

**MARKERS' AND UMPIRES' COMMENTS
INITIAL TEST OF COMPETENCE
JANUARY 2018**

OBJECTIVES OF THIS REPORT

This report has been compiled from the analysis of examiners on candidates' performance in the Initial Test of Competence (ITC) – previously known as Part I of the Qualifying Examination, which was written in January 2018. Its objectives are to –

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

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

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

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

- Statistics for the ITC January 2018;
- Background information on the setting, marking and adjudication of SAICA examinations;
- General comments on the ITC January 2018; and
- Detailed comments by question in each of the professional papers (1–4).

STATISTICS FOR ITC JANUARY 2018

	% Pass	Passed	Failed	Total
All candidates	74%	2 220	792	3 012

Average marks per question (all candidates)

	Question 1	Question 2	Total
Paper 1			
Total marks	47	53	100
Average marks	29,97	20,96	50,93
	Question 1 Part I	Question 1 Part II	Total
Paper 2			
Total marks	60	40	100
Average marks	26,08	26,02	52,10
	Question 1 Part I	Question 1 Part II	Total
Paper 3			
Total marks	64	36	100
Average marks	33,48	27,29	60,77
	Question 1 Part I	Question 1 Part II	Total
Paper 4			
Total marks	73	27	100
Average marks	37,99	11,32	49,31

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 (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 and improvement of 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 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 such assessment.

In addition, two external examination sitters, who are independent of the exam setting process, are appointed to review the entire set of questions. The examination sitters provide independent comments on the examination paper, suggested solutions or mark plans, and are reported 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:

Adrian Sameuls	Gretha Steenkamp	Mandi Olivier
Ahmed Mohammed Hadji	Greg Beech	Marielienne Janeke
Andrew van der Burgh	Goolam Modack	Peter Landman
Carmen Westermeyer	Giel Pieterse	Piet Nel
Depika Singh	Helouise Burger	Pieter van der Zwan
Dewald Joubert	Janine Claassens	Reghardt Dippenaar
Eihorere Wesigye	Jack Jonck	Ross Peasey
Elaine Rabin	Jackie Viljoen	Shelly Nelson
Elton Pullen	Jacobus Rossouw	Stéfani Coetzee
Ferdinand Mokete	John Williams	Sufyaan Bhaiyat
Francois Liebenberg	Kayleigh Greenslade	Thabang Toolo
Francois van den Berg	Linda van Heerden	Veryl Mulder
Frans Prinsloo	Lisa Vidulich	Zwelodumo Mabhoza

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. The only persons who know the contents of a particular paper are the members of the ITC Examco. They are all selected with great care regarding their integrity and professional standing and are sworn to secrecy.

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 participating 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 fully bilingual and 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 secrecy regarding the handling of scripts, questions, solutions and mark plans. SAICA holds the copyright of the solutions and mark plans.

Marking of the ITC January 2018 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 by means of 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 is 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 twelve scripts are selected on a random basis by SAICA's Examinations Unit, and the exam numbers removed. These scripts are then marked from A to L and photocopied. Every person on the mark team has to mark the question to which they have been assigned in the batch of twelve scripts. This takes place on the first two days of the main marking process and the umpire, together with his/her mark team, then discuss how the individual markers award the marks point by point for each question of each script. 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 the final marks to be awarded for each question:

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

The members of the 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 below), are selected and final review is undertaken on such candidates' scripts. This review is undertaken by the umpire or assistant umpire, being the most senior and experienced members of a mark team. The marks during this process may either go up or down and is again done on a question by question basis so 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 who 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 our Examination Regulations for the ITC in this regard).

GENERAL COMMENTS ON THE ITC JANUARY 2018

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 & External Reporting	Strategy, Risk Management & Governance	Audit & Assurance	Tax	Financial Management	Management Decision Making & Control	Ethics	Comms
Required ranges in terms of the SAICA guidelines (2013 onwards)	100 – 120 marks	40 – 60 marks	60 – 80 marks	60 – 80 marks	40 – 60 marks	40 – 60 marks	0 – 20 marks	20 – 40 marks
	25 – 30%	10 – 15%	15 – 20%	15 – 20%	10 – 15%	10 – 15%	0 – 5%	5 – 10%

	Accounting & External Reporting	Strategy, Risk Management & Governance	Audit & Assurance	Tax	Financial Management	Management Decision Making & Control	Ethics	Comm	Total
P1 Q1	40						5	2	47
P1 Q2						50		3	53
P2 Q1 part I		18			39			3	60
P2 Q1 part II	38							2	40
P3 Q1 part I				60				4	64
P3 Q1 part II	35							1	36
P4 Q1 part I			60				10	3	73
P4 Q1 part I		25						2	27
TOTAL	113	43	60	60	39	50	15	20	400
% of TOTAL	28%	11%	15%	15%	10%	13%	4%	5%	100%

3. Overall comments on the papers

The January 2018 ITC examination was considered overall 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 question and the themes and scenarios were topical and relevant.

From result statistics, it was evident that candidates found paper 1 question 2 particularly difficult, followed by Question 4 Part I and Question 2 Part I and coped best with the accounting and external auditing in paper 3, part II on and paper 1 question 1 as well as with Paper 2 Part II.

The examination covered a broad range of issues and was a fair test of candidates' ability to apply knowledge to specific scenarios. It was evident that candidates struggled to apply their answers to some scenarios and the information at hand. Insight into understanding the context of the scenario, which required an application of knowledge and/or original thought, was problematic. As in the past, candidates often disregarded the context of the scenario and addressed aspects in their discussion answers, which were outside the scope of the scenario.

Most universities found paper 1 question 1 to be of easy to moderate difficulty. The question dealt with **accounting and external reporting** topics, integrated with **ethics** issues. The question tested a good balance between discussion requirements, augmented by calculations and journal entries and covered a broad range of topics, including relevant costing, transfer pricing and performance evaluation. The scenario was realistic and diversified and there was a good integration between accounting and ethics topics. A variety of competencies were tested because the scenario required candidates to use their analytic skills to identify issues and apply IFRS. Candidates would have been familiar with most of the issues tested.

Paper 1 Question 2 dealt with **management decision making and control**. It was a fair question, with some difficulty being added by the complexity of the calculations and the transfer pricing element. However, there was a reasonable balance between calculation and discussion aspects that required critical thinking. Overall this was a good question for an ITC level paper and the change from 'typical' management accounting questions was welcomed. There was a good integration of management accounting concepts and the scenario leant itself to other topics, such as performance management, product costing and a staff incentive scheme. The paper industry scenario is relevant and was well contextualised and provided sufficient context for candidates to apply theory to the answers in the discussion portions of the required.

Paper 2 was a single, 100-mark scenario on **accounting and external reporting, strategy and risk management and financial management**. The universities considered this question to be moderate to difficult, with the difficulty stemming mainly from the intragration of financial management and financial accounting and the predominantly discursive nature of the required sections. The question was set in a relevant and rich scenario of a service industry in which candidates had to consider the decision to invest in a new school. It covered a fairly wide range of knowledge areas, including capital budgeting, financing, pricing and strategy.

Part I, on **financial reporting and strategy and risk management**, tested candidates' technical understanding of the mechanics of net present values as well as their ability to think logically about the nature of business operations in order to analyse and criticise the NPV inputs and assumptions, based on qualitative considerations. The focus was on an understanding of the NPV principles that had to be discussed and applied to the scenario. The sale and leaseback section of the question required intuitive thinking and also provided a good integration with tax principles.

Most universities were of the opinion that Part II of Paper 2 was fair and moderate, although a few felt it was difficult. This part dealt with **financial management**, and the financial accounting issues were clearly defined which meant that it was relatively easy to identify the information relevant to this part. However, candidates needed to be precise in extracting the information required to draft their solutions. They also needed to have a good understanding of the concepts of a foreign subsidiary and the loss of control (including the calculation of FCTR). The calculation of goodwill

examined fundamental principles, whereas candidates may have found the section on options more challenging. The inclusion of a residual value at an amount greater than the subsidiary's carrying value but less than fair value was an interesting twist. Having to draft a consolidated statement assessed the technical knowledge and skills, and the ability to integrate all aspects into one final answer.

Paper 3 was an integrated question, relating to **taxation** and **financial accounting**. Part I, which dealt with **taxation**, was considered to be moderate to difficult. The difficulty would have been the level of integration with financial accounting and that only five of the 64 marks were pure calculations. It thus involved a fair amount of writing and discussion. It was a practical and realistic question that tested a number of specific provisions within the tax syllabus in a discussion format, with the focus on company tax implications and VAT. The focus on section 42 on capital gains and deferred tax as well as the calculation of interest (section 24J) and donations tax and forex (section 24I) in the questions would have been more challenging. There was no coverage on tax for individuals (natural persons). The information on the client was well integrated between various tax topics as well as with financial accounting.

Part II of Paper 3 dealt with **financial reporting**, and most universities felt the question was moderate and fair. The question dealt with the underlying principles of IAS 21, IFRS 9 and IAS 12, and covered the basic principles of a hedged transaction in foreign currency, a financial instrument classified as a cash flow hedge and some deferred tax calculations relating to simple assets. The integration with tax aspects, while it would require candidates to sift through issues, was fairly separate and relatively straight forward. The financial accounting issues are clearly delineated under a separate heading. The calculation of deferred tax required candidates to use both financial accounting and tax knowledge. However, it was straight forward as it required only the calculation of the year-end balance for assets for which the tax base was given (despite the requirement to calculate the tax implications) and all at 28%.

Paper 4 was a 100-mark integrated question. Part I tested **audit and assurance** and was considered to be easy to fair, except for computer assisted auditing techniques (CAATs) and suitably tested technical knowledge. With regard to CAATS, candidates needed to be able to understand such CAATs if they are to instruct IT departments on the tests that are required. Furthermore, it dealt with issues that may arise in an auditing environment, such as deadlines and resource scarcity. The scenario reflected 'real life' in terms of the retail industry moving towards online platforms, and also tested important corporate governance, quality and ethics considerations, which is very topical in the current SA environment. It also tested candidates' understanding of the control environment and their ability to identify controls that would address the different assertions. The indicators were spread throughout the question and candidates would have had to take care to 'pick out' relevant aspects and apply good exam techniques to ensure that they spent their time wisely. In this respect the scenario was close to situations that would be encountered in real life in a mobile environment.

Paper 4 Part II dealt with **ethics** and **strategy, risk management and governance**. Although this part was not considered to be exceptionally difficult, its level of difficulty was increased by the inclusion of several areas of knowledge (accounting, King IV, Companies Act and risk). These require a higher level of critical thinking and analysis. It was also not the typical type of question that possibly would have been expected and candidates would have had to change their thinking from a typically auditing perspective, to one suitable for addressing a Board of Directors. Because the two required sections were fairly open, candidates had to think logically and plan their answers carefully. A good answer would have required insight into corporate governance arrangements and B-BEEE schemes and a creative and practical approach to the answer. The ethics and audit practice aspects were welcomed as highly relevant to the challenges being faced by and the reality of what is happening in the profession.

4. Specific comments

From a review of candidates' answers to the eight required sections for the ITC January 2018 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 in the scenario provided.

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 neatly 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 (APC) requires that significantly more focus and attention are 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. By not managing time appropriately it was evident that candidates left out many marks, often easier marks, whilst the difficult sections were attempted and clearly taken more time to address, but resulted in 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 more deep 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 a decision, a conclusion alone is not sufficient, discussion beforehand is required.

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 CTA 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 the ITC examination regulations:

'Candidates are only be 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 do considerably poorer in some of the other disciplines – most notably Financial Management and Management Decision Making and Control. 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 regulation:

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 candidates because these candidates did not achieve the 40% subminimum in three 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!!

PROFESSIONAL PAPER 1

Paper 1 consisted of two questions, that dealt with the following aspects:

Question 1

- (a) A discussion of the appropriate accounting treatment of a client claim in the financial statements of both the individual company and group.
- (b) A brief discussion of the appropriate measurement of a restructuring provision of both the individual company and group.
- (c) A calculation of the amount of goodwill or gain on bargain purchase recognised within the group arising from its acquisition of a company.
- (d) The provision of all pro forma consolidation and other journal entries required to correctly account for executive compensation in the consolidated financial statements of the group.
- (e) A discussion of any ethical concerns that may arise from the events in the scenario, and a recommendation of any actions that should be taken or safeguards that should be implemented to address the concerns.

Question 2

- (a) A calculation, with supporting reasons, of the minimum price that one of the company's divisions should charge for a special order of paper.
- (b) A recommendation of a range of transfer prices between the company's two divisions (paper and pulp), on the assumption that the Paper Division negotiates a price for a special order and sources all the wood pulp required for the special order from the Pulp Division.
- (c) A discussion of the key factors that the management team of the company should consider in evaluating the potential special order.
- (d) A critical evaluation of the company's current staff incentive scheme.

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

QUESTION 1

Maximum mark	Average mark	Marks > 50% (pass)	Marks < 50% (fail)
47	29,97	2 711 (90%)	301 (10%)

1. What general areas the question covered

This question covered the treatment of a legal claim (IAS 37) in the subsidiary and consolidated financial statements (IFRS 3), the measurement of a restructuring provision including termination benefit (IAS 37 and IAS 19), the calculation of goodwill (IFRS 3), pro forma journal entries for a group share based payment transaction (IFRS 2) and a response to several ethical concerns, which totalled 47 marks. In part (a) candidates specifically had to discuss and conclude on the appropriate accounting treatment of a client claim in the financial statements of a subsidiary and the group. Presentation and disclosure were not required. A mark was awarded for clarity of expression (14 marks in total). In part (b) candidates were required to discuss the appropriate measurement of a restructuring provision (including termination benefit) in the financial statements of a subsidiary and the group (6 marks in total). In *part* (c) candidates were required to calculate the amount of goodwill or gain on bargain purchase recognised in the group on acquisition of a subsidiary (9 marks in total). In part (d) candidates were required to prepare the pro forma journal entries to correctly account for an inter group share-based payment transaction. In addition, candidates were required to prepare journal entries for a long-term service award. A mark was awarded for presentation (12 marks in total). In part (e)

candidates were required to discuss any ethical concerns arising from events in the scenario, including actions to be taken or safeguards to be implemented (6 marks in total).

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

- Some candidates provided tax effects despite the scenario being clear that tax should be ignored. The scenario stated "Ignore taxation" on the top of the first page. These candidates wasted time in providing tax effects for which no marks were allocated. Candidates should read all their information carefully.
- Some candidates did not follow a step by step logical response to the IFRS 3 and IAS 37 discussions.
- Some candidates did not provide a step-by-step and logical layout for their calculations in part (d). This resulted in calculations not used or not used in context.
- Some candidates did not provide journal narrations in part (d).

3. Common mistakes made by candidates

- Candidates did not plan their approaches well enough which filtered through to the exam technique used in preparing their responses. This planning related to an analysis of the information provided, followed by an approach to solving the problems.

4. Areas that the candidates handled well

- Candidates identified the core of the issue in part (a). Many candidates applied the relevant theory to the information in the scenario.
- Candidates applied the correct IFRS 3 principles in part (c).
- Candidates generally provided reasonable journal entries in part (d).

5. Specific comments on sections of the question

Part (a)

In this section, candidates were required to discuss and conclude on the appropriate accounting treatment of a client claim in the financial statements of a subsidiary and the group. Presentation and disclosure were not required. A mark was awarded for clarity of expression.

Candidates who performed well in this section were those who adopted a logical approach to their responses. These candidates discussed the core principles first, this being the key definitions in solving the problem. Thereafter, they had two separate sections applying the principles to the subsidiary and then the group.

Candidates made the following errors or omissions:

- The discussions of the existence or non-existence of a present obligation were light and could have incorporated more context and depth.
- Very few candidates discussed that the outcome of the court case was beyond the control of Cars4Africa and therefore also justifying a contingent liability.
- Some candidates were not familiar with the contingent liability exception in IFRS 3.

Part (b)

In this section candidates were required to discuss the appropriate measurement of a restructuring provision (including termination benefit) in the financial statements of a subsidiary and the group.

Candidates who performed well in this section were those who adopted a logical approach to their responses. These candidates discussed each cost separately.

Candidates made the following errors or omissions:

- Candidates suggested that relocation and retraining costs should be included in the cost of the provision. However, IAS 37 specifically excludes relocation and training costs from the provision as they relate to the ongoing activities of the entity.
- Candidates discounted the amounts involved. However, no discounting is necessary as IAS 19 stipulates that the termination benefits should not be discounted if payable within 12 months, and in this case the year end was six months before the expected payment date of 30 June 2018.

Part (c)

In this section, candidates were required to calculate the amount of goodwill or gain on bargain purchase recognised in the group on acquisition of a subsidiary.

Candidates who performed well in this section were those who adopted a logical approach to their responses. They carried forward their conclusions from part (a) and (b) and set out their calculation clearly and correctly.

Candidates made the following errors or omissions:

- The direction of the components in the calculation were sometimes illogical. Liabilities were added to net asset value, when these should be deducted from net asset value. Non-controlling interest was added to net asset value, when this should be deducted from net asset value or added to the purchase consideration.
- Some candidates included the deferred tax implications, when the question stated “ignore taxation.”

Part (d)

In this section, candidates were required to prepare the pro forma journal entries to correctly account for an inter group share-based payment transaction. In addition, candidates were required to prepare journal entries for a long-term service award. This section had the lowest average in the question.

Candidates who performed well in this section were those who:

- Provided pro forma journal entries to reverse the cash-settled classification in the subsidiary to equity-settled for the group.
- Identified the EPS as a non-market condition and the share price target as a market condition.
- Used the correct fair values in the cash-settled and equity-settled calculations. The fair value of both cash-settled and equity-settled should be adjusted for the market condition (probability related to the share price target) but not adjusted for the non-market condition (probability related to the EPS target).
- Provided the journal entry for the long-term service award.
- Understood that only one-tenth of the long-term service award had accrued up to the year end and that this should be discounted back to the reporting period. Further, the liability should be a best estimate and therefore should be adjusted for the 70% employees expected to complete the ten years of service.

Candidates made the following errors or omissions:

- Some candidates incorrectly concluded that there would have been a share-based payment transaction in the parent's separate records. These candidates assumed that there was an equity-settled share based payment transaction in the parent with a debit to an investment and a credit to the equity reserve. It was incorrect to conclude that there was a share-based payment transaction in the parent as the parent had no involvement in the scheme i.e. it was the subsidiary that granted the awards and it was the subsidiary that received the

services of the employees. The parent, in its separates, did not receive goods or services in the arrangement and further it did not incur any obligation to settle the transaction.

- Some candidates ignored or did not attempt the long service awards. Others recognised a liability for the full R50 000 at the end of the first year of service, therefore not discounting the amount and/or not taking into account the 70% expectation and/or not taking into account that only one year of service had been rendered.
- Some candidates did not provide journal narrations.

Part (e)

In this section, candidates were required to discuss any ethical concerns arising from events in the scenario, including actions to be taken or safeguards to be implemented. The ethical concerns were integrated within a financial reporting question.

Candidates who performed well in this section were those who identified sufficient concerns and provided actions/safeguards. There were several concerns in the scenario and it was pleasing to see that many candidates could identify the concerns. Some candidates struggled with the actions to be taken; however some referred to discussions with senior personnel, ethics training and non-compliance with laws and regulations.

QUESTION 2

Maximum mark	Average mark	Marks > 50% (pass)	Marks < 50% (fail)
53	20,96	413 (13,7%)	2 599 (86,3%)

1. What general areas the question covered

Part (a) required the application of relevant costing principles in determining the minimum price to be apply to a special order of paper. One key feature of this part of the question is the identification of and correct treatment of a stepped fixed cost, which applies.

Part (b) firstly required a decision to be made regarding the internal transfer of pulp. Given that limited capacity existed, the candidate needed to determine whether external pulp sales needed to be sacrificed in order to transfer enough pulp internally, or should the external pulp market be addressed adequately, then the external paper market would not be serviced adequately. Subsequent to this embedded decision being addressed, the minimum and maximum transfer prices needed to be set.

Part (c) required the identification of additional factors, which need to be considered before accepting the special order (broad spectrum of strategic factors, risks, financing and working capital issues amongst others).

Part (d) required an interrogation of a bonus scheme, identifying both the positive and negative attributes of the bonus system.

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

Candidates in part (a) failed to identify that the stepped fixed cost increase took place in the 300 000 – 400 000 tonnes of paper output range and that only this portion is relevant in setting a minimum price for the order. They also failed to see that the variable repairs and maintenance cost was already factored into the variable manufacturing overheads and did not replace the variable manufacturing overheads nor should this cost be allocated as an additional cost in calculating the relevant minimum cost to be recovered from the special order.

In part (b), candidates did not even think of first determining whether external pulp sales or external paper sales need to be sacrificed in fulfilling the order. Only once this choice has been made, can a transfer price be set, particularly in quantifying the opportunity cost applicable and incorporating it. Candidates failed to test whether the **R5 000** cost per tonne of buying in pulp at the discounted price exceeded the maximum the receiving division would be willing to pay. In both parts (c) and (d), candidates did not identify enough issues, whether it be in respect of factors to consider as part of the decision to accept the order or not, or whether it be issues relating to the bonus scheme. Furthermore, candidates often suggested generic points and did not customise them for the scenario at hand.

3. Common mistakes made by candidates

In part (a), candidates did not apply the profit margin but rather a mark-up in calculating the selling price. There is a semantic difference between the two!

The candidates should not be so afraid of transfer pricing that they do not even attempt the question!

Regarding parts (c) and (d) – discursive questions require an application of / integration of the issues in the scenario into the response. Candidates should steer well clear of providing generic laundry lists in responding, particularly to a question like Part C. The responses to parts C and D required candidates to display depth – not to provide superficial responses.

4. Areas that the candidates handled well

The best performance was in respect of Part A, where candidates were in the main, able to identify relevant costs to be recovered in respect of the special order.

5. Specific comments on sections of the question

In terms of the candidates' performance on the question, the responses to parts (b), (c) and (d) were poor. Parts (c) and (d) stretched the candidates – it is as if the candidates could just not come up with enough issues to raise. As a result the responses were limited, resulting in a poor performance on these sub-sections of the question.

PROFESSIONAL PAPER 2

Paper 2 consisted of a single question with two required sections that dealt with the following aspects:

Question 1 Part I

- (a) Analysis and discussion of an estimate of the NPV by the management accountant for a proposed new private school and identification of any errors and/or omissions in his calculations.
- (b) An identification of the key factors, apart from the result of the NPV analysis, which the company should consider in evaluating the potential feasibility of the proposed new school.
- (c) A calculation of the after-tax NPV from the perspective of the company of –
 - (i) entering into a proposed sale and leaseback arrangement regarding school property, on the assumption that the company exercises the option to acquire the school property at year end; and
 - (ii) entering into the alternative arrangement of owning the school property until 2023 and then entering into a long-term lease arrangement.
- (d) A critical discussion of proposals to amend pricing policies for its private schools.

Question 1 Part II

- (e) Candidates were required to prepare the consolidated statement of changes in equity of the group for the year ended 31 December 2017.

- (f) A briefly discussion on how the group financial accountant should recognise, classify and measure a put option for a 17,5% interest in another company in the separate financial statements of the company for a financial year.

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

QUESTION 1 PART I

Maximum mark	Average mark	Marks > 50% (Pass)	Marks < 50% (Fail)
60	26,08	851 (28,3%)	2 161 (71,7%)

1. What general areas the question covered

This question considered the private education sector in Southern Africa. The question predominantly focuses on the use of net present value analysis to determine the feasibility of opening a new school in George, a town located in the Western Cape Province. The question is relevant to the South African situation and provides a good case study for candidates.

The question has a good mixture of basic, intermediate and advanced marks. The information in the scenario was unambiguous and succinct. The question is of a moderate to difficult standard, and candidates should be able to achieve good marks on the question. However, the relative 'simplicity' of the question is effectively balanced against (1) the rather long scenario, (2) the fact that the NPV needs to be discussed, rather than calculated, and (3) the fear factor of an 'integrated' question.

The nature of the question, requiring a criticism in part (a), and then a relatively tightly structured consideration of other strategic factors in part (b), does elevate the question from an easy level. The calculations in (c) candidates scored well on, however the final required asking for comment on the pricing suggestions is conceptually more difficult for candidates to attempt, requiring application.

Overall, the question was well balanced, and would expect an average candidate to pass the question. To perform well would however be a lot more difficult, and therefore we feel that this is a good question for differentiation between top performers.

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

The topics examined are generally introduced from undergraduate level, and are pervasive throughout the syllabus. The attempts were poorer than expected, particularly the attempt at the calculations in part (c). The 'criticise' requirement in part (a) examines on a deeper level the candidates understanding, and tends to expose weaknesses where principles have not been mastered, and a template answer has instead been studied by candidates.

3. Common mistakes made by candidates

Presentation and examination technique were generally good. There were however many instances of missing more straightforward marks such as identifying other aspects to consider, and identifying relatively simple omissions and errors in the question.

For part (d) candidates often thought very superficially about the proposals, rather than applying this to the general strategic impact on the school.

4. Areas that the candidates handled well

Part (b) which required other aspects of the decision to be considered was relatively better answered, but still poorer than expected.

Most candidates made a reasonable attempt at the calculations in part (c) (i).

5. Specific comments on sections of the question

- As expected a difficult section for candidates due to this being a criticise rather than a complete task. The requirement to criticise the assumptions also added to the difficulty.
- Candidates performed unexpectedly poorly in this section which traditionally is easier to answer. Candidates either provided generic answers, or did not think deeply enough about the scenario in generating valid points.
- With regard to calculations –
 - attempts were generally good in part (a)(i), although the attempt at the capital gains tax was either poorly done, or not identified at all. The required was a relatively simple capital budgeting exercise.
 - Attempts in part (a)(ii) were more challenging, but nevertheless should be relatively easily performed at this level. The attempts were generally disappointing, particularly with respect to treatment of the lease perpetuity, and the capital gains tax calculations.
- Candidates did not consider the pricing effects broadly enough, and often did not apply this to the commercial scenario. Most candidates made a poor attempt here.

Overall therefore candidates' performance was mediocre on the question as a whole.

QUESTION 1 PART II

Maximum mark	Average mark	Marks > 50% (Pass)	Marks < 50% (Fail)
40	26,02	2 643 (87,7%)	369 (12,3%)

1. What general areas the question covered

Part (e) of the question required a consolidated statement of changes in equity, based on a 100% owned foreign subsidiary with a loss of control through disposal of 82,5% of the equity interest, and the remaining interest of 17,5% accounted for as an investment in equity instruments at fair value through other comprehensive income [IFRS 10 / IAS 21 / IFRS 9].

Part (f) of the question required a discussion of the recognition, classification and measurement of a put option that was received to sell the remaining interest of 17,5% in the foreign entity [IAS 32 / IFRS 9].

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

Part (e) required a consolidated statement of changes in equity and even though the majority of candidates did prepare a statement of changes in equity, there were some candidates who only prepared calculations and not the statement of changes in equity. There were also some candidates who prepared a statement of profit or loss and other comprehensive income or even a cash flow statement.

Part (f) of the question, which required a discussion relating to a put option, was generally not answered well. Candidates' discussions were often incoherent and unstructured, with very little logical argument. This can possibly be

attributed to insufficient time management, with quite a number of candidates not allowing themselves sufficient time to attempt this part of the question (mainly due to the inclusion of unnecessary calculations in part (e) of the question – also see comments below in this regard).

3. Common mistakes made by candidates

Part (e): Consolidated statement of changes in equity

- Quite a number of candidates included unnecessary calculations in respect of the FCTR. Since the question did not have any non-controlling interest, it was not necessary to split the FCTR between equity and goodwill; however, candidates still included these calculations. Some candidates even included calculations to split the FCTR further between the revaluation of buildings and the intangible asset.
- Most candidates did include 'at-acquisition' value adjustments for the building and intangible asset, but failed to subsequently account for the depreciation and amortisation adjustments (or did random calculations for these adjustments, but failed to include them in the analysis of equity or final answer).
- Many candidates did not account for deferred tax on the intangible asset (learning approach) for the at-acquisition value adjustment. The question did state that the technical expertise would not qualify for any tax allowances or deductions, but the exemption is not applicable in a business combination (IAS12.15). Some candidates also incorrectly used the wear and tear allowance on the buildings, as the subsequent depreciation adjustment.
- Very few candidates calculated the fair value adjustment on the 17,5% remaining interest and if they did, they often incorrectly included the fair value adjustment in profit or loss or retained earnings, rather than in the market-to-market reserve through other comprehensive income.
- While most candidates did calculate a group profit on disposal of the 82,5% interest, only a few candidates calculated the profit in the individual / separate financial statements of Educo.
- Very few candidates included the realisation of the FCTR on disposal of the foreign subsidiary, in profit or loss for the year. Some candidates who did consider the realisation of the FCTR, incorrectly included the realisation as a separate item on the face of the statement of changes in equity in the "Retained earnings" column (and not as part of "Profit for the year"). Some candidates also double counted for the realisation by firstly including it in the calculation of profit or loss for the year, and then including it again as a separate item on the face of the statement of changes in equity in the "Retained earnings" column.
- Many candidates incorrectly included the dividend of the subsidiary on the face of the statement of changes in equity. Many candidates also included other inappropriate items in the statement of changes in equity, e.g. a "revaluation surplus" column for the 'pro-forma' revaluation of the buildings or a even a column for goodwill.

Part (f): Classification, recognition and measurement of put option

- In general, candidates' answers for this section were unstructured and lacked the necessary logical argument and clarity of expression. Discussions were often incoherent, with inconsistent statements in relation to arguments presented in preceding paragraphs (e.g. some candidates concluded that it was an instrument at fair value through profit or loss, but then stated that fair value adjustments should go through other comprehensive income).
- While most candidates correctly identified the put option to be a financial asset, their arguments were not always based on the appropriate section of the financial asset definition (i.e. a contractual right to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity). A number of candidates considered IAS32.11(d) for contracts to be settled in the entity's own equity instruments, although the contract was never to be settled in the entity's own equity instruments.
- A number of candidates failed to identify the put option to be a derivative and most candidates who did identify it to be a derivative, based their argument on the fact the value of the put option will change in response to a

change in the underlying foreign exchange rate (and not a change in the value of the underlying equity). Furthermore, a number of candidates failed to identify that the derivative is considered to be held for trading (since it is specifically included in the definition of held for trading in IFRS 9).

- Some candidates got confused between the underlying investment in equity instruments (the remaining interest of 17,5%) and the put option, thereby considering the accounting treatment of the investment in the equity instruments and not the put option.
- A concerning number of candidates misinterpreted the information and did not base their discussions on the guidance provided in IAS 32 / IFRS 9, but rather on IFRS 16, IFRS 5, IAS 38 or even IFRS 15, which was inappropriate.

4. Areas that the candidates handled well

- Where a logical and structured approach was followed, candidates performed well in part (e) of the question. Most candidates followed an appropriate approach to calculate the FCTR and used the correct exchange rates on specific dates, and also appropriately dealt with the period allocation of 10/12 and 11/12. The calculation of the group profit on disposal of the investment was mostly handled well.
- Candidates who managed their time well and presented a proper attempt for part (f), performed well in the discussion part of the question.

5. Specific comments on sections of the question

Part (e): Consolidated statement of changes in equity

- Candidates need to pay more attention to the layout / structure of their answers as well as proper cross-referencing of calculations. Including random (and often unnecessary) calculations without proper cross-referencing, is inappropriate and unacceptable at this level.
- Candidates who followed a structured approach with proper cross-referencing of calculations managed to obtain “easy marks” in the question, and ultimately performed well.

Part (f): Classification, recognition and measurement of put option

- Candidates need to focus more on proper application of applicable theory. Dumping lengthy excerpts from IFRS with little to no application is inappropriate and unacceptable at this level. Furthermore, candidates should pay more attention to the mark allocation. A 9 mark discussion question with very specific IAS 32 / IFRS 9 application, does not warrant 2 pages of discussion on whether the item is an asset in accordance with the Framework.
- Candidates need to be consistent in their discussions and avoid presenting incoherent discussions, with contradicting statements and/or conclusions.
- A well-structured approach to this question with logical argument and clarity of expression, as well as proper application of IAS 32 / IFRS 9, resulted in good marks.

PROFESSIONAL PAPER 3

Paper 3 consisted of two parts that dealt with the following aspects:

Question 1 Part I

- (a) A discussion of the income tax consequences of the interest received and interest paid on two loans in a holding company's taxable income for the year of assessment ended 30 June 2017.
- (b) A discussion, with supporting calculations, of the VAT consequences for a subsidiary of a group that

- manufactures solar panels arising from the purchase of new machinery from a company in a foreign country.
- (c) A discussion, with supporting calculations, of the income tax consequences for the same subsidiary with respect to the new machinery as well as solar-powered water pumps for a year of assessment.
 - (d) The calculation of a capital gain or loss (if any), as defined in the Eighth Schedule, for the same subsidiary from the sale of a building for a year of assessment.
 - (e) A discussion, with supporting calculations, of the income tax consequences for the holding company in respect of the sale of the shares in the same subsidiary for a year of assessment.
 - (f) A discussion of the income tax consequences of the foreign exchange differences that arise on the re-measurement of the loan provided by a subsidiary to another subsidiary in the United States for a year of assessment.

Question 1 Part II

- (g) Candidates had to prepare the journal entries required to account for all of the transactions relating to the machinery bought from a company in a foreign country as well as the loan obtained from the subsidiary in the United States in the individual financial statements of another subsidiary.
- (h) A calculation of the deferred tax balances in the subsidiary's individual financial statements as at 31 December 2016 and 2017.

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

QUESTION 1 PART 1

Maximum mark	Average mark	Marks > 50% (Pass)	Marks < 50% (Fail)
64	33,48	1 822 (60,5%)	1 190 (39,5%)

1. What general areas the question covered

Part (a) required candidates to discuss the income tax consequences of the interest received and interest paid on the ZAR20 million loan in Makhado's taxable income for the year ended 30 June 2017. The loan was obtained from a bank at 8% and then lend to its subsidiary company at an interest rate of 10%. The candidates had to identify and apply the requirements of section 24J of the Income Tax Act. The issuer of the debt instrument and the holder of the income instrument needed to be addressed, together with various case law principles covering elements of this section as well as the onus of proof in terms of section 102 of the Tax Administration Act on interest paid in terms of section 24J.

Part (b) required a discussion, supported by calculations, of the VAT consequences for Kekana, arising from the importation of the new machinery. This part dealt with importation of goods (the new machinery). This part of the question covered VAT to be levied and claimed, the time of supply, the value of supply (including the actual calculation) as well as some practical implications of such a transaction (like valid supporting documentation and how the VAT will be paid and accounted for in practice). Candidates had to identify that the importation was not from a BLSN country and therefore the customs duty had to be adjusted with 10%.

This part required a discussion of the income tax consequences, supported with calculations, for Kekana with respect to the new machinery as well as the solar-powered water pumps for the year of assessment ended 31 December 2017. The various transactions covering the following aspects in an integrated manner were covered: the acquisition of the manufacturing machine; the application of section 12C capital allowance; foreign exchange items (debt payable and hedging by means of a FEC in terms of the provisions of s 24I as well as s 25D); the acquisition and donation of trading stock to a PBO (s 11(a), s 18A, s 22(8)(C) and par 62 of the Eighth Schedule).

Part (d) required a calculation of the CGT implications on the disposal of a commercial building in terms of s 13quin acquired in terms of a section 42 asset-for-share transaction.

Part (e) required a discussion of the income tax implications, supported with calculations, of the subsequent disposal of shares that were obtained in an asset-share-transaction in terms of s 42. The disposal happened in less than 3 years but more than 18 months and candidates needed to discuss the nature of the transaction, evaluate a possible change in intention together with CGT implications.

In part (f) candidates were required to discuss the income tax consequences of foreign exchange differences of a loan between two companies forming part of the same group of companies and that are connected persons in relation to each other. The re-measurement of foreign exchange differences on an intra group loan met the requirements of s 24I(10A) and candidates needed to discuss the application of this sub-section.

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

Part (a) required a discussion on the deductibility of the interest and the inclusion of the interest that accrued in Makhado's gross income. Many candidates did not correctly identify that s 24J is the specific provision regulating the inclusion of interest received in S 1 'gross income' and that s 24J also regulate the deductibility of interest expense from income/taxable income. Most candidates discussed the receipt of interest only in terms of the gross income definition and considered the deductibility of interest expense only in the context of the general deduction formula (s 11(a)) without any reference to s 24J.

Several candidates did identify that s 24J would apply but continued with a discussion of section 1 'gross income' requirements and case law.

The required was clear that candidates had to discuss the impact of the interest accrued and incurred on the taxable income, but some candidates did not provide a conclusion, and therefore did not address the required.

Part (b) of the question required candidates to discuss the VAT consequences of the importation of the machinery and to support the discussions with calculations. Candidates had to identify that the importation was not from a BLSN country and therefore the customs duty had to be adjusted with 10%.

Candidates needed to discuss for the levying of tax:

- Whether VAT should be levied;
- Value of the import; and
- Time of import

Candidates failed to structure their answer to address each of the issues and ended up discussing the VAT on cost expended after the acquisition.

Candidates further needed to discuss whether the taxpayer would be able to claim an input on the importation of the machine. As the time of supply was not stated in the question, candidates should have applied the correct principle ("released for home consumption" or "released from customs") instead of only a date.

In Paper 3 part (c) candidates had to discuss the income tax consequences with respect to the purchase of the machinery and disposal of the solar-powered water pumps and all the other transactions and events that had an impact on the events. The question required candidates to discuss and support their discussions with calculations. This meant that a candidate needed to discuss instead of merely calculate. A number of candidates provided mainly calculations and very limited discussion and therefore did not earn their marks as they did not address what was required. Marks were not attained due to poor discussions or contradicting statements. Candidates should not only be

able to do a tax calculation but must have the ability to explain their calculations in terms of the competency framework.

In Paper 3 part (d) candidates had to calculate the capital gain/loss for Kekana from the sale of the building (acquired in terms of an asset-for-sale transaction (s 42)). Candidates needed to determine the base cost of the asset on date of transfer in terms of the asset-for-share transaction, by means of calculating the capital allowances before and after the transfer of the asset. Candidates failed to do this and merely calculated the allowances over 8 years.

Candidates needed to demonstrate that they knew that an asset-for-share transaction results in a change of ownership, where the new owner can continue to claim allowances as if there was no change of ownership. On date of transfer there will be no recoupment or scrapping allowances as the asset is regarded to be new and unused. Candidates failed to apply these fundamentals.

In Paper 3 part (e) candidates needed to discuss the income tax consequences on the sale of the shares that was acquired in an asset-for-share (s 42) transaction. Candidates needed to identify that the shares were acquired for investment purposes and that it will be disposed as a capital asset unless the taxpayer changed his intention. The question clearly indicated that there was no change of intention. Candidates either did not consider the nature of the transaction and only did the calculation or simply stated that it was capital in nature without a reason, thus not demonstrating a discussion as required.

Candidates further fail to discuss the fact that the base cost consisted of the value of the building (at the date of the asset-for-share transaction) and the trading stock (at the date of the asset-for-share transaction). Candidates who only did the calculation and used either the market value on disposal or the tax value of the building on disposal failed to apply the income tax provisions and end up losing marks.

In paper 3 part (f) candidates needed to identify that the loan between Kekana and Kermit would result in a 'debt' for purposes of s 24I. Candidates also needed to identify that the companies are 'connected' or a group of companies and that s 24I(10A) was applicable, list all the requirements and apply the requirements to the scenario and lastly conclude that the exchange difference will be deferred.

Candidates only did a calculations which showed that they failed to identify that the companies are a group of companies as defined and/or connected and thus did not apply section 24I(10A).

3. Common mistakes made by candidates

Candidates made to following common mistakes in part (a):

- The question required candidates to discuss income tax consequences of the interest received and interest paid on the ZAR20 million loan. Most candidates immediately started their discussion on the s 1 'gross income' definition and s 11(a) requirements regarding the interest received and paid, instead of discussing the specific section 24J and lost on a few marks in this question.
- Most candidates do not understand that s 24J is a charging section. Candidates discussed s 24J as though it is an extension of the gross income definition and the general deduction formula. Some candidates went further too even discuss the capital vs revenue elements, even though these are not requirements of s 24J.
- Many candidates applied the onus of proof in terms of s 102 of the TAA in the context of inclusion (taxability), while this could only be applied in the context of deductibility (expense). The onus of proof is on the taxpayer to prove that an amount is deductible. In terms of the gross income inclusion, interest can never be capital, thus there is no onus of proof.
- Court cases and the correct principle were not discussed. Some candidates only mentioned case law without applying the principles of the court case to the information in the question. Marks are only awarded for case law principal applied to the scenario, not for just identifying the court cases.

- Most candidates did not identify and apply the correct “trade” application to the question, where Makhado charged interest at a higher rate to ensure a profitable activity (which constitutes trade).
- Some candidates who identified that s 24J applied, did not discuss the value of the interest (yield to maturity and that the amounts accrue or are incurred on a day-to-day basis).
- A number of candidates discussed the requirements of s 24O, which was not relevant as the purpose of the loan was not to finance the acquisition of equity shares (shares were bought before the loan was acquired).
- Most candidates did not apply s 23B(3) as s 11(a) is not applicable if there is a specific section in the Income Tax Act that provides/grants an allowance or deduction. This resulted in candidates discussing the application of s 11(a) and spent time on this without attaining marks.
- Majority of the candidates did not apply the “production of income” requirement correctly. They did not identify that the purpose of incurring the loan was to on lend to another company as a profitable activity (which constitutes a “trade”) and therefore closely connected the production of income (interest). Candidates erroneously identified the acquisition of the building as trade and concluded that interest was incurred in order to purchase the building for trade purposes.
- Some candidates contradicted themselves. They would discuss everything correct but conclude differently.
- Even though we do not have a group tax system in South Africa, quite a number of candidates indicated that the interest expense would be deducted because in the group of companies it will be in the production of income.

Candidates made to following common mistakes in part (b):

- Majority of candidates could quote s13(2)(a) “the tax is calculated on the customs duty value plus 10% of the customs duty value” but in their calculation applied 10% to both customs duty and import duties.
- Some candidates applied the incorrect VAT terminology and incorrectly made statements such as: “need to claim output tax” or “need to pay input tax”. The correct terminology is to levy VAT or to charge VAT on the importation of goods and to claim input tax on it.
- Some candidates accounted for the input tax as notional input tax, which was incorrect.
- Some candidates also applied the incorrect VAT rate of 14/114 to the importation transaction, while 14% should be levied on the value of the supply. In addition, some candidates incorrectly added the cost of the acquisition of the goods (after translation at the spot rate) to the customs duty value and incorrectly applied the aggregated amount as the value of the supply on the import of the goods.
- Less than 1% of candidates noted the impact on the VAT201 form. This is however a practical application and if a candidate is not exposed to VAT in practice they would not know this. As a result, this was a bonus mark and candidates could attain the maximum amount of marks without the practical application.
- Few candidates identified and discussed that Kekana makes taxable supplies and could therefore claim input tax in the importation of the machinery.
- Majority of the candidates did not discuss that the company must provide valid supporting documentation to claim input tax.

In part (c) candidates made to following common mistakes:

- Some candidates only performed calculations without discussing the income tax consequences of the transaction as required. The latter indicates a lack in demonstrating good exam technique, as candidates did not do what was required of them.
- Generally, candidates struggle to express themselves in words and “jumped right in” to the calculations without stating the thought process, which support the calculations, for example not stating that “the machine is capital in nature”, “used in the process of manufacture”.
- The candidates had to identify s 12C as the relevant allowance that can be used for the machine. Some candidates incorrectly applied s 11(e) or s 12B to claim the capital allowance on the manufacturing equipment obtained. The equipment was used to manufacture solar-power water pumps and not to generate solar power itself in terms of s 12B. The latter confused some candidates.

- Some candidates did not mention when the section 12C allowance should be applied. The allowance as well as the exchange differences can only be claimed in the year that the machine was brought into use in the process of manufacture.
- A few candidates apportion the s 12C allowance for part of a full year – s 12C is never apportioned.
- Some candidates failed to discuss that the cost of the machinery includes the costs of testing and installation, while some treated these as section 11(a) deduction instead of capitalising it to the cost of the machinery.
- A number of candidates did not address the fact that VAT should not form part of the cost expended on the machines and solar water pumps as a basic general principle.
- The question covered the initial importation of the machine and some candidates identified the incorrect transaction date, therefore used the incorrect translation rate.
- Candidates lost easy marks by not stating the terms like “spot rate” (would be used to translate the cost price into ZAR) and “incurred” in terms of section 25D as the transaction date.
- Quite a number of candidates added the custom duty value to the cost price of the asset in s 12C, which was incorrect as the customs duty value was only relevant for output tax and not the s 12C allowance. The costs that was relevant for this part was the import duties that had to form part of cost of the machine.
- Some candidates capitalized the raw materials and labour as well as marketing costs to the cost of the machines. These costs were deductible in terms of s 11 (a) as they were not part of the acquisition of the machine.
- Candidates went into detail discussing the “affected transaction” in terms of section 24I(1). Candidates only had to identify that the transaction was not an affected transaction (and not provide the detail).
- Some candidates confused the raw materials used in the testing of the machine with the water pumps (trading stock).
- This subsection also deals with the donation of trading stock to a PBO. This included the recoupment of trading stock and the s 18A donation deduction. Most candidates did not discuss that the cost of manufacturing, of R5 000, the water pumps (trading stock) incurred in the 2017 year of assessment was deductible in terms of section 11(a).
- Although the question was not clear whether a receipt was obtained from the PBO to ensure a section 18A deduction, most candidates assumed it was obtained. With the assumption that the s 18A receipt was received, some candidates stated that the trading stock would be recouped at market value of R7 500 instead of at cost of R5 000 (s 22(8)(C)).
- The application of the Eighth Schedule seems to be an issue. Candidates are of the view that the Schedule applies only to capital assets whilst its application is on ‘assets as defined in par 1 of the Eighth Schedule. This means that the disposal of trading stock had to be discussed. Only a few candidates addressed the capital gains tax implications of the donation.
- Some candidates capitalised the foreign exchange differences with regards to the debt and the FEC to the cost of the machinery. These foreign exchange differences had to be included and deducted from the taxable income.
- Important terms like “transaction date”, “realisation date” and “translation date” were not mentioned in the discussions. These terms are specifically used when discussing the provisions of s 24I and s 25D.

Candidates made the following common mistakes in part (d):

- Candidates lost principle marks because they calculated recoupments for allowances claimed before the s 42 (asset-for-share) transaction.
- Candidates did not indicate the base cost on date of transfer because they did not calculate the allowances before the s 42 (asset-for-share) transaction and after the transaction.
- Some candidates incorrectly applied the annual exclusion of R40 000 in the CGT calculation for a company (while it is only allowed for natural persons and special trusts) and/or incorrectly applied the CGT inclusion rate (80%) to a capital loss position.
- Some candidates applied the provisions of the scrapping allowance in terms of s 11(o), which was not applicable as the companies were connected persons in relation to each other.

In part (e) candidates made to following common mistakes:

- Candidates were required to discuss whether the transaction will be subject to capital gains tax. Most candidates only did a CGT calculation without any explanation.
- Most candidates were able to identify that base cost of shares will be the base costs of assets exchanged for shares but only a few discussed it – most candidates only used the values in the calculation. This is not acceptable as it is a discussion question.
- Candidates needed to use the value of the building and trading stock at the date of the asset-for share transaction, not the market value or tax value on disposal.
- Some candidates applied s 9C and treated the sale as revenue in nature instead of capital.
- A few candidates conclude through discussion that an item is revenue in nature but still did a capital gains tax calculation.
- As with part (d) - some candidates lost marks by applying an 80% inclusion rate to taxable income for a capital loss.
- Mostly calculations were done with minimal discussions even though the required stated that it should be discussed, with supporting calculations.

Candidates made to following common mistakes in part (f):

- A few candidates discussed s 31. Candidates must remember to first consider all requirements of a case study before they start to apply.
- Most candidates computed exchange differences in terms of s 24I but did not recognize that s 24I(10A) is applicable.
- Several candidates who identified that s 24I(10A) is applicable were able to indicate that no foreign exchange difference will be included the current year assessment BUT did not indicate that it will be differed until the loan becomes a current liability.
- Candidates did not always discuss the group of companies/connected persons requirement with the application in detail. Not all the criteria of section 24I(10A)(a) was always discussed before candidates concluded.

4. Areas that the candidates handled well

In part (a) most candidates who identified the application of s 24J attained marks.

In part (b) most candidates identified that the company could claim input tax to the extent that the machinery is used to make taxable supplies. They also correctly used 14% and not the 14/114 to calculate the VAT paid.

In part (c) candidates identified and discussed the fact that the machine will be used in a 'process of manufacturing' and that capital allowance in terms of s 12C at 40% in the current year will be allowed. Candidates also identified that trading stock that is donated will have to be recouped and that the company could claim a s 18A deduction. Section 24I foreign exchange items were identified (the debt and FEC) and applied.

In part (d) candidates did a capital gains tax calculation indicating: Proceeds less base cost.

In part (e) candidates calculated capital gains tax indicating: Proceeds less base cost.

Candidates who identified s 24I(10A) in part (f) did very well.

5. Specific comments on sections of the question

Part (a) showed that candidates generally struggle with discussion type questions and did not perform well in this part of the question. The main issue in this part was the identification and the application of the requirements of s 24J.

In part (b) candidates were generally able to do the VAT part. This could be due that it was not a pure discussion question as 4 of the 8 marks were awarded for calculations. Candidates needs to work on structuring their answers and practice using the correct VAT terminology.

Most of the candidates correctly discussed that the machine was used in the process of manufacture and was therefore entitled to section 12C capital allowance in part (c). They addressed the general tax treatment of capital assets and their allowances thereof correctly. The candidates also demonstrated a good understanding of the provisions of s24I. The correct allowance of 40% of the cost of the asset was used. he calculations were performed well, i.e. including the import duties to the cost of the machine and the amounts of the exchange differences were calculated correctly.

Most candidates could perform the CGT calculation in part (d), but in part (e) candidates struggled to form an opinion on whether the transaction was capital or not. Candidates must practice evaluating the information and to make a decision. They need to construct and explain their thought process. Only calculations where discussion is required does not demonstrate the competency skill required.

In part (f), candidates should have identified that a specific provision applied (s 24I(10A)). Furthermore, all requirements must be discussed and applied in a discussion question to earn full marks.

- Candidates are generally comfortable with calculation type questions in taxation, but discussion type questions remain problematic and that could clearly be seen in this question.
- The question was well balanced with easy, moderate and challenging sections. A well-prepared candidate should be able to pass the question because even though the discussions posed challenges there were enough marks within the discussions for candidates to attain success.
- Some candidates left out sub-sections of the required without any attempt. The latter has a significant negative impact on these candidates' overall score for the question. Candidates need to demonstrate proper time planning/time management and need to address all sub-sections of the required. Take a bit of extra time before you start your solution to plan it and then demonstrate you planning within your layout and presentation.
- Some candidates provided more than one alternative solution for some questions. This demonstrates indecisiveness on the candidate's part and is only acceptable if the required ask for alternatives. Take more time to evaluate the information, make a decision and motivate your decision.

QUESTION 1 PART II

Maximum mark	Average mark	Marks > 50% (Pass)	Marks < 50% (Fail)
36	27,29	2 847 (94,5%)	165 (5,5%)

1. What general areas the question covered

In part (g) journal entries were required to account for the acquisition and hedging of imported machinery and a foreign loan:

- This part tested various principles in connection with property, plant and equipment (IAS 16), foreign exchange (IAS 21), and forex hedging and financial instruments (IFRS 9).
- The principles tested were standard principles that candidates should have been comfortable with.
- Candidates in general answered this part of the question very well.

Part (h) required the calculation of the deferred tax balance for the current and prior financial year:

- This part required candidates to calculate the deferred tax balance for the current and prior financial year.
- The question integrated Financial Reporting principles in terms of Income Tax (IAS 12) and various Taxation sections, such as section 42 of the Income Tax Act,
- This calculation was mainly easy, except for the deferred tax implication on the office building noted earlier.
- Overall candidates did not perform well in this question.

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

From the answers provided by candidates, it was evident that most candidates were able to competently answer the required in part (g). It was however noted that a lack of exam technique was present, specifically in showing calculations and providing journal narrations.

3. Common mistakes made by candidates

- Candidates displayed a lack of exam technique by not managing the time on each section adequately.
- Candidates did not apply the correct hedging policy, i.e. applied fair value hedge accounting for the firm commitment, instead of cash flow hedge accounting, which was clearly stated to be the accounting policy.
- Candidates incorrectly applied the principles of IAS 21 in connection of the payment of the deposit as well as the remeasurement of the foreign loan and interest accrual to spot rate at year end (i.e. monetary items).
- The presentation of journal narrations were also more often than not included in part (g).
- Candidates were not always able to, or consistent in, indicating whether the temporary differences arising in part (h) result in taxable or deductible temporary differences.

4. Areas that the candidates handled well

- Candidates handled part (g) of the question very well which is evident from the marks obtained for this section.
- Candidates were in most instances very comfortable with the hedging transaction and the accounting for the foreign loan.

5. Specific comments on sections of the question

Comments on part (g):

- Candidates found this section of the question much easier than part (h).
- It was clear that the majority of the candidates had a clear understanding of the principles tested in part (g).
- Candidates only scored low in this section if they applied the incorrect hedging policy or did not account for ALL the transactions as per the required.

Comments on part (h)

- As noted previously, this section was attempted poorly. It could be ascribed to the issues noted previously, or just by candidates not managing their time effectively.
- Although a fairly easy question, it was clear that candidates were not as comfortable with the principles of deferred tax as they were with part (g).

PROFESSIONAL PAPER 4

This question consisted of one question with two required sections, as follows:

Question 1 Part I

- (a) An identification of and discussion on the threats to the independence of an audit partner and/or her audit firm with regard to the audit of a company. No safeguards that could eliminate or reduce the threats to an acceptable level were to be included.
- (b) A discussion of the aspects the audit partner should have considered with respect to the integrity of key management and those charged with corporate governance, prior to accepting a company as an audit client for FY2017.
- (c) A discussion of any concerns regarding the quality of the audit of a company arising from discussions at an audit kick-off meeting.
- (d) A description, with reference to the information provided in a workpaper under the headings: background, registering a profile, shopping, checkout and payment, the tests of controls to test the occurrence of a company's sales for FY2017.
- (e) A description, with reference to the information provided in a workpaper under the headings: dispatch of sales and changes to the sale prices of E-buy's products, the tests of controls to test the accuracy and completeness of a company's sales for FY2017.

Question 1 Part II

- (f) A written a memorandum, addressed to the Board of Directors, in which the candidate had to –
 - (i) discuss concerns with regard to a put option agreement of the former CEO from a corporate governance perspective; and
 - (ii) critically analyse a proposed B-BBEE scheme.

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

QUESTION 1 PART I

Maximum mark	Average mark	Marks > 50% (Pass)	Marks < 50% (Fail)
73	37,99	1 794 (59,6%)	1 218 (40,4%)

1. What general areas the question covered

The auditing aspects of 73 marks formed part of an integrated 100 mark question, with corporate governance and strategy.

The auditing part for 73 marks covered the professional conduct of staff and firm regarding independence; considerations of the auditor regarding those Charged with Governance and Key Management before accepting the audit concerns regarding the quality of the audit; test of controls for Occurrence of the company's sales; and test of controls for Completeness and Accuracy of the company's sales.

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

- Candidates did not always consider the information of the question and based their answer on the facts of the scenario.
- As in prior year's, examination technique remains a problem with candidates often making mere statements, or rewriting the information of the scenario, instead of applying themselves to the information at hand and describing the issues or procedures as required.

3. Common mistakes made by candidates

As stated above, candidates did not always apply the information of the scenario in the answering of the required. Candidates often also did a memory dump of theory or procedures that was not related to the information at hand. This is also indicative of generally poor examination technique.

4. Areas that the candidates handled well

Section a) of professional ethics regarding independence threats and section (c) on aspects to consider that affect the quality of the audit, was well answered.

5. Specific comments on sections of the question

Part (a) Professional conduct of staff and firm regarding independence

- Candidates did not always focused on answering what was required, namely to identify and discuss the threats to on independence.
- Many candidates discussed other fundamental principles such as Professional Behaviour, Integrity, Confidentiality and Professional Competence and due care that was outside the scope of the required. Often candidates would also merely rewrite the information of the scenario, and did not discuss the aspects that created the threat and why it would be considered to be a threat. The specific threats as per the Code of Conduct were also not always stated.
- Candidates further often omitted to discuss and motivate why the threat would be significant or not, and what factors would contribute thereto.

Part (b) Considerations of auditor regarding those charged with governance and key management before accepting the audit

- Some candidates did a full pre-engagement activity discussion and did not only focus on the integrity of management as was required. Candidates also often omitted to include aspects relating management's integrity, competence and management's actions affecting the auditors work and independence.
- Candidates would also often list the indicators only and refrained from discussion why it would create integrity issues.

Part c) Concerns regarding the quality of the audit

- Candidates did generally well in this section.
- However a number of candidates would merely rewrite the scenario without any discussion and application of the information of the scenario.

Part (d) and (e) Test of controls for of E-buy's sales

- Candidates did not always answer what was required, namely the Tests of Controls required to test the relevant assertion, but would rather list controls instead.
- Candidates also did not always formulate test of controls correctly, and making statements instead or asked questions. "Ensure/Confirm/Enquire" without stating "what" and "how" not relevant test of controls are.

- Some candidates also wrote substantive procedures on inventory which was outside the scope of the required.
- Candidates also often forgot what the direction of testing for the relevant assertion is, and accordingly wrote procedures not related to the correct assertion.

QUESTION 1 PART II

Maximum mark	Average mark	Marks > 50% (Pass)	Marks < 50% (Fail)
27	11,32	785 (26,1%)	2 227 (73,9%)

1. What general areas the question covered

Part f(i) dealt with question covered the topic of corporate governance. Candidates were expected to identify and discuss non-compliance with the King IV Report as well as the Companies Act regarding the put option that was awarded to a former CEO. The candidates were expected to answer in a memo format and show logical arguments.

In part f(ii) candidates were expected to critically analyse the structure of a B-BBEE scheme against their knowledge of what such a scheme should be structured as (based on knowledge from their Strategy studies).

2. In what respect candidates' answers are considered to fall short of requirements. Part f(i)

Candidates answered this question well as is evident in the results they scored for part f(i). However, many candidates did not obtain a mark for a memorandum format, which demonstrates poor exam technique and communication skills. In the majority of instances the candidates correctly identified the relevant sections of noncompliance with Legal requirements; section 46, 48, 75, 22, 76 and 77 of the Companies Act. There were instances where the application however was not relevant, e.g. the share option issue was discussed rather than the repurchase, as well as the incorrect individual who had an interest in the contract (Stephen?).

In terms of King the candidates overall also picked up the heart of the issue in terms of governance and remuneration, once again the application to the scenario was sometimes lacking (Remuneration committee approving Vs Shareholders approving and the Rem Co recommending).

Overall, the question was dealt with well by the candidates; however, they battled with application and completeness in terms of identifying all the relevant sections (in terms of both King and Legislation).

In part f(ii) candidates battled to apply with this part of the question. Quite a few ventured into detailed Companies Act Sections (in terms of the issue of shares/ Director's being issued shares etc.), which was incorrect. The candidates did not fully understand the components of a B-BBEE scheme and how to critically assess this against the scheme detailed in the scenario. It was evident that they did not have exposure to BBEEE (which is to be expected).

The marks that were allocated was (correctly so) generic and thus some candidates did do reasonably well in this section.

It was also evident that candidates ran out of time as quite a few candidates failed to complete/ start with this section (although this may have been deliberate as they felt uncomfortable with the question).

3. Common mistakes made by candidates

- The markers identified many cases where candidates did not present their answer in a memorandum format, as was required of them.

- In part f(i) there were instances that candidates only presented their answers with reference to King IV or the Companies Act, and not both, as per the required.
- In part f(ii) time management was possibly poor because of many candidates not fully answering the question or not answering it at all. Many candidates detailed Companies Act Sections (in terms of the issue of shares/ Director's being issued shares etc.) which was incorrect.

4. Areas that the candidates handled well

Candidates answered the question on Corporate Governance in part f(i) well. It was clear that the majority of the candidates understand that Corporate Governance includes both King IV and the Companies Act.

5. Specific comments on sections of the question

In part f(i) the candidates did not appear to misinterpret the requirements of the question. Part f(i) was reasonably well answered by the candidates as they average was a pass percentage.

However, part f(ii) was not well answered by the candidates. The candidates repeated many of the issues and therefore did not achieve any additional marks.