

**MARKERS' AND UMPIRES' COMMENTS  
INITIAL TEST OF COMPETENCE  
JUNE 2019**

**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 June 2019. 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 June 2019;
- Background information on the setting, marking and adjudication of SAICA examinations;
- General comments on the ITC June 2019; and
- Detailed comments by question for each of the four professional papers.

## STATISTICS FOR ITC JUNE 2019

	% Pass	Passed	Failed	Total
All candidates	38%	587	967	1 554

### Average marks per question (all candidates)

	Part I	Part II	Total
<b>Paper 1</b>			
Total marks	65	35	100
Average marks	36,53	13,49	50,02
	Question 1	Question 1	Total
<b>Paper 2</b>			
Total marks	53	47	100
Average marks	26,28	19,83	46,11
	Part I	Part II	Total
<b>Paper 3</b>			
Total marks	66	34	100
Average marks	27,67	13,72	41,39
	Part I	Part II	Total
<b>Paper 4</b>			
Total marks	42	58	100
Average marks	21,83	29,09	50,92

More detailed statistics can be found on the SAICA website at [www.saica.co.za](http://www.saica.co.za)

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

The ITC Examinations Committee (ITC Examco) constantly strives to improve its ability to determine whether candidates demonstrate a readiness to continue with their accounting education and training. This is done by means of an ongoing process of evaluation 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 the use of terminology;
- give an indication as to whether the relevant examination questions are set at an appropriate level;
- provide comments on whether the number of marks and time limit are appropriate; and
- provide comments on the validity and reliability of 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:

Andrea Herron	Henriette Scholtz	Marielienne Janeke
Andrew van der Burgh	Jack Jonck	Muneer Hassan
Christiaan Lamprecht	Jackie Viljoen	Nicolaas Fourie
Denise Mare	Jacobus Rossouw	Peter Landsdell
Eihorere Wesigye	Janine Claassens	Reghardt Dippenaar
Elaine Rabin	Johann Steyn	Rieka von Well
Ferdinand Mokete	John Williams	Riëtte Engels-Van Zyl
Francois van den Berg	Joyce Chidanyika	Rikus de Villiers
Frans Prinsloo	Kirsten Woodman	Ross Peasey
Gary Swartz	Lilla Stack	Shelly Nelson
Giel Pieterse	Linda van Heerden	Stéfani Coetzee
Goolam Modack	Lisa Vidulich	Surika van Rooyen
Greg Beech	Makhosazane Luthuli	Thembi Kganane
Helouise Burger	Mandi Olivier	Veryl Mulder

## 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 June 2019 took place at a central mark centre. An administration hub was set up, from which administrative personnel controlled which scripts were signed out, to whom, and when the marked scripts were returned. Each script was marked independently by two persons, using an electronic marking tool. The tool records marks per subsection, section and question automatically. Only once the double blind marking of each batch of scripts had been completed did the markers confer and jointly decide on the final raw mark to be awarded for a particular answer. This was also recorded on the marking tool. If the markers were unable to agree upon the number of marks to be awarded for a particular answer, the script was referred to the umpire, who then awarded the final mark. The electronic tool automatically captures the final marks of all candidates and prepares a report for the ITC Examco.

Consistency marking was introduced in 2012, which entails that a pack of ten scripts are selected on a random basis by SAICA's Examinations Unit, and the exam numbers removed. These scripts are then numbered from 1 – 10 and photocopied. Every person on the mark team has to mark the question to which they have been assigned in the batch of ten 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. 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 of the section on the general comments) are selected and a third and final review is undertaken of 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 JUNE 2019

### 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	Management Decision Making & Control	Ethics	Comm
Required ranges in terms of the SAICA guidelines (2013 onwards)	60 – 100 marks	40 – 60 marks	60 – 100 marks	60 – 100 Marks	60 – 100 marks	20 – 60 marks	20 – 30 marks
	15 – 25%	10 – 15%	15 – 25%	15 – 25%	15 – 25%	5 – 15%	5 – 7,5%

	Accounting & External Reporting	Strategy, Risk Management & Governance	Audit & Assurance	Tax	Management Accounting & Finance	Ethics (incl CoPC)	Comm	Total
P1 Q1 Part I				54		8	3	65
P1 Q1 Part II					33		2	35
P2 Q1 part I	43					8	2	53
P2 Q1 part II	9		9	14		13	2	47
P3 Q1 part I	34	29					3	66
P3 Q1 part II					32		2	34
P4 Q1		15		10		14	3	42
P4 Q2			55				3	58
<b>TOTAL</b>	<b>86</b>	<b>44</b>	<b>64</b>	<b>78</b>	<b>65</b>	<b>43</b>	<b>20</b>	<b>400</b>
<b>% of TOTAL</b>	<b>21,5%</b>	<b>11,0%</b>	<b>16,0%</b>	<b>20,0%</b>	<b>16,3%</b>	<b>11,0%</b>	<b>5,0%</b>	<b>100%</b>

### 3. Overall comments on the papers

The June 2019 ITC examination was considered to provide a fair assessment of technical competence overall, with a mix of easier and more challenging areas. There was a good balance between easy, moderate and difficult sections within each question and the themes and scenarios were topical and relevant.

From result statistics, it was evident that candidates found the accounting and external reporting of question 1 of paper 2, and the management accounting and finance of part II of paper 3 and the auditing and assurance of part II of paper 4 the more challenging questions. They on the whole performed better in the taxation of paper 1 part I and paper 4 part I as well in the strategy, risk management and governance and ethics in part I of paper 4.

Paper 1 consisted of a single, 100-mark scenario containing a mix of **taxation** (testing both corporate and individuals' tax), **management accounting and finance** and **ethics**. Although the question was considered to be of moderate difficulty, the integration of facts in the scenario elevated the level. The scenario was nevertheless structured in a manner which would have enabled candidates to fairly easily isolate the different areas and with clearly identifiable issues.

Part I of the paper covered a wide variety of tax provisions, focusing on the Tax Administration Act and aspects that frequently occur in real life. It contained a good balance of discussion and calculations, was of a good standard and on an easy to moderate level. It dealt with various key tax principles (including case law) and consisted of mainly a tax calculation, with reasons to support the calculations for the tax treatment applied. It contained a clear explanation of what the company did in a manufacturing context, which covered the topical issue of sustainable energy.

Although the paper integrated tax, ethics and management decision making and control, the scenario was structured in a manner which would have enabled candidates to fairly easily isolate the different areas. The focus on ethical considerations and professional behaviour was considered to be appropriate.

Part II consisted of three required sections, and universities considered part (e) to be fair and moderate, with fairly straightforward standard costing calculation requirements. Part (f) was rated as more difficult, for candidates would not have had exposure to this topic. However, the scenario took this into consideration and was considered to be highly appropriate. The discussion on the basis for determining the selling price was considered to be relatively easy. Part (g) dealt with business risks and was considered to be fair to difficult, given that the industry was not one that many candidates would have been familiar with. However, candidates should be able to deal with business risks in any context at this level.

The paper was balanced in terms of the spread of calculation and discussion marks. It assessed a good range of competencies and tested insight and understanding of the topics.

Paper 2 consisted of two separate questions, the first dealing with an integration of **Accounting and External Reporting** and **Ethics** and the second with **Accounting and External Reporting, Audit and Assurance, Taxation** and **Ethics**. The paper covered a broad range of topics.

Overall, the university rating of the required of Paper 2 Question 1 ranged from easy to moderate. Some universities considered it to be difficult, in part because candidates had to know the answer to certain sections of a required before they were able to answer the other parts. This meant that even though candidates may have known the principles associated with the later sections, they would not have been able to apply them if they were unable to identify the problem in the first section. Universities anticipated that candidates would struggle with the prior period error discussion (part (d)(ii)) and this was indeed the case. A twist was that the entire question required a response in the form of a report to the audit committee, which meant that communication skills and technical skills were tested concurrently.

This question contained a fair balance of revenue disclosure, practicality and critical thinking. The paper was well structured, easy to read and the issues in the paper were clearly identifiable. There was a good mix of calculation, presentation and discussion, in the form of disclosure, calculations and journal entries with an application of theory and technical skills. The question tested the principles of IFRS 15 and 16, and an application of IAS 8 and 24, and incorporated a range of easy to difficult concepts to apply, testing candidates' ability to interrogate the accounting policies for improvement. It assessed the candidates' ability to contextualise the information in the scenario and put it to the practice in the required.

Most universities considered part (a) to be easy, and the rest moderate to difficult, with a clear and unambiguous scenario and requirements.

Most universities considered the overall level of the auditing part of paper 2 question 2 to be fair, possibly easy, with little complexity and few challenging aspects. The question tested candidates' knowledge of auditing principles and understanding, and auditing procedures of the applicable management assertions. Candidates should have been able to navigate through the scenario fairly effortlessly, as was fairly brief and explicit, and specified exactly what was to be asked in the required. It included a realistic NOCLAR scenario, with sufficient detail of the Code of Professional Conduct, which required application from candidates.

There was only one financial accounting issue, with the twist that the required sections were different to the usual IFRS 2 question. However, candidates should have been able to extract all the relevant numbers from an analysis of the information.

Some universities considered the tax section of the question to be very basic and criticised the fact that it did not integrate the financial reporting related to the share incentive scheme with the tax consequences of the scheme for the employer and the employee. However, others considered there to be a good integration of taxation with financial accounting and auditing and commended the integration of corporate, employees' and individuals' tax into one question.

Paper 3 was an integrated 100-mark question and dealt with **Accounting and External Reporting, Strategy, Risk Management and Governance** and **Management Accounting and Finance**. The question was set in the retail industry, specialising in retail sectors such as household appliances, furniture and fashion apparel. It is one to which many candidates would have been exposed on a daily basis in their working environments, creating a balance between unusual ('new') and known industries in the ITC as a whole. There was a seamless integration of the different topics and subjects, which created a holistic scenario between the two parts of the question.

Paper 3 Part I was balanced as far as both the various topics of governance, accounting and financial management, and difficult and easy marks were concerned. Some universities considered the paper to be challenging, mainly because of the time involved in covering all the discussion points. However, most universities considered the paper to be fair and moderate, with unambiguous information and required sections, which tested the candidates at an appropriate level.

Part (a) dealt with the application of a wide range of King IV principles and practices, stemming from the company's composition of the board and board committees. It entailed an application of some of the concerns stemming from the composition. The fact that the assessment of this part as easy was not borne out by the results, is due to candidates listing the principles (theory) without the necessary application or including irrelevant considerations, such as Companies Act requirements and disclosure issues.

Part (b) was considered to be moderate to difficult, because candidates were not required to merely recognise the transaction but to analyse it for mistakes and discuss concerns. It consisted of an application of a scenario where the assets as opposed to shares were purchased, and tested a broad range of group-related matters. Universities applauded that it tested the basic principles of a business combination in terms of IFRS 3 by means of a discussion as



opposed to statements or journal entries. The fact that candidates had to assess and critique a journal entry that was posted by the client is reflective of what happens in practice and assessed critical thinking. In general, universities were of the opinion that candidates who were familiar with IFRS 3 could do very well in this question.

Some universities considered the paper 3 part II to be difficult, because the cash flow was based on a cash flow statement. There were also difficult technical aspects within the PE valuation, requiring both criticism and commentary. Furthermore, candidates had to keep track of the intertwined information points for each of the four different exam requirements. However, most universities were of the opinion that part II was easy, with a few elements that were moderate. The paper was well structured, easy to read and the issues in the paper were clearly identifiable. It was a good integration of Financial Accounting and Finance with a scenario that was typical of merger and acquisition deals.

Both parts (c) and (d) assessed candidates' understanding of valuations, from a multiple as well as free cash-flow methodology. The nature of Part (c) made it more challenging, as it tested candidates' ability to think critically and evaluated whether they understood the principles of a PE valuation. The approach was also different, from valuing individual shareholdings versus an entire block of shares. It required that candidates not take information at face value but interrogate the nature of what had been performed. Part (d) was a good assessment of the candidates' ability to construct a free cash flow. Candidates would have had to consider information from the earlier sections and this, coupled with the transactions relating to the sale of non-current assets, elevated the level of difficulty.

Paper 4 was an integrated question, dealing with **Strategy, Risk Management and Governance, Audit and Assurance, Taxation and Ethics**.

The universities were of the opinion that the candidates should have been able to navigate through the scenario fairly effortlessly, for it was quite short, had little complexity or intricate detail to interpret and absorb and the content and information were unambiguous and straight-forward. However, some universities commented that candidates were likely focus on the workpaper only, and miss that information in the rest of the scenario should also be used. The question aligned to good outcomes of synthesising information and critical thinking.

The taxation sections of paper 4 part I dealt with very topical issues and aspects of businesses in the manufacturing sector, including VAT principles and overstatement of a sale figure, with some integration with ethics and governance. The emphasis on SME businesses is very relevant to South Africa. Part (b) tested candidates' ability to evaluate and analyse drivers of performance in working capital management. It was interesting to showcase how a CA(SA) can create value.

Part (c) included a close integration between auditing and management accounting and finance in the form of a working paper. In this part candidates were required to provide some insight/more application and note risks with responses. It tested practical application of basic audit skills.

Universities considered paper 4 part II to be moderate to difficult, an assessment based on the fact that candidates generally find substantive procedures difficult. However, substantive procedures and controls as well as ISA standards are crucial in practice and therefore it was important that these be tested. Some universities considered part (f) to be easy, as many of the risk factors were outlined in the background information, while the audit procedures in response to the risk could be obtained from the ISA statements.

There was some complexity because of the accounting knowledge of impairments required and the detail that had to be considered from the scenario. It tested a number of principles across the syllabus in an integrated manner. The treatment of the allowance for credit losses was unusual and contained a technical integration of accounting aspects.

## 4. General comments

From a review of candidates' answers to the eight required sections for the ITC June 2019 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 be given to these important skills. It is important that candidates bear in mind that written answers are a large component of the Qualifying Examinations, because written communication is a key competency required in the workplace. Candidates should learn to answer discursive questions properly. This can be done by practicing exam-type answers under exam conditions in preparation for the examination.

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

### 4.4 Journal entries

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

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

#### **4.5 Time management**

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

#### **4.6 Layout and presentation**

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

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

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

#### **4.7 Irrelevancy**

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

#### **4.8 Drilling down**

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

#### **4.9 Recommendations / interpretations**

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

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

Candidates should communicate reasons for calculations, if required. A discussion of a case study should always have a conclusion. Or if it requires 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 section 4.4 of the SAICA 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 management accounting and finance. Candidates are reminded that the accountancy discipline is a broad one and the other disciplines are equally important. We draw your attention to the following 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 a candidate because that candidate did not achieve the 40% subminimum in two of the four papers. This is really unfortunate and candidates are advised to pay equal attention to all the competency areas in order to obtain an overall pass in the ITC.

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

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

*Best of luck!!*

## PROFESSIONAL PAPER 1

**Paper 1** consisted of a single question with two required sections that dealt with the following aspects:

### Part I

- (a) A discussion of the normal tax implications for a company in respect of the sale of trading stock to a close corporation for the 2018 year of assessment. Candidates had to refer to case law principles.
- (b) A discussion of whether the company would qualify as a small business corporation and a calculation of its taxable income for the 2018 year of assessment, on the assumption that it does qualify as a small business corporation. Candidates had to start with a given taxable income and provide reasons where no tax implications arose in respect of a specific item.
- (c) A discussion of the ethical concerns the candidate may have regarding the conduct of the owner of the company, its tax practitioner and the company itself. Candidates had to include any actions that SARS may take against any of these parties.
- (d) A calculation of the taxable income of the company's owner for the 2018 year of assessment. Candidates had to provide reasons where no tax implications arose in respect of a specific item.

### Part II

- (e) Based on the information provided by the company's management accountant, a preparation of the FY2018 variance report that showed the calculation of the standard cost variances that occurred during FY2018. Where materials usage (quantity) variances have arisen for the same reason, candidates could calculate a combined usage variance.
- (f) A critically discussion of a standard costing schedule provided with regard to future plans as a basis for determining the price at which the solar panels should be introduced to the retail market. No calculations were required.
- (g) A discussion of the key business risks for the company with regard to the manufacture and sale of solar panels.

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

## PAPER 1 PART I

Maximum mark	Average mark	Marks > 50% (pass)	Marks < 50% (fail)
65	36,53	1 183 (76,13%)	371 (23,87%)

### 1 What general areas the question covered

#### Part (a)

Part (a) required candidates to discuss the income tax implications for the company (SA Solar) in respect of the sale of trading stock to another unrelated company (The Power Store) for the year of assessment ended 28 February 2018. Candidates were also required to refer to case law principles. This was a credit sales agreement subject to a condition that the buyer provides proof of approval of finance by its bank. The trading stock was delivered the 23 February 2018 and the finance approval was obtained on 1 March 2018 (after year end).

This part covered the definition of gross income in terms of s1 of the Income Tax Act (TA). The issue in the question was when the amount of the sale 'accrued' to the company. The candidates had to also address the onus of proof (s102 of the Tax Administration Act) and the case law principles of People Stores and Mooi.

### **Part (b)**

Part (b) required a discussion on whether SA Solar (company) would qualify as a small business corporation and to calculate the taxable income of SA Solar if it qualifies as a small business corporation. The required stipulated that the candidates start their calculation with the taxable income of R1 222 759 and provide reasons ( or reference to legislation) where no tax implications arise. This part of the question required the candidates to firstly conclude on whether SA Solar is a small business or not and to apply the requirements of section 12E of the Income Tax Act (small business corporation) in the calculation of its taxable income.

The candidates had to identify that the revenue amount provided in the question was the gross income of the company. When answering the calculation part candidates had to address the various transactions, i.e. conditional sale of trading stock (accrual in terms of gross income definition), sale of machine 1 (s12E, s 8(4)(e) and par 66 of the Eighth Schedule), purchase of machine 2 (replacement machine) (s 12E), pre-payments (s 23H), importation of trading stock (s 23F and s 24I), marketing and entertainment expenses (s 11(a) and s 23(o), bonuses and commissions (s7B) and a donation (s18A).

### **Part (c)**

This part required a discussion of the ethical concerns that the candidates might have regarding the conduct of the sole shareholder (Phumlani), his tax practitioner and SA Solar (company). The parties unethically claimed prohibited tax deductions. The question further required the candidates to include any actions that SARS may take against the 3 parties. The candidates had to address the ethical concerns relating to the deduction of non-deductible expenses consisting of the payment of the shareholder's family trip and the payment to the chairman of the tender committee in order to obtain a tender. The candidates had to identify that the payment to the chairman was a bribe and that the family holiday expenses was not an expense in the production of income and would at the same time be either a fringe benefit of dividend in specie in the taxable income of Phumlani. General ethical considerations had to be addressed.

### **Part (d)**

Part (d) required candidates to calculate the taxable income of Phumlani (an individual) for the 2018 year of assessment. Reasons for amounts where there were no tax implications were also required. The candidates had to address fringe benefits received by the individual, deemed dividend on a low interest loan, interest received and the exemption the individual qualified for, inclusion of a taxable capital gain, s11F deduction of provident fund contributions and ring-fencing of a suspect trade loss in terms of s20A.

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

### **Part (a)**

Part (a) required a discussion on the inclusion of the sale of trading stock in gross income of SA Solar during the 2018 year of assessment. A number of candidates discussed whether the trading stock that was sold should form part of closing stock or not. Some candidates discussed the deductibility of the trading stock amount. Candidates should know that such a discussion always requires that a conclusion drawn on whether the amount of the sale should be included in gross income during the 2018 year of assessment but some candidates did not provide a conclusion.

### **Part (b)**

This part of the question required candidates to address two aspects: (i) to discuss the applicability of the small business corporation requirements to SA Solar and (ii) to calculate the taxable income of the company, if it a small business corporation, by making adjustments against a provisionally provided taxable income figure and to provide reasons where no tax implications arise. Few candidates provided only a discussion of the calculation and not the

calculation itself. Some candidates did not provide reasons where there were no tax implications and therefore did not address that part of the required.

Where information was not clear in the question, alternatives were provided in the solution to provide the benefit of doubt to the candidates.

### **Part (c)**

Part (c) required candidates to address three parties (the shareholder, the tax practitioner and the company) to the non-deductible tax expenses as well as the actions that SARS may take against the three parties. Candidates were not sure how to structure their responses, i.e. if they were to address the three parties together or separately, if the non-deductible expenses were to be addressed individually in terms of the holiday trip and the bribe and if the actions to be taken by SARS against the parties should be grouped together or addressed per party involved. The candidates mainly struggled with the approach in answering this part as they are not used to tax questions being integrated with ethics. Candidates should note that they should structure their answer according to the required. Repeating a principle does not earn extra marks. Candidates mostly failed in their application of the remedies that SARS can take.

### **Part (d)**

This part required the candidates to calculate the taxable income of the individual (Phumlani) but some of the candidates also provided the calculation of SA Solar's taxable income in this part. Some candidates used old legislation and missed easy marks in the calculation.

## **3 Common mistakes made by candidates**

### **Part (a)**

Candidates made the following common mistakes:

- The question counted 5 marks and some candidates discussed the gross income definition without identifying that the specific issue was the 'accrual' of the amount in terms of the gross income definition.
- In a number of instances candidates identified that the accrual was the issue but discussed it incorrectly.
- Some candidates did not identify the issue of 'accrual' at all.
- The required was clear that the case law principles (for example People's Store case principles) were to be addressed but some candidates did not address the case law principles. Some candidates discussed the case law principles that were applicable to the general deduction formula and not the gross income definition.
- Candidates also addressed the deductibility of the trading stock that was not required as the required clearly stated the sale of trading stock.
- Some candidates provided a discussion without clearly concluding what the actual tax implication will be.
- Some candidates discussed section 24M (unquantifiable amounts) which was not relevant as the amount was quantifiable.
- Candidates also contradicted themselves by mentioning that the amount had not accrued at year end as the finance approval was only obtained after year end (1 March 2018), but then went back and discussed that the trading stock was delivered before year end therefore the amount accrued before year end. The concept of 'accrual' seems to be misunderstood by candidates.
- The required was clear that candidates had to discuss the income tax implications but some candidates discussed the VAT implications.



## **Part (b)**

Candidates made to following common mistakes:

- For the discussion of the small business corporation, candidates provided theory in terms of s12E without application of the information in the question. Application is key as no marks are awarded for theory dumping directly from the legislation.
- For some candidates who applied the information in the question, the application was not correct or was incomplete. For example, the requirement that SA Solar's income should not exceed 20% in investment income, candidates would mention the sole shareholder's (Phumlani) income should not exceed the 20% in investment income when the requirement applied to the company.
- Some candidates did not provide a conclusion on whether SA Solar is a small business corporation or not.
- A few candidates did not consider s12E allowances. The required did specify that they must assume that SA Solar is a small business corporation when calculating the taxable income.
- Some candidates ignored what was required by not starting the taxable income calculation with the preliminary taxable income amount that was provided in the required.
- Candidates did take the conditional sale, in part (a) into account in their calculation.
- Most candidates did not provide the workings to get the recoupment amount, but they did give the correct amount, so they did not obtain all the marks. Same applies for CGT, candidates just calculated proceeds less base cost without breaking down what makes up the proceeds and what make up the base cost as required by the Eighth Schedule, resulting in easy marks being lost. This also made it difficult to mark with the error.
- Few candidates struggle with the basic calculations of recoupment and CGT.
- Some candidates contradicted themselves by deferring the recoupment and the CGT but the included the taxable income calculations. Some candidates deferred the recoupment but recognised the capital gain (or the other way around). This was wrong application of the legislation.
- Candidates did not apply section 12E correctly by not deducting 100% of cost when calculating capital allowances. In certain instances the capital allowances were incorrectly apportioned.
- Some candidates struggled with identifying the prepayments for the insurance premiums and machine maintenance and the application of s23H.
- Few candidates used the incorrect exchange rate when converting the cost of the inventory that was imported.
- A number of candidates missed the fact that the import duties were not incurred in the 2018 financial year and therefore deducted the amount in the 2018 year of assessment.
- Some candidates did not calculate the section 24I exchange differences on the debt relating to the imported trading stock.
- A number of candidates did not identify the applicability of s 23F(1), as the trading stock did not form part of the closing stock at the end of the 2018 year of assessment.
- The family trip cost is not incurred in the production of income for the purposes of trade for SA Solar. Many candidates indicated that this is a personal expense in terms of s 23(a) or s 23(b) and is therefore specifically prohibited. This is not the case and s 23(a) and (b), apply from the perspective of an individual and not the company.
- Some candidates identified the bribe as being deductible. This is not the case, as a bribe is an unlawful activity and is specifically prohibited in terms of s 23(o).
- Many candidates were unable to apply the provisions of s 7B (variable remuneration) to the bonuses and commissions paid by SA Solar.
- Some candidates applied s 7B incorrectly by adding back the 2017 bonuses and commissions accruals and deducting the 2018 accruals.
- Candidates who did not defer the capital gain did not included the capital gain at 80% and some candidates deducted the individuals annual exclusion of R40 000 (which is not applicable to companies).
- For s 18A deduction of the donation, some candidates calculated the donation deduction amount correctly at 10% of taxable income (before this deduction) but they did not limit it to the actual donation of R250 000.

- Some candidates did not calculate the subtotal before the donations deduction and could therefore not apply the 10% limit.
- Some candidates incorrectly deducted amounts that should be added to taxable income and added amounts that should have been deducted.
- A number of candidates calculated amounts but did not take them into account when determining taxable income.
- The required asked for reasons to be provided where no tax implications arise in respect of a specific item. Many candidates provided a detailed discussion whereas the question mainly asked to calculate. Candidates therefore struggled in terms of the amount of detail that should be provided. Some candidates contradicted themselves in the explanations/reasons they supplied.

### **Part (c)**

Candidates made to following common mistakes:

- Most candidates failed to structure the answer appropriately (in terms of the parties involved).
- Candidates struggled to identify all the issues in this question and did not discuss the ethical concerns for all three parties as per the required.
- Some candidates only addressed the ethical concerns but failed to indicate the actions that SARS can take against the parties. In instances that actions were identified, very brief responses were provided.
- Candidates provided theory on ethics and did not apply it to the information in the question.
- Candidates did not demonstrate good understanding of the ethical issues (or ethical behaviour). A few candidates did not see anything wrong with the bribe and considered it to be an expense incurred in the production of income.
- There was very poor application of Tax Administration Act in the responses (if identified).
- Candidates use incorrect/vague terminology and need to be more specific and technically correct, for example using 'fines' or 'penalties' rather than 'understatement penalties' etc.

### **Part (d)**

Candidates made to following common mistakes:

- Candidates provided monthly amounts instead of yearly amounts for salary, medical fringe benefit and provident fund contributions as fringe benefits.
- Most candidates did not identify the possible fringe benefit or dividend in specie in terms of S64E(4) with regard to the holiday trip as Phumlani obtained the loan in his capacity as a shareholder. Some candidates recognised it as a fringe benefit. As a result, the interest benefit was included in the taxable income calculation.
- Some candidates identified that the loan is a dividend in specie but failed to identify that such a dividend does not form part of gross income (only a deemed dividend for dividends tax purposes).
- Few candidates did not identify that Phumlani was married in community of property and therefore did not split the interest and loss on the rental of the flat (passive income) between the two spouses equally.
- Few candidates, who identified that Phumlani was married in community of property, split all amounts (including salary, fringe benefits, etc.) equally between the spouses.
- Some candidates did not calculate the taxable gain properly, they excluded the annual exclusion of R40 000 from the net capital gain amount provided. Net capital gain is an amount excluding the R40 000.
- Most candidates did not demonstrate that they can correctly calculate the second and third limits which apply for the s11F deduction.
- Candidates also did not deduct apply the s11F limitation and deducted an amount that's above the limitation.
- Some candidates still applied old legislative provisions under s11(k) (old legislation) rather than s11F.
- Section 20A ring fencing of assessed losses were also poorly attempted. Candidates did not identify the suspect trade and that it needed to be ring-fenced.

- Items with no effects were not always properly supported with reasons as required – candidates need to read the required carefully and do all aspects required of them. Other candidates provided too detailed discussions which was not required.
- Some candidates calculated the tax liability and thus wasted time as this was not required.

#### **4 Areas that the candidates handled well**

##### ***Part (a)***

Most candidates identified that there was a condition and the 'unconditionally entitled to' principle applicable to 'accrual' in terms of the gross income definition.

Most candidates generally performed well in this part.

##### ***Part (b)***

Candidate's generally handled the taxable income calculations fairly well. There were easy calculations as well as more challenging scenarios, but in general, candidates managed to do well in this section. The majority of candidates provided reasons where no tax implications arose in respect of a specific item. Candidates that identified the basic principles and the applicable Income tax provisions managed to score the easy marks and did well in this part of the question.

##### ***Part (c)***

Candidates who identified the ethical issues and the applicable theory (for example Tax Administration Act) did well in this part. Most candidates identified that the behaviour was unethical.

##### ***Part (d)***

Candidates generally did well in the calculation of the individual's taxable income. There were many easy marks on this part of the question.

#### **5 Specific comments on sections of the question**

##### ***Part (a)***

Candidates generally struggle with discussion type questions, but mostly did well in this part of the question. The main issue in this part was the identification of the accrual issues and the application of this aspect of the gross income definition.

##### ***Part (b)***

Generally, candidates did well in this part of the question. The question was mainly a calculation type question and candidates do well in these types of questions.

##### ***Part (c)***

Candidates generally struggle with technical discussion type questions and an ethics question in a tax context was more of a challenge. Generally, candidates did not do badly in this part (but not as great as the other calculation parts of the question).

### **Part (d)**

Generally, candidates did well in calculating the individual's taxable income. The question was mainly a calculation type question and candidates do well in these types of questions.

### **Overall**

Candidates are generally comfortable with calculation type questions but discussion type questions remain problematic. Due to the nature of this question being mainly calculations a lot of candidates performed really well on this question.

Overall it seems as if candidates could still improve on their exam technique in respect of proper application of the information provided in the question and to incorporate this in their answers. Candidates should refrain themselves from practices such as 'theory dumping' directly from the legislation. Candidates should also show all their working clearly. It is important that candidates must recognise that correct and descriptive reasons must be provided, if required. A mere reference for example to 'not deductible' is not enough. Candidates should always provide the reason in terms of the applicable tax act.

## **PAPER 1 PART II**

<b>Maximum mark</b>	<b>Average mark</b>	<b>Marks &gt; 50% (pass)</b>	<b>Marks &lt; 50% (fail)</b>
<b>35</b>	<b>13,49</b>	<b>261 (16,80%)</b>	<b>1 293 (83,20%)</b>

### **1 What general areas the question covered**

The question was based on a company whose income is solely derived from the manufacture of solar panels. The core of the scenario was based on a company battling in a rapidly changing industry which is being disrupted by competition from solar panel producers in Europe and China, as well as new technologies and challenges on the quality of the product.

In view of its success the company plans to expand into the retail segment during FY2019 and has accordingly invested in new machinery to manufacture its own solar cells.

The company would like to benefit from the government subsidies that are paid to incentivise clean energy schemes such as solar power. The challenge is the company does not have the required rating, to qualify for the subsidies, organisations are required to have a level II or better B-BBEE rating.

The question required candidates to prepare the FY2018 variance report that shows the calculation of the standard cost variances that occurred during FY2018. Where materials usage (quantity) variances have arisen for the same reason, a combined usage variance may be calculated(Part (e)), followed by critically discussing the standard costing schedule as a basis for determining the price at which the solar panels should be introduced to the retail market(Part(f))

Part (g) then required candidates to discuss the key business risks for SA Solar with regards to the manufacture and sale of solar panels.

The question has a good mixture of basic and intermediate marks. The information in the scenario was unambiguous and succinct. The question is of a moderate to easy standard. The relative 'simplicity' of the question is effectively

balanced against (1) preparation of the variance report, (2) the fact that the standard costing schedule needs to be analysed as a basis for determining the price, and (3) the key business risks 'integrated' into question.

Overall, we felt 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; as evidenced by the question's average.

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

Candidates battled in general to answer the discussion aspects of the question and variance calculations.

In part (e) candidates either did not provide enough variances to earn the 15 marks available, or calculations were poorly done and were not applied to the scenario to earn the marks. Lack of knowledge regarding variance analysis and sales margin determination was evidenced. Followed by some candidates wasting time in discussing the variances calculated, which was not required.

Candidates also performed poorly in part (f). This was a more difficult discussion area, and required candidates to question the standard costing schedule, requiring them to display more insight and understanding of what drives product pricing. Followed by several candidates giving a theory dump on the difference between absorption and variable costing, which was not answering the required.

The final required was on identifying key business risks of SA Solar, which also saw some of the candidates giving generic risks not applicable to the energy industry. Although the marks were lower for this section, candidates performed relatively better in this discussion.

## **3 Common mistakes made by candidates**

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

The provision of generic points without applying to the scenario was also an issue, resulting in candidates not being awarded these marks. Application of the point to the scenario presented is vital.

Many candidates did not attempt to calculate most of the variances, this resulted in them losing marks, and forgetting about incorporating the scenario into their answers. Candidates needed to show the variance report to manage the information in their solution more coherently.

## **4 Areas that the candidates handled well**

Candidates performed relatively well on the key business risks. The mark-plan was relatively more generous on this required, having slightly more than double available marks when compared to maximum.

## **5 Specific comments on sections of the question**

The topics examined are generally introduced from undergraduate level and are pervasive throughout the syllabus. The candidates were expected to perform well on calculations and the pricing decision as these were the easier parts of the question.

In part (e) Candidates struggle with the calculation of variances, either did not provide enough points to earn the 15 marks available or calculations were poorly done and were not applied to the scenario to earn the marks. It seemed that the candidates did not spend enough time reading through the scenario and applying the scenario in calculating

the variances. An example was the 100 solar panels that were scrapped due to the lower quality PVF that were purchases. Few candidates calculated the effect of this scrapped units. Lack of knowledge regarding variance analysis was evident.

Candidates performed poorly in part (f), did not address the pricing regarding the solar panel and also did not discuss the standard costing schedule. Many candidates elaborated on whether machine hours or labour hours are the correct measure for overhead allocation which was not required in this section.

Several candidates identified a key business risk but did not explain why it is a risk for the SA Solar e.g. will the risk lead to a decline in sales. In addition, we saw some of the candidates giving generic risks which are not applicable to the energy industry. Although the marks were lower for this section, candidates performed relatively better in this discussion section.

Overall candidates' performance was disappointing looking at the average of the question.

## PROFESSIONAL PAPER 2

**Paper 2** consisted of two separate questions, that dealt with the following aspects:

### Question 1

- (a) A discussion of any concerns that the candidate may have and a recommendation of any improvements regarding the company's revenue recognition policy. Candidates were not required to re-produce an accounting policy note.
- (b) A discussion, with reference to IFRS 12, *Disclosure of Interests in Other Entities*, of any additional disclosures in the company's consolidated financial statements for FY2018 that may be required regarding the group's decision to consolidate a subsidiary.
- (c) A discussion on whether an unconsolidated structured entity is a related party to the company. Candidates had to provide the disclosures required in terms of IAS 24 *Related Parties* in the company's consolidated financial statements for FY2018 where relevant.
- (d) With regard to a designer fabric agreement –
  - (i) a discussion of the classification of the designer fabric agreement in terms of IFRSs;
  - (ii) a calculation, with supporting reasons, of whether a material prior period error existed. In their calculations candidates had consider the effect on each relevant line item; and
  - (iii) the provision of the journal entries to account for the agreement in FY2018, assuming the prior period error has already been corrected.
- (e) A discussion, with regard to the designer fabric agreement and a proposal for an FY2019 special purposes vehicle, of any ethical concerns the candidate may have regarding the conduct of the Financial Director and recommend actions that the Audit Committee Chairperson should take in response to concerns raised.

### Question 2

- (a) A calculation of the staff expense for an performance incentive plan in the accounting records of a company for FY2018.
- (b) A discussion, with reference to the performance incentive plan –
  - (i) the normal tax implications for the company for the 2018 and 2019 years of assessment; and
  - (ii) the employees' tax implications for the eligible employees regarding the cash portion of a performance bonus for the 2018 year of assessment.
- (c) A discussion, with reference to the use of a company holiday property by one of the executive directors, the effect the free accommodation would have on the executive director's taxable income for the 2018 year of assessment.
- (d) Describe the substantive procedures that the external auditors should perform on the cash incentive scheme in

relation to the 2018 annual financial statements of the company, assuming that the candidate performed the procedures on 4 April 2019.

- Candidates could assume reliance on the figures relating to payroll.
  - Taxation and deferred taxation could be ignored.
- (e) Discuss, with regard to the email received by the Financial Director (meant for the Head of Health and Safety and relating to concealing damaging information), the actions the Financial Director must take with reference to his responsibilities as a CA(SA).

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

## PAPER 2 QUESTION 1

Maximum mark	Average mark	Marks > 50% (Pass)	Marks < 50% (Fail)
53	26,28	745 (47,94%)	809 (52,06%)

### 1 What general areas the question covered

Paper 2 Question 1 was a standalone question involving an entity HlukileWena Ltd ('HW'), a company specialising in unique clothing items for individuals. The scenario was considered by the Universities to be interesting and relevant. The question dealt predominantly with financial accounting integrated with ethics and totalled 53 marks. The question specifically dealt with the following:

Candidates were required to draft a report for the Audit Committee of HW. Candidates were awarded 1 mark for the correct layout and structure of the report (1 mark in total). Parts (a), (b) and (c) were discussions: in part (a) candidates were required to discuss any concerns that they may have and recommend any improvements regarding the revenue recognition policy that was stated in note 1.1 of the scenario. Candidates did not have to re-produce the accounting policy note (6 marks in total). In part (b) candidates were required to discuss, with reference to IFRS 12, *Disclosure of Interests in Other Entities*, any additional disclosures in HW's consolidated financial statements for FY2018 that may be required regarding the group's decision to consolidate Boutique (5 marks in total). In part (c) candidates were required to discuss whether Retail is a related party to HW and, where relevant, provide the disclosures required in terms of IAS 24 *Related Parties* in HW's consolidated financial statements for FY2018 (6 marks in total).

Part (d)(i) was also a discussion, on the classification of the designer fabric agreement in terms of IFRSs (8 marks in total) and part (d)(ii) was a calculation and discussion in which candidates were required to calculate, with supporting reasons, whether a material prior period error exists. They had to also consider the effect on each relevant line item in their calculations (12 marks in total). In part (d)(iii) candidates were also required to provide the journal entries to account for the agreement in FY2018, assuming the prior period error has already been corrected (6 marks in total). In addition, 1 mark was also awarded for communication skills – presentation.

Part (e) was a discussion in which candidates were required to discuss, with regard to the designer fabric agreement and the FY2019 SPV proposal, any ethical concerns that they may have regarding the conduct of Tsepo and recommend actions that Samira as the Audit Committee Chairperson should take in response to their concerns (8 marks in total).

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

Candidates do not analyse the 'required section' properly. This resulted in questions being answered incorrectly and marks being lost. For instance, part (a) required a discussion of the accounting policy (concern and recommendation). Most students did not critique the policy but rather the accounting of the company. This is not what the 'required section' required.

The material prior period error question (part d(ii)) highlighted the inability of candidates to express themselves through means other than journal entries. This is in the opinion of the examiners a communication problem which is a very important professional skill.

Candidates' lacked the knowledge required in terms of IFRS 12, IAS 24 and IFRS 15. Many candidates copied paragraphs from the IFRS verbatim without applying it to the scenario or linking it to what was required. In addition to this, a significant number of students failed to identify that the arrangement regarding the Batik Clothing Plant was a lease and hence IFRS 16 should be applied.

## **3 Common mistakes made by candidates**

Candidates failed to apply relevant portions of IFRS to the scenarios provided and rather gave theory dumps. This was especially evident where they were required to critically analyse the Revenue accounting policy note as well as the IFRS 12 disclosure. This invariably leads to plenty of writing, but no marks generated.

A number of candidates did not use a report format (to the Audit Committee of HW) in their responses and therefore lost the communication skills mark for layout and structure.

Some handwriting remains difficult to decipher and very hard to read at times.

Where specific requirements exist, like in part (a) relating to 'raise a concern and make a recommendation', candidates did not word their answer in that way. It was difficult to discern whether something that was mentioned is actually seen as a concern or not. It is recommended that candidates consider a table format for this type of requirement. It is also implicit in this type of requirement, that the 'why' it is a concern is also provided.

## **4 Areas that the candidates handled well**

Candidates answered the related party discussion (part (c)) satisfactorily.

Candidates that identified the lease, applied the requirements of IFRS 16 well enough to generate marks.

## **5 Specific comments on sections of the question**

### ***Part (a)***

Candidates were required to discuss any concerns that they may have and recommend any improvements regarding the revenue recognition policy that was stated in note 1.1 of the scenario. Candidates did not have to re-produce the accounting policy note.

Candidates who performed well in this part were those who adopted a logical approach to their responses. These candidates:

- Identified the concern;
- Explained why it was a concern; and
- Provided a recommendation.



Some candidates made the following errors or omissions:

- Candidates did not analyse the 'required section' of part (a) properly. Part (a) required a discussion of the accounting policy (concern and recommendation). Candidates did not critique the policy, but rather the accounting of the company. This is not what the 'required section' required.
- Candidates did not apply the relevant aspects of IFRS 15 to the scenario provided and rather gave theory dumps.
- Concerns and recommendations were not clearly stated.

### **Part (b)**

Candidates were required to discuss, with reference to IFRS 12, *Disclosure of Interests in Other Entities*, any additional disclosures in HW's consolidated financial statements for FY2018 that may be required regarding the group's decision to consolidate Boutique.

Part (b) was answered very poorly by the candidates. Candidates did not read the required carefully to realise that the emphasis was to provide disclosures regarding the group's decision to consolidate Boutique and not IFRS 12 disclosures in general. Therefore, the IFRS 12 disclosures were specific to the judgments applied to consolidate Boutique, even though HW held only 45% of the shares.

### **Part (c)**

Candidates were required to discuss whether Retail is a related party to HW and, where relevant, provide the disclosures required in terms of IAS 24 *Related Parties* in HW's consolidated financial statements for FY2018.

Candidates generally answered this part satisfactorily.

### **Part (d)(i)**

Candidates were required to discuss the classification of the designer fabric agreement in terms of IFRSs. If the candidate recognised that IFRS 16 was applicable, they applied and discussed the requirements of IFRS 16 well. A number of candidates did not identify the lease. Instead, these candidates incorrectly discussed IFRS 10 control, IFRS 11 joint control, IAS 38, and others.

### **Part (d)(ii)**

Candidates were required to calculate, with supporting reasons, whether a material prior period error exists. They had to also consider the effect on each relevant line item in their calculations.

This part was answered very poorly. Candidates made the following errors or omissions:

- The layout of candidates' responses were illogical and poor.
- Some candidates correctly concluded that the effect of the error was not quantitative but was qualitative, however, the incorrect reasoning was applied.
- Candidates failed to identify that the lease liability would result in a breach of the requirements regarding the debt : equity ratio which is qualitatively material and therefore has significant implications.

### **Part (d)(iii)**

Candidates were required to provide the journal entries to account for the agreement in FY2018, assuming the prior period error has already been corrected. If the lease was identified in part (d)(i), this was generally answered

satisfactorily. Some candidates did not score the 1 mark for communication skills – presentation as they did not provide journal narrations for each journal entry.

**Part (e)**

Candidates were required to discuss, with regard to the designer fabric agreement and the FY2019 SPV proposal, any ethical concerns that they may have regarding the conduct of Tsepo and recommend actions that Samira as the Audit Committee Chairperson should take in response to their concerns.

Candidates made the following errors or omissions:

- Candidates focused on the ethical conduct by Tsepo; however, Samira (the Chairperson of the Audit Committee who was also a CA(SA)) was ignored and the actions that she should take was not discussed in enough detail.
- Candidates did not follow a logical approach, being identifying the threat, the reason for the threat, followed by the assessment of the significance.

**PAPER 2 QUESTION 2**

Maximum mark	Average mark	Marks > 50% (Pass)	Marks < 50% (Fail)
47	19,83	345 (22,20%)	285 1 209 (77,80%)

**1 What general areas the question covered**

The question demanded a healthy mix of technical knowledge. This question integrated Financial Reporting, Taxation, Audit, and Ethics competency areas.

The question dealt with financial reporting (calculating the staff expense for the performance incentive plan in the accounting records); taxation (a discussion, with reference to the performance incentive plan and the normal tax implications for the company as well as the tax implication for the eligible employees regarding the cash portion of the performance bonus and the effect of free accommodation on taxable income); auditing (a description of substantive procedures that the external auditors should perform on the cash incentive scheme); and governance and ethics (discussion on an actions a CA(SA) must take with reference to his responsibilities as a CA(SA)).

**2 In what respect candidates' answers are considered to fall short of requirements and common mistakes made by candidates.**

**Part (a)**

- Candidates incorrectly vested the cash incentive amount at a ratio of 12/15.
- Candidates did not use the correct fair value of the share option (they should have used the fair value at grant date) and candidates incorrectly revalued the options at year-end.
- Candidates did not correctly identify the number of employees that were estimated to leave employment for all the respective periods (end of Dec 2018/end of March 2019/end of June) to use in the calculations.

**Part (b)(i) & (ii)**

- This part of the question was answered very poorly.
- Candidates used tax terminology interchangeably, i.e. gross income, taxable income, variable remuneration, remuneration. These terms have distinct differences and candidates should use the correct terms in the correct context.

- Candidates concluded about the deductibility of an amount for tax purposes without providing reason/motivation for the conclusion.
- For the employees' tax part of this question, candidates did not link their answer to employees' tax and most answers were given from the perspective of the employee. Terms such as 'amount will be included in the employees' gross income' etc were used. These were not relevant to the question as the question was specific and asked about the impact on employees tax.

### **Part (c)**

Many candidates correctly identified the fringe benefit, but omitted to include the rand amount that should have been included in income. The amounts were provided in the scenario, and candidates should use the amounts in the answer if it was given in the scenario.

### **Part (d)**

Candidates provided a list of general audit procedures (normally in the beginning of an answer) without applying them to the scenario.

#### *Examples*

- Obtain a management representation letter without listing for what the specific management representation letter should be obtained for.
- Obtain a calculation (do not state specifically WHAT calculation).
- Inspect the AFS for disclosure (disclosure of WHAT?).

Formulation of audit procedures that does not achieve the goal. The following are a few examples of these procedures:

- Obtain a list of employees employed by Inyama (and then what? No reason is provided)
- Ensure that the actual revenue is R550 million (how? What do you inspect? What is the source?)
- Obtain a list of employees that resigned/have been terminated and ensure that they have been removed from payroll (not auditing payroll, but incentive scheme – should ensure that employees not in employment anymore should be removed from the calculation and that no bonuses have been calculated/included in the calculation).
- Ensure that the bonuses were paid out on 31/3/2019 (WHY? The purpose was not to audit the payment date, but actually to audit the validity of payments).

### **Part (e)**

- Many candidate's incorrectly discussed a reportable irregularity. This is not in the context of the question, as the scenario refer to a CA (SA) and there was no auditor in the scenario. There were no marks on the discussion on reporting irregularity in terms of the Audit Professions Act.
- Many candidates incorrectly discussed the need to recognise/account for a subsequent event.
- Candidate's missed that there was 'non-compliance with laws and regulations' and subsequently did not discuss the responsibilities in terms of NOCLAR as prescribed by the CPC. This resulted in many candidates 'missing' this whole section.
- Many candidates that discussed IAS 37 and the relevant disclosure on the financial statements for the listeriosis however, this was not the issue in the questions.

## **3 Areas that the candidates handled well**

The areas that candidates handled reasonably well related to parts (a), (c) and (d). It was clear that candidates had a reasonable understanding of IFRS 2 as well as the taxation implications in connection with fringe benefits.

## PROFESSIONAL PAPER 3

**Paper 3** consisted of an integrated question with two parts that dealt with the following aspects:

### Part I

- (a) A discussion of any concerns the candidate may have with regard to a company's application of the principles and practices of the King IV Code™.
- Candidates had to limit their discussions to the information provided on governance structure in the scenario.
- (b) A discussion of any concerns relating to the recognition and measurement of the various elements regarding a specific accounting entry to account for the acquisition of the specified assets and liabilities of a large retailer.
- Candidates had to provide reasons to support their concerns as well as recommendations on how to correctly account for the matter.
  - The discussion had to be supported with calculations where appropriate.
  - Certain information and taxation could be ignored.
  - Candidates were not required to refer to the Conceptual Framework, re-calculate the goodwill/gain from a bargain purchase calculation, or provide correcting journal entries.

### Part II

- (c) An evaluation with comments on the PE valuation performed by the financial manager in determining the value of the retail company to be acquired.
- Candidates were not required to re-perform the calculations or the PE valuation.
- (d) Use of the free cash flow valuation method to estimate the equity value of the retailer as at the end of FY2018 as if the acquisition by the company had not taken place.
- Candidates had to provide the key assumptions used in performing the valuation.

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

## PAPER 3 PART 1

Maximum mark	Average mark	Marks > 50% (Pass)	Marks < 50% (Fail)
66	27,67	282 (18,15%)	1 272 (81,85%)

### 1 What general areas the question covered

#### Part (a)

A governance structure for Oneity Limited was provided, with some additional governance information. Candidates were required to discuss any concerns relating to the application of the principles of the King IV Code, limited to the governance information provided.

#### Part (b)

A journal entry to account for the acquisition of the assets and liabilities of UBA Limited was provided. Candidates were required to discuss, with reasons, any concerns relating to the journal entry and to also provide recommendations for any concerns identified. Excluded from the discussion were the effect of taxation and any reference to the Conceptual

Framework. A re-calculation of the goodwill / gain from bargain purchase and correcting journal entries were also specifically excluded.

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

### ***Part (a)***

Although disclosures were not provided, many candidates still discussed the disclosure requirements. Many candidates merely listed the theoretical requirements without applying it to the scenario, thereby showing theoretical knowledge without the necessary application, insight or higher order thinking. Very few candidates displayed that they understood the impact of the shortcomings beyond the obvious mistakes (i.e. with only eight members on the Board of which only one is independent, the structure of the Board as provided does not have enough qualifying members to fill all the positions of the prescribed committees).

### ***Part (b)***

Candidates generally did not illustrate an understanding and insight into IFRS 3. Many candidates lacked the ability to formulate their concerns, supported by reasons.

## **3 Common mistakes made by candidates**

### ***Part (a)***

Some candidates included a discussion of disclosure issues as well as Companies Act requirements, while this was not required. A lot of theory was dumped without it being relevant to the scenario. Candidates generally displayed bad exam technique by not planning their answers and often repeating certain points.

### ***Part (b)***

Candidates included a re-calculation of the goodwill / gain on bargain purchase and/or provided correcting journal entries, although this was specifically excluded in the required. The recognition of the patent, contingent liability, earn-out-bonus and goodwill were generally poorly discussed. The non-current assets held for sale was discussed in terms of the IFRS 5 and not in terms of IFRS 3. Theory without application to the scenario as well as concerns without a supporting reason were often provided, showing a lack of understanding by the candidates.

## **4 Areas that the candidates handled well**

### ***Part (a)***

Candidates generally listed the most obvious concerns fairly well. Composition of the Board and the requirement for the Chairman of the Board were generally dealt with well.

### ***Part (b)***

Candidates generally listed the most obvious concerns fairly well. Property, plant and equipment, investment property, the right of use asset and the lease liability were discussed in detail (although many times without the necessary supporting reasons).

## PAPER 3 PART II

Maximum mark	Average mark	Marks > 50% (Pass)	Marks < 50% (Fail)
34	13,72	343 (22,07%)	1 211 (77,93%)

### 1 What general areas the question covered

The question included a criticism and commentary on a PE based valuation, as well as the preparation and calculation of a free cash flow valuation. The free cash flow valuation is prepared from the cash flow information rather than the statement of financial position and statement of comprehensive income, which does make it slightly more challenging, as candidates are generally exposed to this method less, and it is more demanding to grasp the principles. This method is not new to the ITC, and candidates would have been exposed to the method in previous papers.

The questions therefore demanded a healthy mix of technical knowledge for both the discussion and calculation.

The question was integrated with an audit required focussing on King IV, as well as a financial accounting recognition and measurement question. This would have elevated the level of the question, as it includes 3 disciplines. Time would need to be assessed for the paper as a whole, although there is not necessarily a difficulty or time issue for the part II section.

The scenario is in the retail industry and was a fairly complex read overall. The scenario is structured with fairly complex information and intricate detail that students were required to navigate through to interpret and absorb. Scenario content for each required was not compartmentalised, and did overlap to an extent.

The discussion section of the question was considered to be relatively challenging, with the calculations more manageable, although candidates who were not comfortable with a cash flow valuation would have battled. The question has a good mixture of basic, intermediate and advanced marks. The information in the scenario was unambiguous and succinct.

Overall, we felt the question was well balanced, although rated on the moderate to difficult side, 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.

Candidates responses lacked technical depth and accuracy, and missed many of the basic fundamentals of valuation for both the PE based valuation, and the discounted cash flow.

Attempts were generally too short for both the parts of the question, where candidates either did not provide sufficient points to earn the marks available, or expressed themselves poorly in explaining the points identified although they were generally both attempted. Therefore in general insufficient points to mark to achieve a pass mark.

### 3 Common mistakes made by candidates

Candidates generally confused the principles between the two valuation models, which was deliberately included in the scenario, where a superficial understanding of valuations would be exposed.

Many candidates wasted much time working out actuals which was irrelevant to the question.

#### **4 Areas that the candidates handled well**

The core principles of the topics examined are generally introduced from undergraduate level, and are pervasive throughout the syllabus. Candidates generally understood that the selection of the PE ratio of Oneity should be interrogated, and adjusted the PE valuation for specific risks.

In the discounted cash flow, most candidates understood the need to adjust for finance costs, interest received and the lease costs, and for the most part included a tax effect.

Most candidates did apply present value principles in determining the value, and attempted a terminal value calculation.

The adjustments on the discounted cash flow for deducting the debt, adding excess cash, and adding dissimilar assets was often identified and included.

#### **5 Specific comments on sections of the question**

##### ***Part (c)***

The criticism of the PE valuation was poorly attempted, with most candidates not having a fundamental understanding of the mechanics of the model further than the adjustments for risk. The treatment of the shareholders loan for instance, which was irrelevant and should have been excluded, including that interest should have not been reversed, was not identified.

Candidates did not understand the different perspectives (buyer vs seller), together with related synergies and how to treat them in the model. The double counting of the synergies was generally not detected. There was also confusion about once off items, vs relevant costing, therefore mixing up the principles between a PE and cash flow based valuation.

The candidates attempts also did not reflect an understanding of the different multiple valuation methods, and related advantages and shortcoming (PE, EBITDA, etc).

##### ***Part (d)***

Candidates tried to force a profit number starting point, rather than using the cash flow information provided, which was not possible in this question. The cash flow information needed to be used, and was more appropriate to use. This showed a fundamental misunderstanding of the cash flow method.

Terminal value was attempted reasonably by some candidates, there were however a number of fundamental errors in the attempts, a calculation that should be well understood by candidates, as it appears in some form in virtually every ITC paper in recent years.

Candidates battled with the working capital adjustments, particularly those that did start with cash flow from operations, not understanding the structure of the cash flow statement from a presentation perspective.

The once off cost in the representative year was generally ignored or treated incorrectly, again a fairly straightforward consideration.

There was again evidence of the mixing of principles from the multiplier and discounted cash flow approaches, showing little understanding of valuations.

## PROFESSIONAL PAPER 4

This question consisted of an integrated question with two parts that dealt with the following aspects:

### Part I

- (a) A discussion, with regard to a facilitation fee of the R2 800 000 paid to a supplier (whose father is a major shareholder of one of the owners) and the VAT treatment on sales to a customer with a stated foreign address on the invoice, any concerns regarding the management of the company's ethical and corporate governance practices.
- (b) With reference to the background information and a workpaper containing a sample of trade receivables selected for detailed testing, candidates had to draft a memorandum to one of the owners in which they critically analysed the factors that influenced the effective management of company's working capital for FY2018. Candidates had to include recommendations to address the factors identified.
- (c) With reference to a workpaper on tax allowances for trade receivables, candidates had to advise one of the owners on the tax implications for the company for the 2018 and 2019 years of assessment. Advice had to be supported with calculations.

### Part II

- (d) With reference to the background information, planning notes on trade receivables and related items and a sample of trade receivables in a workpaper, candidates had to draft the substantive audit procedures required to verify the following balances to be disclosed in the financial statements of the company for FY2018:
  - (i) Allowance for credit losses; and
  - (ii) Gross trade receivables balance.
- (e) Candidates had to draft an email to the management of the company, to be reviewed by the audit partner, with reference to notes from a meeting with the company buyer, in which they had to –
  - discuss any internal control deficiencies in notes from a meeting with the company buyer (excluding a preferential procurement arrangement); and
  - comment on the potential impact of each of these deficiencies on the company.
- (f) With reference to the background information and planning notes on trade receivables and related items –
  - (i) a discussion of the factors that the candidate would consider when assessing the risk of material misstatement relating to the inappropriate use of the going concern basis of accounting in the 2018 annual financial statements of the company; and
  - (ii) a formulation of the substantive audit procedures that should be performed to respond to the assessed risk of material misstatement.

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

## PAPER 4 PART 1

Maximum mark	Average mark	Marks > 50% (Pass)	Marks < 50% (Fail)
42	21,83	960 (37,18%)	1 928 (62,82%)

### 1 What general areas the question covered

Part I of Question 4, dealing with ethics and corporate governance, working capital management and the taxation implications of bad debts and the allowance for credit losses, formed part of an integrated 100 mark question with auditing. Section I covered concerns regarding the companies ethical and corporate governance practices relating to a



million facilitation fee paid by a director to her father's company, as well as the incorrect charging of Vat to a foreign debtor so to overstate sales; a critical analysis of factors affecting working capital, together with recommendations to address the factors identified; and advice to the CEO on the taxation implications for the company for the 2018 and 2019 years of assessment per workpapers on the tax allowance for trade receivables, bad debts written off and allowances for credit losses. The advice should have been supported by calculations.

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

Candidates did not always apply themselves to the information of the scenario and its application to the required. This resulted in candidates often rewriting or restating the information of the scenario. This indicates a lack of critical thinking as well as poor examination technique.

## **3 Common mistakes made by candidates**

Again, candidates did not always apply the information of the scenario to answering the required. This specifically relates to part (a) dealing with ethical and governance aspects, as well as the critical analyses of the working capital in requirement b).

Candidates also did not specifically address the required of part (b), which was limited to the background information and a specific workpaper, and went on to discuss factors and information contained in two other memorandums, which did not form part of the scope of the required.

## **4 Areas that the candidates handled well**

Part (a) dealing with ethics and corporate was well answered, as well as part (c) dealing with the taxation of bad debts and allowances for credit losses.

## **5 Specific comments on sections of the question**

### ***Part (a)***

This section of the question required a discussion of concerns regarding the ethical and corporate governance practices of the dealings of the CEO and CFO. This required insight and critical thinking from candidates as well as practical application. Candidates did not always apply themselves to the scenario and information at hand, resulting in marks being lost.

### ***Part (b)***

This section dealing with working capital was not well answered, and candidates struggled overall with the application of the factors that influenced the effective management of working capital, and further the recommendations to address the factors.

Candidates who did not focus on the correct sections only and included information of two memorandums lost time and is evidence of poor examination technique.

### ***Part (c)***

This section required a discussion of the debtors in terms of section 11(i) and 11(j), as well as the VAT treatment in terms of section 22. Candidates who provided the discussions and supported this with their calculations did well in this section.

A number of candidates however did not distinguish between the different years, which resulted in marks being lost. Candidates also did not always articulate the application of the various taxation section well, which also resulted in them losing marks.

## PAPER 4 PART II

Maximum mark	Average mark	Marks > 50% (Pass)	Marks < 50% (Fail)
58	29,09	833 (46,79%)	1 633 (53,21%)

### 1 What general areas the question covered

The questions covered substantive procedures on the allowance for credit losses (and an understanding of IFRS 9), substantive procedures on trade receivables, control deficiencies and impact as well as the risk of material misstatements regarding the use of the going concern assumption of the client and related audit procedures to be performed regarding the going concern assumption.

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

Candidates struggled with the integration of IFRS 9 and auditing and the practical application of the standard for the audit of the allowance for credit losses. Candidates also feel short in the description of audit procedures to be substantively performed on the trade receivables balance, they did not focus on the information given and the sample that was already clearly selected in the working papers provided. Candidates focused on very broad and general audit procedures on trade receivables and often did not make it specific to the information provided in the scenario.

### 3 Common mistakes made by candidates

*Time management:* There was evidence of a time management issue in the question. A large number of candidates did not attempt parts of the question and there was evidence that some candidates attempted each section but did not have sufficient time to complete each required.

*Communication:* In general, the communication skills displayed by candidates was adequate. However, candidates battled with the appropriate wording of substantive procedures.

*Layout and presentation:* In general the layout and presentation of the candidates' responses was appropriate. Part (e) of the question required the candidates' to present their responses in an email format. Some candidates either did not present their answer in this format, or gave an inappropriate format. However, this was found to be the exception rather than the norm.

*Exam technique:* In certain of the responses, candidates displayed poor exam technique. For example, part (e) of the question required candidates to identify weakness in controls and discuss the impact of the weakness. Some candidates described recommendations to address the weakness rather than the impact due to possibly not reading the required properly.

### 4 Areas that the candidates handled well

Most Candidates were able to obtain the general audit procedures marks Marks in relation to the analytical procedures and mentioning the ratios were easy marks and most candidates did score on those marks

## 5 Specific comments on sections of the question

### **Part (d)(i) and part (d)(ii)**

Candidates' audit procedures were very weak and some candidates did not really state why they are trying to perform an audit procedure. Candidates only state 'ensure/verify' without actually stating how it should be performed. It is difficult to determine what they are trying to do.

Some candidates audited through 'enquiry/discussion' without indicating any source documentations for verifications. Some candidates went into a lot of detail to get an expert to audit for them and then considered all the aspects and wasted time. Candidates listed the theory of ISA540 without applying IFRS9 principles for the allowance of credit losses. It appeared that candidates did not know the IFRS9 principles for allowance for credit losses.

Candidates only used wording like 'supporting documentation' without knowing and stating what those documentation are. Candidates did not use the financial statement assertions as guidance and just dumped a lot of procedures. This resulted in a mashup of procedures which were sometimes difficult to follow and some even resulted in duplication which no additional marks could be awarded for.

Some candidates based their procedures on the working paper which was not included for the required and ended up not getting a lot of marks as it was irrelevant.

However the marks related to the discussion about IFRS 9 was poor and very generic as candidates only obtained 1 mark for discussing IFRS 9 and forfeited or lost more available marks because of the lack of audit procedures related to IFRS 9 or understanding IFRS 9.

Many of the candidates struggled and did not get the matching principle between source documents between the age analysis and the customer statements which was disappointing considering that the age analysis was mentioned in the scenario.

Most candidates obtained the easy marks relating to debtors confirmations however failed to do follow up procedures on discrepancies identified or for non-responses.

### **Part (e)**

Many candidates forgot to formulate an email, with various candidates writing memorandums and letters. Some candidates rewrote the scenario without explaining the weakness. This especially happened when candidates wrote their weakness in a positive format, which made it unclear as to what the weakness really was. Candidates did not limit themselves to the working papers listed and included weaknesses in the Debtors department as well. Candidates discussed all of the weaknesses on why there was a bribe although this was outside of the scope. A lot of candidates just listed weaknesses and directly after listed a few impacts. There was thus no link between the weakness and the impact which made it difficult to follow. In some cases these listed impacts were not in the same order as the listed weaknesses and the candidate couldn't be awarded all of the marks. Many candidates did not describe the impact and just used the words 'errors could occur' or 'fraud can take place' which was not awarded marks.

### **Part (f)(i)**

Candidates did not focus on going concern risks and included other factors like management's integrity for example. Most candidates listed theory from standards without applying their knowledge to the scenario at hand (theory dump – listing and no discussion). Linking to the above, most candidates wrote the first few answers (limit of overdraft being reached, poor working capital, applying for the increase in overdraft) which was clear from the first few paragraphs of the background information.

It was evident that candidates did not take the extra step of thinking and applying their mind to other things evident in the background information or the memo B (for example the weaknesses in procurement, going green, a lot of debtors not being recoverable, etc.).

**Part (f)(ii)**

Candidates wrote the theory from the textbook word for word without even trying to apply to the scenario at hand. Candidates only used wording like evaluate / analyse / etc. without stating how this should be done. Candidates wrote audit procedures to verify Debtors and Creditors (indicating that they may not understand the risk and problem with going concern). Candidates discussed the impact of the going concern on the audit report. Candidates listed the theory from ISA330.A1 (overall audit responses) although the required specifically ask for audit procedures.