted the marks allocated specifically to required (a) were overly generous.

The marking team feels that on its own, some subsections were moderate to difficult while others were easy to moderate. The mark team is however in agreement with the universities' view that the various competency areas tested within the same scenario require candidates to identify what information is applicable to which part, which does increase the difficulty level.

2 Feedback on the candidate responses

- Candidates do not show their workings. Hence, if the amount is wrong, the marks cannot be awarded as it is not possible to identify which principles are correct and which are not.
- A number of candidates did not spend the given time per sub-section on each sub-section. Time management is clearly an issue to which candidates should give specific attention.
- Candidates overall struggled with the application in the discursive sub-sections.

3	Feedback per each required section of the question/part: SPECIFIC COMMENTS, per required section
3.1	Areas that candidates handled well
Part (a)	<ul style="list-style-type: none"> The candidates that attempted the section in general performed well. Most candidates were able to perform the discounted cash flow calculation and included only the relevant cash flows as allowed by IAS 36 <i>Impairment of Assets</i>. Most candidates were also able to provide the technically accurate journal entry as requested. On average, candidates performed well in this sub-section.
Part (b)(i)	<ul style="list-style-type: none"> Candidates performed poorly in this part as they neither knew how to approach the calculation nor what to do. The price variance was the easier of the required variances and candidates were able to score these marks. The mix and yield variance were more complex to calculate and as a result most candidates were not able to score the marks. The universities had provided a number of alternative calculations to this part and all were considered during marking. There was a fair number of candidates who omitted this section and did not attempt the calculation.
Part (b)(ii)	<ul style="list-style-type: none"> In this part, which required a discussion, candidates performed badly. They failed to come up with relevant recommendations for management. This could to some extent be attributed to poor performance in part (b)(i), which left the candidate with very little room to discuss variances due to omission. Points raised were generic and failed to consider the specifics of the question.
Part (c)	<ul style="list-style-type: none"> The candidates who attempted the section in general performed well. Candidates in general identified the following aspects that needed ethical consideration: <ul style="list-style-type: none"> The reason and motive for the role and job description (for this position) which is to build close, influential relationships with industry bodies and lawmakers in the RSA healthcare industry. Questioning the motives and integrity of the board, where it was questionable that it was in the best interest of the company. Questioning the appointment of a former Member of the Executive Council for Health in Gauteng who has existing relationships with government, regulatory and industry bodies to influence decisions. Identification of the fact that the appointment of a former Health MEC as the PharmCon key-stakeholder relationship manager could create a possible conflict of interests for herself as she will need to use her own personal friendships and relationships for the company's agenda, which may not be in line with her own beliefs. The application of the <i>Good for self</i> principle by identifying that this decision will benefit PharmCon (and direct stakeholders like shareholders, the South African economy, SARS and employees) if they continue to earn 'super-profits' – solely benefiting these stakeholders of the company. The application of the <i>Good for others</i> principle by identifying that PharmCon is not taking all relevant stakeholders, and particularly society, into account in their decision. Identification that the budget to fund strategic donations to legislative and regulatory bodies could be seen as a bribe. Possible consequences for this decision such as contravention of SA law (e.g. Prevention and Combating of Corrupt Activities Act and also taxation laws / price fixing (legality of payments) and non-compliance to laws and regulations are not ethical or in compliance with KING IV..
3.2	In what respect candidates' answers are considered to fall short of requirements
Part (a)	<ul style="list-style-type: none"> Candidates did not show their workings. Hence, if the amount is wrong, the marks could not be awarded as it was not possible to determine which principles were correct and which not. Overall, candidates either did very well or very poorly in this section.

Part (b)(i)

- Candidates lacked the fundamental understanding of what the mix and yield calculation entailed.
- Candidates struggled to work out the correct quantities that were relevant for each step of the calculation (e.g. actual output based on the actual losses noted in the question).
- Overall there were a number of non-attempts for this part of the required which indicated that candidates were not prepared for this type of question.

Part (b)(ii)

- Candidates did not come up with valid recommendations to the variances that were calculated in part (b)(i)
- Candidates restricted their responses to the variances calculated in part (b)(i) yet the required had also asked them to consider other variances noted by management and provided in the scenario. This demonstrated that the candidates did not take the time to read the required well and thus plan their responses appropriately.

Part (c)

- Most candidates do not attempt this section or only focussed on a specific issue.
- A number of candidates also went into too much details, such as providing conclusions and recommendations which were not within the scope of the required.
- A number of candidates picked up on the possible issues, but they did not provide an argument/reasoning for the consideration provided.
- There was a clear lack of ability to express themselves in a manner to provide possible considerations.

PROFESSIONAL PAPER 2

Paper 2 consisted of an integrated 100-mark question, which dealt with the following aspects:

Part I

- (a) Candidates had to perform a free cash flow to firm valuation of a subsidiary (Eurofix) to estimate the value of holding company's 75% shareholding in Eurofix.
- Candidates had to use earnings before interest and taxation (EBIT) as the starting point for the free cash flow valuation.
- (b) A preparation of a memorandum to a chemical engineering company (Chemen) in which the candidate had to describe the current business and financial risks facing Eurofix that may be used by the directors of Chemen to influence negotiations regarding a potential increase in its existing shareholding in Eurofix.
- Calculations were not required.
- (c) Candidates had to make a recommendation to the board of the company addressing the qualitative and quantitative factors relevant to the two options to either restructure or liquidate Eurofix.
- Candidates could exclude considerations regarding a move to robots.
 - All tax implications could be ignored in the calculations.

Part II

- (d) A discussion of the key considerations that the directors of Eurofix should take into account when deciding whether to replace 200 employees with robots in FY2024.
- (e) A description of the substantive procedures that the candidate could expect the auditors to perform on the FY2022 forecast information and relevant applicable notes, to obtain audit evidence about Eurofix's ability to continue as a going concern for the 12 months after the end of FY2021.
- Information relating to subordination agreements had to be included.
 - Candidates had to assume that all amounts were material.
 - Candidates did not have to provide substantive procedures to audit the FY2021 actual results.
- (f) Candidates had to prepare the additional journal entries to account for the investment property and the lease with Eurotile in the separate accounting records of another subsidiary (Europrop) for FY2021.
Candidates had to –

- assume that the appropriate pre-tax discount rate was 15%;
 - include journal entries relating to deferred taxation;
 - ignore journal entries relating to current taxation;
 - round all amounts to the nearest rand; and
 - not provide journal narrations.
- (g) A disclosure of all relevant information relating to the fair value of the investment property leased to the holding company as it would appear in the notes to the annual financial statements of Europrop for FY2021, to comply with the requirements of IFRS 13 *Fair Value Measurement* in respect of non-financial assets.
- Comparative information and accounting policy notes were not required.
 - Where the available information was insufficient, candidates had to provide examples and/or details of information that they would have included to complete the required disclosure in terms of IFRS 13.

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)
52	24,31	41,8%	58,2%

1 General comments on the degree of difficulty of the question

The universities noted that this is a good question which tested a number of different concepts and candidates' ability to critically evaluate a very plausible business situation. The combination of the calculation, risk identification and business reconstruction contributed to a well-rounded question which tested a candidates' ability to integrate their knowledge and form an opinion.

The valuation was fairly straightforward. The discussion questions were broad and provided sufficient available marks for the questions to be accessible. Part (c) was where candidates struggled the most in terms of understanding what was required of them, switching from providing a solution from the acquirer's perspective to a recommendation from the target company's perspective.

The marking team felt that this question had a good mixture of intermediate and difficult marks. The question was of a moderate to challenging standard. The candidates found it difficult to apply decision making relevant to the scenario, resulting in not so relevant issues being considered. The candidates also struggled with performing a calculation of a free cash flow to value shareholding of a subsidiary.

The candidates also had written barely enough, showing limited points across all three parts of the question, therefore evidencing the lack of understanding and application.

2 Feedback on the candidate responses

Candidates who did well on these three parts of the required were able to answer the question relatively well across the discussion and calculation aspects of the question. They were able to understand that for the cash flow the equity value needed to be calculated, had relevant points on the business and financial risks, together with relevant considerations for choosing between restructure or liquidation of Eurofix.

Candidates appeared to struggle with their time management, in view of limited points provided on the discussion sections

and not distributing their time well according to the mark allocations for each section. Communication was also in many instances relatively poor, with explanations not forming clear and crisp answers.

The provision of generic points without application to the scenario was also an issue, resulting in candidates not being awarded these marks. Candidates should realise that application of the points raised to the scenario presented is of vital importance.

3 Feedback per each required section of the question/part

3.1 Areas that candidates handled well

Part (a)

- Candidates who calculated the equity value not just ending at NPV or enterprise value for this required generally did well.
- Marks were relatively low on this section as most of the candidates did not calculate the 75% shareholding in Eurofix.

Part (b)

- Candidates who performed well in this section could identify the business and financial risks facing Eurofix that may be used by the directors of Chemen to influence negotiations regarding a potential increase in its existing shareholding in Eurofix.

Part (c)

- Candidates who performed well here were able to apply decision making relevant to the scenario, resulting in relevant issues considered and discussed. This part required candidates to make a recommendation to the board of the company addressing the qualitative and quantitative factors relevant to the two options to either restructure or liquidate Eurofix.
- Candidates generally did well on the calculations part of this required if they did attempt it.

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

Part (a)

- Candidates performed poorly in part (a). They did not provide sufficient points relevant in performing the free cash flow to firm valuation of Eurofix to estimate the value of Eurotile's 75% shareholding in the subsidiary.
- Most candidates showed a lack of technical skills in performing a free cash flow valuation.
- Some candidates for example included 2021 in their valuation, ended at the NPV value or the enterprise value, and did not provide the equity value of Eurofix. These were really fundamental errors in what has been asked. By not valuing the 75% shareholding in the subsidiary the candidates lost 8 marks in total.

Part (b)

- Candidates performed poorly in part (b). They did not provide sufficient points to describe the current business and financial risks facing Eurofix that could have been used by the directors of Chemen to influence negotiations regarding a potential increase in its existing shareholding in Eurofix.
- The candidates found it hard to come up with relevant financial and business risks, the points provided were really limited to the applicable scenario.
- Some of the points provided needed more detail to be considered as risks.
- The provision of generic points without application to the scenario was also an issue, resulting in candidates not being awarded these marks. It is vital that candidates apply the points raised to the scenario.

Part (c)

- Candidates performed poorly in this part (c). They did not provide sufficient points relevant to make a recommendation to the board of Eurotile that addressed the qualitative and quantitative factors relevant to the two options to either restructure or liquidate Eurofix.
- Many candidates only provided liquidation calculations with no discussion. When the quantitative factors were provided the candidates generally did well on this part of the required.
- The main issue for most candidates was their inability to apply decision making relevant to the scenario, resulting in not so relevant issues considered. These sections required critical thinking within the context. There were also some candidates who merely wrote a conclusion with nothing else.

- Candidates confused some of the issues in (b) and (c). Some of the points in (b) were addressed in (c) and the other way around.
- The mark plan was relatively more generous on the part (b) and part (c) require sections, having slightly more than double the available marks when compared to maximum.

PAPER 2 PART II

Maximum mark	Average mark	Marks > 50% (pass)	Marks < 50% (fail)
48	23,36	46,3%	53,7%

1 General comments on the degree of difficulty of the question

The question had a good integrated scenario relating to various disciplines and also within the financial reporting discipline. The financial reporting aspects of this paper were considered to be challenging by many universities. The IFRS 13 disclosure requirement was considered to be manageable if candidates followed the disclosure requirements of IFRS 13. Good exam technique was needed for a candidate to do well in this question. On an overall basis the question was assessed as being moderately difficult by an overwhelming majority of the universities. The level of difficulty was elevated by part (f), in which candidates had to calculate the fair value of the investment property using a discounted cash flow and to provide additional journal entries.

Overall, the candidates did not perform well in this question. Candidates did relatively well in part (d) on ethics, with many giving well thought-out considerations. The audit procedures relating to going concern were lacking with candidates not displaying sufficient application to the forecast provided. The procedures given were generic and often unrelated to the forecast and its notes. Many candidates identified the fair value gain/loss on the investment property and provided the additional journal entries required but often no workings were provided to support the journal entries. The majority of candidate did not answer part (g) and the performance on this part is thus very poor.

2 Feedback on the candidate responses

Exam technique

Candidates wasted a lot of time on discussing generic audit procedures that did not apply to the income statement forecast that was provided. Candidates discussed concerns that were not applicable to the replacement of employee with robots and many concerns which were not key. Candidates provided journal entries with no rand value amounts or without calculations to support the amounts used in the journal entries. All the above were indicators of poor exam technique in this question.

Time management

Candidates displayed poor time management skills in answering this part. Part (f) and (g) were often left out or not completed adequately.

Communication

This question had three communication skills marks. The majority of candidates who attempted parts (d), (e) and (g) earned these marks.

Relevance

Candidate often lacked application in providing the substantive procedures in part (e)

Recommendations

Candidates should practice good exam technique. An example from part (e): documenting some of the easier auditing

procedure's e.g., procedures related to the recalculation of the forecast. An example from part (f): presenting complete journal entries i.e., including rand values in journals with calculations to support the journal entries.

Workings (and references to workings)

Many candidates did not reference their workings. Often the workings provided did not correspond to the final answer given in journal entries.

3 Feedback per each required section of the question/part

3.1 Areas that candidates handled well

Part (d)

- Candidates generally discussed the impact on the morale of the remaining employees, the impact of strikes/protest, the reputational damages to the company for replacing more than 50% of its workforce and trade union involvement in the process well. The majority of candidates did well in this part of the question

Part (e)

- Candidates generally used appropriate action words for the substantive procedures.

Part (f)

- Most candidates who attempted this part, provided a journal entry to account for the fair value adjustment on the investment property and the resulting deferred tax.

Part (g)

- Those candidates who attempted this part of the question generally provided the format of the disclosure.

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

Part (d)

- Candidates focused on the negative key considerations, often not including the positive considerations with regard to the implementation of the robot program.
- Some candidates provided a theoretical list of general considerations and did not provide considerations specific to the scenario (like the CO² emissions and the impact on the entity's image).
- Some candidates also did not understand the implications of the robots being used in the manufacturing process and discussed customer / robot interactions as considerations.
- Many candidates failed to include 'logical' relevant key considerations, that were perhaps not highlighted in the scenario based on the current environment in the country, such as the high electricity costs / possibility of load shedding and unemployment statistics.

Part (e)

- Candidates struggled to apply the substantive procedures to the scenario.
- Most candidates provided the substantive procedures for a cash forecast (what they are used to in an academic setting), instead of the income statement forecast provided to them.
- Candidates appeared to try to impose generic procedures for going concern / cash flow projections onto the scenario, often without considering the required of the question, which was very focused on the specific situation presented in the question.
- The question asked for substantive procedures which required an element of re-performance to achieve marks. Many candidates did not include a 'verb/action/technique' such as inspect, enquire, etc., or a 'with who/how' in their procedures, resulting in vague procedures which would not allow for re-performance.
- Most candidates did not discuss those procedures, which required an understanding of the scenario, for instance the recalculation of the solvency and liquidity ratios of Eurofix to determine whether the shareholder subordination agreements would actually be sufficient to improve the solvency and liquidity of Eurofix as claimed by management
- Many candidates made excessive use of the enquire technique instead of selecting a technique that would provide a higher degree of substantive evidence for the audit.

Part (f)

- Generally, candidates answered this part poorly.
- Most candidates did not calculate the fair value of the investment property using the NPV of the net income of the

investment property for the period 2022 to 2026.

- Some candidates prepared an NPV calculation, but the calculation was prepared in the context of working out a lease liability / net investment in lease / right of use asset and not to determine the fair value of the investment property.
- Many candidates included journal entries without correctly indicating the (P/L) or (OCI) in the journal. Following this, many candidates recognised the fair value gain on the investment property through OCI.
- The deferred tax implication of the fair value adjustment was also poorly answered.
- Most candidates did not split the deferred tax movement due to the fair value adjustment between the recoupment at 28% and the capital gains tax at 22,4%. This resulted in candidates going the either-or route, either the full fair value adjustment at 28% or in full at 22,4%.
- Many candidates journalised the deferred tax opening balance of R1 060 674 instead of the movement in deferred tax.
- Many candidates used both the SPL and the SFP approach in calculating the deferred tax movement. The two approaches did not reconcile and in many cases the two approaches were used interchangeably. This resulted in time wasted and marks lost by the candidate.
- Candidates had deferred taxation journal entries that did not follow on the gain/loss on the fair value adjustment. For example, having a gain in fair value, followed by a journal entry decreasing deferred taxation in the SFP.
- Many candidates provided the lease income and operating expenses journal entries although it was provided in the information with a statement of it being correct.
- Many candidates assumed the opening fair value of the investment property was the closing fair value in the current year.

Part (g)

- Very poorly answered, with candidates displaying a lack of knowledge on the disclosure requirements of IFRS 13 *Fair Value Measurement*.
- Many candidates who attempted this part appeared to directly transcribe sections of the IFRS 13 standard as their answer, without any application. This would have taken a considerable amount of time for a candidate to overwrite for no marks.
- Some of the candidates who did attempt this part, did not carry forward values used in part (f) to part (g).

PROFESSIONAL PAPER 3

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

Part I

- (a) A discussion on the appropriateness of a provision in respect of a contract for the installation of guardrails at a community park in the separate financial statements of a company for FY2020.
 - Calculations had to be provided where necessary.
- (b) A discussion on how the amendment of an existing loan agreement with the CFO should be accounted for in the separate financial statements of the company for FY2020.
 - Calculations had to be provided where necessary.
 - Candidates did not have to do discuss any presentation or disclosure requirements.
- (c) Candidates had to discuss, with reference to two emails (on an audit appointment) –
 - (i) any ethical considerations regarding the audit fee arrangement; and
 - (ii) any other concerns that arise based on the content of these emails with reference to audit firm's adherence to the SAICA Code of Professional Conduct and the International Standards on Auditing.
- (d) Candidates had to evaluate the audit work performed by a second-year audit trainee, as documented in a workpaper, on the cash flow forecast and thus the going concern assessment of the company, incorporating considerations of the information in the scenario.
 - Candidates had to provide additional procedures to obtain sufficient and appropriate audit evidence in relation to the going concern ability of the company where necessary.
 - A discussion of the documentation requirements of ISA 230 were not required.

Part II

- (e) A discussion of the key business risks faced by a company as a result of the Covid-19 pandemic and the related lockdown regulations.
- (f) With reference to the two financing options proposed by the new CEO, candidates had to –
- (i) calculate the most cost-effective financing option of the two (using the internal rate of return method); and
 - (ii) recommend with reasons (including an analysis of the characteristics of each option) which financing option the company should select.
- (g) With regard to the exchange of a bottle-forming machine by the company in return for a risk identification and assessment workshop by the CEO, candidates had to –
- (i) discuss, supported by calculations, any VAT implications for the company for the February 2020 tax period;
 - (ii) calculate, with reasons, the normal tax implications for the company for this exchange; and
 - (iii) discuss the amount, if any, that the company can deduct for normal income tax purposes for the 31 December 2020 year of assessment, in respect of the service rendered by the CEO in exchange for the bottle-forming 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)
55	31,84	82,7%	17,3%

1 General comments on the degree of difficulty of the question

The joint umpires and the marking team are of the opinion that the question was moderate to difficult due to the integration elements within this part of the question. This is particularly evident in part (d) where auditing was integrated with financial management principles.

2 Feedback on the candidate response**Exam technique**

The candidates were often very generic in their responses; failing to apply the facts apparent in the scenario. The responses were also not complete, especially when identifying and explaining the threats of the fundamental principles of the CoPC.

Time management

Candidates appeared to have managed their time well, as most candidates attempted all parts of the question. Some candidates failed to attempt part (b).

Relevance

Candidates lacked application when discussing some of the ethical concerns and provided generic audit procedures when addressing part (d).

Recommendations

It is important for candidates to go back to relevant sections of the scenario as well as required sections and read those parts again as some key details were missing from the candidates' answers.

3	Feedback per each required section of the question/part
3.1	Areas that candidates handled well
Part (a)	<ul style="list-style-type: none"> Some candidates handled this part well by applying the onerous contract principles to conclude on the appropriateness of the provision.
Part (b)	<ul style="list-style-type: none"> The few candidates who identified the IFRS 9 modification and the accounting thereof handled this part well.
Part (c)	<ul style="list-style-type: none"> Some candidates did well in identifying the threat and principle for each ethical concern, evaluating the threat as well as suggesting a possible safeguard to be implemented.
3.2	In what respect candidates' answers are considered to fall short of requirements
Part (a)	<ul style="list-style-type: none"> Some candidates used the general provision definition and did not apply the onerous contract principles of IAS 37. The scenario made specific mention of 'onerous', but candidates appeared to have missed this when reading the scenario and as a consequence, lost marks.
Part (b)	<ul style="list-style-type: none"> Candidates were completely unprepared for answering an IFRS 9 financial liability modification. The responses demonstrated a lack of knowledge, and some candidates addressed the presentation and disclosure elements when those were clearly scoped out. Candidates computed payments instead of computing a future value and a present value and as a consequence missed out on the calculation marks.
Part (c)	<ul style="list-style-type: none"> Candidates did not explain the issue appropriately and therefore automatically lost 2 marks per issue. The candidates' responses were generic as they would briefly mention the issue but, did not explain the reason behind the ethical or ISA concern. For example: Candidates would mention that there is a familiarity threat to objectivity because the audit partner and client were friends, but not explain why objectivity was threatened by for example noting that it would cause the audit partner to be biased or cloud his judgement. Candidates did not identify all the issues that was present in the scenario. Most candidates focused only on a select few issues/concerns. Some candidates identified a 'gift' for the fee arrangement which was not relevant to this question.
Part (d)	<ul style="list-style-type: none"> Many candidates did not evaluate the workpaper. There was a major lack of application in this part which was worrying. Most candidates focused on providing additional procedures which were mostly generic points from ISA 520. Most candidates did not use any of the given information in the workpaper. The expectation was for candidates to use Financial Management principles to question the reasonableness of the amounts used in the cash flow and provide additional procedures to audit the cash flow forecast. The main focus of the question was the evaluation of the workpaper with some additional procedures, but candidates mostly focused on the additional procedures. Candidates really struggled with the evaluation, indicating that they still find integration within disciplines problematic when attempting ITC questions.

PAPER 3 PART II

Maximum mark	Average mark	Marks > 50% (pass)	Marks < 50% (fail)
45	20,15	32,6%	67,4%

1 General comments on the degree of difficulty of the question

Overall, part ii of paper 3 was considered to be easy to moderate. Candidates overall found the MAF sections to be easier because of the commonality of the topics that were assessed, being business risks as well as sources of finance. The tax sections of the paper elevated the difficulty of the question as it dealt with barter transactions, which is not only uncommon in the ITC but a challenging area on its own.

The universities noted the extent of integration in the paper also contributed to the difficulty of the question. There was integration of five competency areas (tax, financial management, strategy, risk management and governance, auditing, and accounting). However, the complexity that would otherwise be expected from integration was mitigated by the limited integration within each of the required sections. This meant candidates had to work through each section of the required (that were straightforward to interpret) systematically and with reference to the relevant competency area.

2 Feedback on the candidate responses

Exam technique

A few candidates did not demonstrate efficient exam technique and missed that the business risks required related to Covid-19 and lockdown effects. As a result, these candidates provided valid but not relevant business risks.

Time management

There was a lack of effective time management as most candidates did not attempt the last part of the paper and therefore lost some of the easy marks. It was also evident that the parts that were not attempted (or attempted in a rush) were the tax components of the question, which were relatively difficult sections.

Communication

Candidates generally demonstrated effective communication skills and provided answers that were easy to follow, and in most cases used appropriate headings. This resulted in them easily securing the two communication marks that were available for this part of the question.

Layout, structure, and presentation

Most of the candidates were able to provide good layout calculations that were easy to follow, with workings clearly provided where relevant.

Not responding to the required (or not paying attention to the required)

Candidates did not provide reasons in instances where it was necessary to support some tax calculations with reasons.

Relevance

With regard to the MAF discussion sections, candidates generally demonstrated a lack of application to the facts of the scenario, providing risks that were not relevant to the scenario at hand. For example, the suggestion of stock becoming obsolete in two months that the company was closed was inappropriate given that this was a glass and aluminium manufacturing company. A similar pattern was observed in the discussion of factors relating to financing options, with many candidates discussing the conversion of the preference shares which was not evident from the facts in the scenario.

Recommendations

Most candidates provided recommendations that were not substantiated or that followed from their discussion. It is generally not appropriate to provide as a recommendation that states 'based on the above, we will choose option A', especially in circumstances where it is not necessarily clear that that option was preferable. In the instance of recommending the appropriate financing instrument, it was extremely concerning that candidates do not understand that the internal rate of return (IRR) for a financing option represents a cost rather than a return (benefit) and therefore a lower IRR should have been preferred.

Technical proficiency and incomplete responses

Candidates did not evaluate and apply all the relevant requirements of tax provisions to maximise their marks and to support their conclusions with a complete analysis of the facts and the technical requirements.

3 Feedback per each required section of the question/part

3.1 Areas that candidates handled well

Part (e)

- Most candidates were able to sufficiently discuss the business risks facing the company because of Covid-19 and the related lockdowns.
- Overall, most candidates were able to provide points leading to a successful outcome and were able to apply their general understanding of Covid-19 and its implication to the business.

Part (f)(i)

- Most candidates were able to do well in this question, with most securing full marks for the IRR on the preference shares and missing a few marks on the IRR for the loan.

Part (f)(ii)

- Several candidates were able to identify the factors that were relevant in the evaluation of the two financing options. This was very encouraging as this demonstrated the candidates' ability to critically evaluate the terms of the instruments and provide appropriate recommendations based on those terms.

Part (g)(i)

- Candidates that generally performed well on this part of the required were able to identify and discuss both aspects of the barter transaction, i.e. the supply of the bottling-forming machine that gave rise to an output tax and acquisition of risk workshop services that did not give rise to input tax.

Part (g)(ii)

- Most candidates were able to handle the income tax implications of the disposal of the bottling forming machine and were able to deal with the recoupment and capital gains tax implications.

Part (g)(iii)

- Candidates who did well demonstrated effective time management and an effective exam approach. They were able to identify the application of s11(a) in the context of a barter transaction and provided good arguments with regard to the amount subject to the deductibility of the service rendered by the CEO.

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

Part (e)

- A few candidates failed to provide a sufficient number of risks and others provided generic business risks that did not arise as a result of Covid-19, such as forex risks that were not as a consequence of Covid-19.
- In other instances, candidates provided the risk factors but not the reasons why those risks exist.

Part (f)(i)

- It was concerning that several candidates calculated the cost of the financing options without taking the time value of money into consideration. This highlighted significant technical gaps that need to be addressed before candidates sit for their next sitting.
- Some candidates also struggled to estimate the variable interest on the loan, and this highlighted that they might not have been able to fully comprehend the facts in the scenario.
- The marks that were missed mostly relate to disregarding tax impact on the IRR.

Part (f)(ii)

- Some candidates who did not perform well due to a lack of application and simply dumping general considerations that were not applicable to the given facts, e.g. discussion of the conversion option of the preference shares.
- Candidates also excessively dealt with terms that were already incorporated in the calculations in the previous section (i.e. instead of discussing the qualitative factors, candidates were discussing the quantitative factors that are incorporated in the IRR) and therefore made it difficult to score good marks. For example, they stated that debt was cheaper due to tax deductions while the tax effects have already been incorporated into the IRR of the loan instrument.

Part (g)(i)

- There was a general lack of understanding of the value-added tax implications of a barter transaction and this resulted in most candidates being unable to handle the requirements of this part of the paper.
- Several candidates were either unable to identify the connected parties or correctly deal with the identification of the connected parties, e.g. missing to identify that the CEO did not directly have an interest in the company.
- Further, despite the scenario clearly stating that the transaction did not arise by virtue of the CEO's employment, there were some candidates who discussed, with concern, the value-added tax implications of the fringe benefits.
- Most candidates struggled to identify the application of section 10(4) of the VAT Act and related discussion of connected parties.
- Few of the candidates that were able to identify the application of this section did not sufficiently and completely address the relevant criteria of the section.
- Candidates also confused barter transactions which are transactions for which the consideration is a payment other than in money as a consideration not in money. This demonstrates lack of appreciating the definitions in the VAT Act.

Part (g)(ii)

- There were several candidates who appeared to lack the basics of understanding the income tax implications of a disposal of a capital asset, e.g. not reducing the base cost of the asset with the allowances previously claimed or the proceeds by the recoupment. This was extremely concerning as the calculations were not complex and therefore such candidates lost an opportunity to do well in this part of the question. In addition, candidates did not evaluate the impact of the value-added tax consequences on the proceeds for recoupment and capital gains tax purposes.

Part (g)(iii)

- Candidates either did not do well in this part of the question because of a lack of fundamental understanding and good approach with regard to the application of the general deduction formula or because they did not attempt it at all.
- For those that did not attempt this part, there was clearly a lack of effective time management from most of the candidates.
- Some candidates who did attempt this part of the question, did not provide a complete analysis of the requirements of section 11(a) to prove the amount to be deducted.

PROFESSIONAL PAPER 4

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

Question 1

- (a) A calculation of the taxable income of an individual (Emily) for the 2020 year of assessment.
- Candidates had to clearly indicate all items that have a nil effect and provide a brief reason for these items only.
- (b) Candidates had to advise Emily, purely from a tax perspective, what the –
- (i) advantages; and
 - (ii) disadvantages
- will be if she decides to invest the cash inheritance from her late father in local tax-free investments.
- No calculations were required.
- (c) Candidates had to explain briefly, with respect to a new delivery division and with supporting calculations, the

- implications for a company with regard to –
- (i) VAT for the tax period ended 31 March 2020; and
 - (ii) normal tax for the 2020 year of assessment.
- (d) A discussion, with respect to the issue of debentures, of the tax consequences for the company for the 2020 year of assessment.
- VAT could be ignored.
 - No calculations were required.
- (e) Candidates had to explain the following regarding the policy to be adopted for the sale of cash gift cards:
- (i) How the VAT should be accounted for by the company when a cash gift card –
 - is sold to one of its customers; and
 - is redeemed in full by a customer on the acquisition of napkins and napkin liners for babies within 36 months after its date of issue; and
 - (ii) How the company's gross income, as defined in the *Income Tax Act*, will be impacted when a cash gift card –
 - is sold to one of its customers; and
 - expires before it is fully redeemed by a customer.
- Candidates had to support their answer with reference to the principle(s) of relevant case law.
 - No calculations were required.

Question 2

- (a) A discussion of the factors that increase the risk of material misstatement for the existence, completeness and accuracy, and valuation and allocation assertions for the cash and cash equivalents balance reflected in the statement of financial position of a small family-owned store at 31 December 2020.
- (b) A description of additional controls that should be implemented at the store to prevent or detect the risks of material misstatement in the existence and completeness of the cash and cash equivalents balance.
- (c) A discussion, with specific reference to the information provided, of the matters that the audit firm should consider before accepting the engagement to audit the FY2020 financial statements of the company.
 - Candidates had to exclude any recommendations for safeguards that the audit firm should implement.

Five presentation 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	22,60	34,1%	65,9%

1 General comments on the degree of difficulty of the question

The Tax question in paper 4 question 1 assessed the various taxation matters and principles. The question focused on the calculation of the individual's taxable income, the advantages and disadvantages of investing in a section 12T tax-free investment, dividends tax, VAT and normal tax implications on various transactions, including section 8F. The question was found to be well-structured, practical and balanced, with a combination of difficult and easy aspects and tested various tax principles. There was also sufficient focus on new pronouncements.

A part of the question tested topical issued such as the taxation of gift cards. Universities and markers found that the question not only assessed the technical competence but also critical thinking and pervasive skills, where candidates had to the provide advantages and disadvantages of investing in a tax-free investment.

The scenario length of the question was reasonable, which would have allowed candidates to read and analyse the scenario adequately during the reading time. A wide variety of tax topics and provisions were assessed in a well-integrated manner.

This question was deemed to be moderate to difficult, with some challenging aspects such as section 8F (in part (d)) and the discussion of the VAT and income tax treatment of the disposal of cash gift cards in part (e) of the required. Good integration between normal tax consequences, VAT and dividends tax consequences was provided. This type of question provides a new and innovative way of assessing candidate's critical thinking skills and true practical understanding of tax legislative provisions.

Analysis of the degree of difficulty of the subsections

Part (a) Easy to moderate: Although it was a calculation question, candidates demonstrated a lack of understanding of basic tax principles. Most candidates did not apply the fact that 22% of the trading stock was distributed, thus it is NOT a dividend or capital in nature but should be included in gross income. Consequently, these candidates also did not recognise that the donation to a spouse was in fact a recoupment and that closing stock should be provided. The application of section 11F was poorly handled as candidates did not update their knowledge on this section. Most candidates could not identify the three limitations under this section and the application thereof was lacking.

Part (b)(i) and (ii) Easy to moderate: Candidates should have easily recognised two or three advantages by simply reading section 12T and the same applies to the disadvantages. One needs to use critical thinking in this regard. This said, candidates could mostly only recognise that the return on investments were tax free and could identify the limitations. It is of concern that the candidates could not correctly apply the penalty.

Part (c)(i) Moderate: Three concepts had to be recognised in part (c). The purchase of the vehicle, the payment of night shift and overtime allowances. Some candidates recognised that an input tax would be claimed as it was NOT a motor vehicle as defined but would then carry on to state that this is a 'notional input tax', thus missing the tax principle behind it. Other candidates would state that was an input tax that could be claimed on a 'motor vehicle' as defined. This is incorrect and consequently did not earn a mark. Only a few candidates identified no VAT consequences on the night shift payment and overtime allowances.

Part (c)(ii): Candidates must read a scenario carefully. If amounts are provided separately there is a reason for it. In line with this, some candidates aggregated the night shift allowances and overtime payments and purely stated 'deductible', either not giving a reason or only a calculation. Only a few candidates recognised that section 7B should have been considered and applied. Some candidates did recognise that the output tax on the motor vehicle fringe benefit could be deducted in terms of section 11(a).

Part (d) Moderate to difficult: Although a more challenging part, there was 12 marks available for this discussion. Most candidates recognised the financial instrument in terms of section 24J but did not identify the issuer. It is important that candidates apply sections of the Act. Merely stating that interest is deductible in terms of section 24J did not earn them marks. One needs to provide a reason (the funding of a delivery vehicle). Only a few candidates recognised that section 8F would apply to this scenario.

Part (e)(i) Moderate to difficult: Care should be taken by candidates not to contradict themselves for example stating that there is no output tax in one sentence but providing a reason why output tax would be levied. Wording is also important. Output tax is never 'claimable' and input tax 'payable' or levied. Most candidates only attempted the sale of the cash gift card and not what would happen if it were redeemed within 36 months.

Part (e)(ii) Moderate to difficult: Although this part was challenging, candidates could have earned marks if they recognised that the amount would not be received by Mega Baby on its own behalf and for its own benefit until the card expires. Information on the applicable section in the Consumer Protection Act was provided in the question itself.

2 Feedback on the candidate responses

Exam technique

- Those candidates who did well in tax question applied proper exam strategy. That is, they broke down the required and answered the easy marks first. They ensured that they addressed all the aspects of the required.
- Those who did not do well, displayed poor exam technique, and not able to structure the question and get easy marks before addressing the complex issues.
- Candidates did not address all the different transactions as indicated in the question. For example, in part (c) several candidates only addressed the motor vehicle transactions and not the overtime and shift allowances.
- Several candidates taxed a transaction twice. For example, in part (d)(ii) some candidates said VAT should be levied when the gift card was sold and when it expired.
- Candidates who did not read and clearly understand the required often left out a part of the question/required.

Time management

- There were some candidates who struggled to manage their time, but the markers observed that there was sufficient time to complete the question.
- Some candidates would leave out some parts of the question, such as parts (b), (d) and (e). This could be ascribed to a lack of knowledge or poor exam planning technique as a number of candidates attempted all the sections of the paper but did not write much. It would appear they were not sure how to discuss certain parts.
- Parts (b) and (c) only counted six marks, excluding the communication mark, but several candidates spent quite a bit of time on these compared to part (e), which counted 10 marks.
- In part (d) several candidates discussed each component of the gross income definition despite the limited number of marks that were available.
- Several candidates also wrote out the definition of gross income, which is just a theory dump.

Communication

- There were two communication skills marks for the question. Many candidates obtained the marks as they used the correct terminology and did not contradict themselves in their arguments.
- Some candidates did not obtain the communication skills mark because they did not attempt part (c) and part (e) and some presented their arguments poorly (for example not concluding according to argument presented and not completing their sentences).

Layout, structure and presentation and relevance

- Most of the candidate answered the correct section, which made it easy to mark.
- Candidates did not calculate the individual's taxable income in the order as prescribed by the Income Tax Act. This is important as the application of for example section 11F needs the order of deductions and CGT calculation to be correct.
- Markers noticed that in part (c) some candidates failed to determine all the transactions in the scenario and to discuss each in terms of both the Income Tax and VAT acts.
- For part (e) some candidates only provided the relevant court case without identifying and applying the principle of the court case to the information in the scenario.
- A few candidates did not plan their answers in a logical manner and just commenced by dumping information.

Workings (and references to workings)

- In part (a) marks were not awarded where candidates did not apply the section 11F limitation correctly. Candidates also did not apply the second limitation of 'the higher of remuneration and taxable income after CGT' correctly. Only a few recognised that section 11F has three limitations than needed to be applied.
- Where the discussion required a calculation, most candidates failed to provide supporting calculations. They would only explain one part of the question and not apply the tax principle. The application of tax principles is an important part of the solution and candidate missed marks due to a lack of critical thinking. Candidates did not provide reasons

for nil amounts.

- The responses were mostly well referenced and easily identifiable.

Recommendations

- Candidates should work on proper exam technique and the use of the Income Tax Act and VAT Act. The exam technique refers to the application of time management and structuring an answer before starting to present it, which includes identifying relevant sections to support the discussion or calculations.
- There were candidates that still referred to old legislation, which is a problem since tax legislation changes every year. In tax questions the applicable tax legislation for the year of assessment under review is applied and marked.

3 Feedback per each required section of the question/part

3.1 Areas that candidates handled well

Part (a)

- Candidates who did well had attempted all the questions and applied critical thinking.
- The more common elements such as salaries, provident funds, dividends and interest exemptions were generally handled well.
- Most of the candidates' layout was good and they received marks for amounts and reasons provided.
- Candidates obtained most of the basic marks for this part.
- Candidates did well in the calculation, order, exemptions, and deductions that they presented.
- The candidates indicated their knowledge of both the interest (limited to R23 800 were applicable) and dividend exemption.
- Interest from trust: a minority of candidates identified that section 7(8) applies to Emily only up to 30 September 2019, when her husband was a non-resident.
- Most candidates claimed a section 11F deduction.
- A number of candidates indicated that cash inherited is capital in nature and debentures issued are capital in nature.

Part (b)(i)

- The majority of candidates identified that income growth on the tax-free investment would be exempt.
- Candidates also managed to identify that because the taxpayer was a natural person, she could take advantage of investing in a tax-free investment.
- The majority of candidates identified that the capital gain on the subsequent disposal of the investment would be disregarded.

Part (b)(ii)

- Some candidates managed to identify that the capital loss on the subsequent disposal of the investment would be disregarded as a disadvantage.
- Candidates easily identified and applied the subsections of sections 12T(3), 12T(5) and 12T(6).
- A few of candidates indicated that only cash could be contributed.
- Some candidates correctly identified the annual and lifetime limitations.
- Only a few candidates indicated that transfers to new investments would add towards annual and lifetime contributions.
- The majority of candidates identified the contribution limits and the 40% penalty where contributions were in excess of the contribution limits. Candidates also identified that the penalty would be normal tax.
- Disadvantages were generally well handled.

Part (c)(i)

- The majority of candidates identified VAT consequences and calculated the VAT amount correctly.
- Most candidates were able to identify that the single-cab delivery vehicle was not a motor vehicle.
- Several candidates were able to identify the deemed supply on the fringe benefit.

Part (c)(ii)

- Candidates who performed better were able to determine the distinction between variable remuneration (section 7B), night shift and overtime paid and deduct it under section 11(a).

- Most candidates identified that the purchase of the single-cab delivery vehicles by Mega Baby was capital in nature and therefore not deductible under section 1(a), and was subject to capital allowances (section 11(e)).

Part (d)

- Candidates who identified the issue discussed all the tax consequences relating to the arrangement and applied the facts provided in the scenario.
- Candidates identified that it's an interest-bearing instrument, thus that section 24J was applicable.
- Some candidates also identified that the receipt of the R9,2m was of a capital nature and would not be included in gross income.

Part (e)(i)

- Some candidates identified that there was no VAT on the initial transaction.
- Several candidates were able to identify that there was a supply when the napkins were sold.
- Many candidates were able to provide conclusions to their discussions.
- Most of the candidate were able to get majority of the marks in this section if they identified no output tax on sale of gift vouchers and only on sale of nappies.
- A limited number of candidates identified that baby nappies are zero rated.

Part (e)(ii)

- The candidates who used the correct case law principle and concluded without contradicting themselves were able to cover sufficient discussion points to do well in this section.
- Many of the candidates identified accrual of income as an issue.
- Several candidates were able to identify that there was a supply only when the gift card expired.
- Most candidates provided conclusions to their discussions.

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

Part (a)

- Some candidates did not add brackets to amounts that were exempt or deducted within a calculation.
- No marks were awarded to candidates who rewrote the provisions of the legislation – marks were only awarded for application of the requirements and provisions to the scenario provided.
- Most candidates were unable to recognise that the long service award was a cash award, and therefore that it would not be reduced by the R5000 exclusion in the Seventh Schedule.
- For the cash inheritance, many candidates indicated that it was subject to estate duty instead of it being capital in nature.
- Interest from trust: the majority of candidates did not identify that section 7(8) applies to Emily in respect of the interest payment of R15 000 on 30 September 2019 because her husband was a non-resident. Some candidates included the R15 000 and R25 000 and did not realise that section 7(8) was not applicable from 1 October 2019 when her husband became an exclusively South African resident.
- Most candidates did not identify that section 8F applied to the interest income on debentures and thus added the interest to gross income. Others identified the alternative that the interest should be recalculated in terms of section 24J, but used months to apportion it instead of days.
- Some candidates did not understand the limitation on interest, and most of them exceeded R23 800.
- Candidates did not identify the donation of the shares as trading stock. The majority thus missed the marks on trading stock. Those candidates proceeded to only calculate capital gains on the trading stock. As a result,
 - candidates did not claim the opening stock deduction for R1 300 000 or added closing stock for the remaining 11% (after donation) of R650 000. Candidates also did not add the deemed donation at cost in respect of the donation of the 11% interest in Redesign; and further
 - candidates did not add the distribution of the return of capital to gross income. Candidates indicated that the return of capital was proceeds for CGT purposes
- The majority of candidates were unable to identify the third requirement for the s11F deduction. This could be due to the use of outdated legislation or because of a lack of understanding.
- Some candidates would place the section 11F deduction in the wrong place, and for example placed the section 11F or section 18A deductions at the beginning of the taxable income calculation.

- A number of candidates did not identify that only employer contributions to a provident fund that were included in gross income as a fringe benefit could be regarded a 'deemed contribution' that would form part of Emily's total contributions in terms of section 11F.
- Some candidates wasted time calculating donations tax which was not applicable.
- Candidates identified that Emily could not claim a section 18A deduction, but did not place it in the correct order according to the provisions of the Income Tax Act.
- Some candidates did not attempt these sections: interest received on debentures, donation to her husband, CGT on shares, opening and closing stock on shares, insurance policy premiums paid by employer, devoted service award and the section 18A certificate (last part).
- The majority of candidates did not identify that the insurance policy is not a fringe benefit because it was solely out of and in course of employment of the employee (Seventh Schedule, proviso to par 2(k)).
- The majority of candidates did not identify the following for CGT purposes:
 - That cash is not an asset as defined; and
 - Section 9HB roll-over relief between spouses. Some candidates applied para. 67 of the Eighth Schedule, which had been replaced by section 9HB.
- Candidates were asked to provide reasons for amounts with nil effects, yet several candidates did not apply this requirement.
- Candidates demonstrated a lack of knowledge on dividend in specie and poor application of connected persons.

Part (b)(i)

- There seems to be a lack of knowledge regarding tax free investments, thus candidates struggled to identify advantages.
- Some candidates did not properly read the section in the Act and applied it incorrectly. This might be because some candidates did not understand the section.
- Candidates also did not identify that recapitalisation and dividend income were exempt.
- Candidates incorrectly indicated that the investment instead of the returns on the investment was exempt.
- Candidates incorrectly indicated that interest was exempt in terms of section 10(1)(i) instead of section 12T.
- A limited number of candidates referred to the fact that capitalised income of tax-free investments would not form part of contributions.
- Most candidates did not mention that any income from the tax-free investment re-invested would not count towards the annual or lifetime limitations.
- A number of candidates used limits which were either outdated or had not been enacted yet in relation to the year of assessment that was tested.
- Many candidates identified that capital gains and losses were to be excluded, but most did not separate these into elements that were positive and those that were negative.

Part (b)(ii)

- There seems to be a lack of knowledge regarding tax-free investments and so candidates did struggle with this task in identifying disadvantages
- Several candidates did not mention that the contributions had to be in cash.
- Several candidates who did identify that the capital gain should be disregarded under advantages, included the capital loss too and thus lost out on the mark that the capital loss would be disregarded under disadvantages.
- Several candidates used the incorrect limitations and for example used R36 000 or R30 000 for the annual limit.
- Several candidates applied the 40% penalty incorrectly as being included in taxable income instead of it being an amount of normal tax payable.
- Candidates did not identify that when you transfer from a tax-free investment to a new tax-free investment, the amount transferred would be considered to be a contribution.

Part (c)(i)

- Many candidates stated that payments relating to employment ('remuneration') were not a supply or an exempt supply, instead of identifying that it does not meet the definition of an enterprise.
- A number of candidates discussed 'notional input' because the single-cab delivery vehicles were second hand,

ignoring the fact that the single-cab delivery vehicles were purchased from a VAT vendor and therefore could not be a 'second-hand good' as defined in terms of section 1 of the VAT Act and hence could not be subject to 'notional input' – instead of concentrating on the fact that the single-cab delivery vehicles is not a 'motor car' as defined in section 1.

- Most candidate identified the fact that 'single cab' is not a 'motor car' as defined but then completely disregarded the 'private use' portion as a fringe benefit. Here they thus lost an easy mark.
- Candidates incorrectly calculated the input tax to be claimed on the single-cab delivery vehicle where candidates used 15/115 despite the amount provided being exclusive of VAT.
- Most candidates that identified the deemed supply on the fringe benefit of the use of the motor vehicle, but did not calculate the output tax correctly due to one of the following:
 - Used the market value;
 - Used 0,3% even though the candidate claimed the input tax on the vehicle; or
 - Forgot the two-month period, or used the incorrect VAT fraction or that there were 20 delivery vehicles.
- Candidates did not use appropriate wording regarding why input tax deduction was available on the single-cab delivery vehicle.

Part (c)(ii)

- Candidates did not indicate that the general deduction formula (section 11(a)) would have to be considered for the deductibility of any expense. Where candidates considered section 11(a), they did not link the amounts provided in the scenario to that section and therefore lacked in application.
- Candidates failed to address the two-night shift allowances and two overtime allowances separately and few candidates identified that night shift payments have been 'variable remuneration' in terms of section 7B from 1 March 2020.
- The main areas of concern in this part were the grouping together of all expenses without any valid reasoning or explanations being offered.
- Candidates identified that the purchase of the single-cab delivery vehicles by Mega Baby was capital in nature and subject to capital allowances but either claimed a section 12C allowance or did not apportion the section 11(e) wear-and-tear allowance for the part of the year (two months).
- A limited number of candidates identified that the output tax (VAT) on the right of use of the single-cab delivery vehicles by the employees would qualify as a section 11(a) deduction
- The presentation or layout of some of the candidate's answers was more a calculation than a discussion and was presentation in a table format. These candidates failed to address what was required.

Part (d)

- Some of the candidates identified that section 24J applied, thus interest on the debentures issued should be calculated, but then did not apportion the interest calculated with days for the period in question.
- Most of candidates got the issuer wrong and identified Emily and not Mega Baby as the issuer.
- Many candidates struggled to identify the hybrid instrument in terms of section 8F, and thus did not apply its requirements.
- Identification of the 'dividends in specie, the amount of the dividend, the date of the dividend payment, the tax and the person liable were not discussed.
- Candidates incorrectly applied GAAR due to the fact that they got misled by the section 8F requirement that the transaction must be an arrangement as defined under section 80L of the Income Tax Act.
- Most candidates did not identify that the face value of the debenture was capital in nature and not included in gross income.
- Candidates were also not awarded the marks if they did not address that the interest needed to be 'in the production of income'. That is the key requirement for the deductibility of interest.

Part (e)(i)

- Several candidates stated that the transaction was a financial service and thus exempt. Others applied 'earlier of invoice or receipt' and thus applied output tax on the initial transaction.
- Most candidates did not identify that the napkins are zero-rated items in terms of section 11(1)(w).
- The candidates could not provide the reason for the not levying output tax on the sale of the gift cards. This may be an

<p>indication of lack of knowledge or knowledge gaps relating to section 10(18).</p> <ul style="list-style-type: none"> • A limited number of candidates identified that VAT will only be accounted for when the gift card was redeemed for nappies. • Candidates incorrectly wanted to double account for the VAT (on sale of vouchers and when the vouchers were redeemed). • On the sale of nappies, candidates erroneously stated it as input tax instead of output tax. • Some of the candidates did not attempt this part. This may be an indication either failing to plan for the time allocated to the paper or a gap in their knowledge. • Generally, candidates seem to struggle with the basic principles of VAT.
<p>Part (e)(ii)</p> <ul style="list-style-type: none"> • Most candidates did not identify that the issue to be discussed is earlier of receipt or accrual, with the receipt being the main issue. Candidates went into the discussion of gross income and several candidates focused on accrual (unconditionally entitled to). The crux of the matter was whether Mega Baby's received the cash of the gift card on its own behalf and for its own benefit. • Some candidates provided contradictory conclusions. • Several candidates did not identify the correct case law to be applied. • Candidates incorrectly wanted to double account in terms of Income Tax. • Some candidates would give the same conclusion from the sale of the gift card and expired gift card, which indicated a lack of logical argument.

PAPER 4 QUESTION 2

Maximum mark	Average mark	Marks > 50% (pass)	Marks < 50% (fail)
50	26.45	66,7%	33,3%

1 General comments on the degree of difficulty of the question	
Part (a)	Difficult
Part (b)	Easy to moderate
Part (c)	Easy
<p>Overall, the level of difficulty is assessed as moderate due to the following reasons:</p> <ul style="list-style-type: none"> • Part (a) was perceived as difficult as the question required a discussion on the factors and not the actual risk of material misstatement and candidates may have missed this; and • Various required sections had more than a sufficient number of general marks available that the candidates should obtain. 	
2 Feedback on the candidate responses	
Exam technique	
<ul style="list-style-type: none"> • Some candidates' discussions were very lengthy and they would still score a limited number of marks. This was an indication that candidates did not consider the maximum marks available for a required and hence spent too much time on a specific required. • Some candidates missed the fact that required (a) asked for risk factors and not a risk of material misstatement discussion. Some also discussed test of controls in required (b) or provided lengthy discussions of controls that addressed the accuracy, valuation and allocation assertion of cash and cash equivalents. These were indications that the candidates did not read the required properly. 	

Time management

- Numerous candidates attempted required (c) first. Candidates' discussion on this was generally the most lengthy compared to that of required (a) and (b), but they still did not perform well in the task.
- Candidates wasted a lot of time merely dumping theory for required (c) and not applying any of the theory to the scenario and this could have also impacted their ability to leave sufficient time for requireds (a) and (b).
- Some candidates wasted time on required (c) by discussing safeguards for the threats identified, which was specifically scoped out in the required.
- Some candidates misread the required for part (b) as they went onto lengthy discussions of controls that are relevant to the accuracy, valuation and allocation assertions (such as screen aids and programme checks, input controls and recalculation of interest on the short-term fixed deposit). Candidates who did not read the question properly lost time discussing irrelevant controls.

Communication marks

Layout, structure and presentation: Generally candidates performed well in the communication marks and where able to obtain relevant marks.

Relevance

Candidates' answers often lacked in terms of applying themselves to the scenario, in particular in required (a) and (c).

Recommendations

- Candidates should update their techniques on how to discuss threats to fundamental principles with reference to information provided in a scenario.
- Candidates should aim to visualise a system description that is provided to them as this might assist in providing a response in terms of recommendations for controls to be implemented.
- Candidates are reminded to carefully read the required and understand exactly how they should respond before attempting a question.
- Candidates should also be guided by the mark allocation of a specific sub-section as some candidates went into a very lengthy discussion for specific required tasks.

3 Feedback per each required section of the question/part

3.1 Areas that candidates handled well

Part (a)

- Candidates did well in identifying general risk factors such as susceptibility of cash to theft, lack of reconciliations performed, lack of back-ups and that errors could take place in terms of capturing amounts received from customers or in the awarding of change.

Part (b)

- Candidates managed to identify the more general controls such as bank reconciliations that need to be executed, more segregation of duties that was necessary (in the form of reviews) and CCTV surveillance.

Part (c)

- When it came to ethical considerations, candidates were on the whole able to identify which threats to independence arise based on the information provided. This included threats due to friendships, fee dependency and providing non-assurance services to the new engagement client.

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

Part (a)

- Some candidates discussed generic risks of material misstatement and not the factors which was asked for ('risk indicators').
- Some candidates discussed random risks of material misstatement and not factors provided in the scenario.
- Some candidates discussed what each assertion means and did not discuss the risk factors in the scenario. They thus listing theory from the text books.
- Some candidates discussed the controls that were missing, which was only required for part (b), or did not write it as a risk indicator.

- Some candidates discussed factors pertaining to revenue and inventory and not cash and cash equivalents.
- Some candidates discussed risk factors pertaining to the detection risk of the auditor.
- Some candidates repeated points for which they could only be awarded marks once. For example, discussing the risk of theft from multiple perspectives when it pertained to one factor/issue (some discussions of theft even exceeded one page).
- Many candidates' responses were very brief, one-word responses, although this was a discussion question.
- Many candidates know how to discuss a risk of material misstatement by stating what can go wrong in the preparation of the financial statement, but they were not able to identify the risk factor from the scenario that created the risk of material misstatement.

Part (b)

- Some candidates described test of controls (audit procedures) that should be performed instead of additional controls as required.
- Candidates struggled to visualise the process that takes place in cash sales. If they had been able to do that, they would have performed very well in required (b).
- Many candidates went into a lengthy discussion of controls related to screen aid and programme checks for the POS system, that are regarded to be more appropriate to address the accuracy, valuation and allocation assertion and which was not required.
- Some candidates discussed irrelevant controls (controls not triggered in the information), such as those pertaining to inventory masterfile amendments.
- Some candidates' responses lacked depth since they struggled to express themselves. For example, they would state that cash needs to be counted at the end of the day without stipulating who in the scenario should do that, namely the cashiers should perform the count under the supervision of Susan. Another example would be when candidates merely stated that petty cash needed to be reconciled but omitted to state to what it should be reconciled. Even though candidates identified that Susan's work was not reviewed, they did not demonstrate that they understood that the control should be that the work should be reviewed by an independent person.
- Some candidates did not pay attention to detail, as they would state that an anti-virus program needs to be installed for the off-the-shelf accounting software, missing that the Autosale system is at risk of cyber-attacks. Others even responded that Susan's computer needs to be password protected, whereas the scenario stated that it already is.
- Most candidates did not discuss any controls pertaining to the short-term deposit money market account, petty cash and the float.
- Some candidates discussed controls that pertained to the accuracy, valuation and allocation assertions, such as confirming the accuracy of interest calculated on the short-term deposits, that was excluded in this required. This indicated that they did not read the required properly.
- Some candidates got confused between (mixed up) the terms cash, cash float, petty cash (also payslip which was not relevant to this scenario) and discussed irrelevant controls that do not pertain to the term used.

Part (c)

- Unfortunately, as is usually an issue with pre-engagement activities, candidates do not use the information provided / referred back to the information and therefore most answers provided was very theoretical and did not include any discussion at all. (The required also stated specifically 'with specific reference to the information provided' and therefore this was clearly required.)
- ISQC1.A18 and A19 were listed word-for-word as theory by the bulk of candidates and candidates could not be awarded any marks as they did not apply the information provided in the scenario to that theory. Candidates would also ask questions which indicated that they did not use the information like 'Does the firm have industry-knowledge?' or 'Is there sufficient time to meet the audit deadline?' without providing these answers from the scenario and marks could not be awarded for this.
- A large number of candidates also did not discuss auditors' considerations, as their discussion predominantly focused on the independence of the auditor and the terms of the engagement.
- In a few instances some candidates completely missed independence matters to be considered. Some candidates omitted discussing the matter from the perspective of the SAICA Code of Professional Conduct.
- Candidates failed to identify that the audit firm completed the tax returns as well, and only mentioned the tax

calculation.

- Candidates in general were not able to discuss the threats to independence properly by stating what could potentially go wrong during the audit as a result of the existence of the factor that creates the threats. For example, with regard to a self-review threat that arose because tax calculations were performed for the clients, candidates would merely state that the auditors would audit calculations that they performed without stating that they might be 'biased' (the 'what can go wrong') when auditing the calculations that they had performed.
- Some candidates discussed safeguards, even though the required specifically scoped it out, which indicated that they did not read the final parts of the required properly.
- The majority of candidates also did not attempt a discussion of the level of the threats they identified to independence.