



EXAMINERS COMMENTS

ASSESSMENT OF PROFESSIONAL COMPETENCE

December 2024

OBJECTIVES OF THIS REPORT

This report has been compiled from the analysis of examiners on candidates' performance in the Assessment of Professional Competence (APC), which is the second part of the SAICA qualifying examinations, and which was written in December 2024.

Its objectives are to –

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

To accomplish these objectives, the report provides specific comments on each of the case study tasks.

The APC consists of a single integrated case study which is based on a comprehensive real-life scenario and is multi-disciplinary in nature, in that it covers multiple competency areas.

The case study is assessed within the context of a certain baseline of technical competence (as developed through the academic programme and as assessed in both the academic programme and the IAC). The case study is also assessed within the context of any industry, including those that are specifically excluded from IAC.

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

- Background and acknowledgement on the setting of December 2024 APC
- Statistics and detailed comments by section/required

BACKGROUND ON THE SETTING OF THE DECEMBER 2024 APC

The APC Examinations Committee (APC Examco) constantly strives to improve its ability to determine whether candidates demonstrate professional competence at entry level into the CA(SA) profession. This is done by means of an ongoing process of evaluation and improvement of the way in which it commissions an appropriate case study for the assessment and decides on the evaluation of competence.

The APC Examco is a sub-committee of the SAICA Chartered Accountants Professional Development Committee (CAPD Committee) and takes overall responsibility for the setting of the case study.

The APC Examco decides on the industry, scenario and topics to be examined and also commissions a separate setting team, who are specialists in their respective competency area(s) and who have a good understanding of the other competency areas, to draft an appropriate case study and solution for the assessment.

The team consists of academics and members of the profession in public practice and/or in commerce, industry and public sector.

Academics, former academics and/or members of the profession in public practice and/or in commerce, industry and public sector are also selected by Examco each year to assist in the external review of the case study. These external reviewers are selected based on their experience and ability. Anyone involved in the professional programmes may not be engaged by SAICA to perform the role of external reviewer.

The involvement of such individuals as external reviewers in the assessment setting and review process is crucial for achieving the quality objective of the assessment.

Where appropriate and where possible, external reviewers are appointed for a period of at least three years as continuity is important.

The external reviewers have the following tasks:

- Reviewing the case study for conceptual problems and consistency in the use of terminology;
- Indicating whether the case study is set at an appropriate level;
- Commenting on whether the level of competence in accounting and external reporting (underpinned by the pervasive skills) is set at an appropriate level;
- Commenting on whether a minimum level of competence in the remaining five specific technical competence areas and communication skills is set at an appropriate level;
- Commenting on the provisional mark grid;
- Commenting on whether the time limit is appropriate (assessment can reasonably be completed within a six-hour period, including reading time); and
- Commenting on whether the principles of assessment have been met.

COMMENTARY ON CANDIDATES' PERFORMANCE IN THE DECEMBER 2024 APC

Task (a)

Competence area	APC 2024 candidate results		
	Not competent	Borderline	Competent
Audit	27,04%	38,63%	34,33%

Pre-release information: Document 3, document 4 and document 5

Information on the day: Document A

Task: Respond to Cheswill Moos' email regarding the procedures that will provide the required assurance on the revenue component of Café Rapide's EBITDA for its FY2024 by –

- identifying and explaining any concerns you have with the procedures proposed by Tom Moos; and
- proposing any additional procedures that should be performed to ensure that the revenue component of Café Rapide's EBITDA is not overstated.

Pre-release information

This task was triggered by the following aspects in the pre-release information:

Renovare audit procedures

An email was sent to the financial analyst (i.e., the candidate), instructing them to prepare audit procedures for purposes of auditing Renovare's revenue. This required candidates to gain an understanding of revenue (i.e. IFRS 15 considerations) and how to formulate relevant assurance procedures. In preparing for this trigger, candidates would have been able to design appropriate procedures to address the risk of misstatement, whether it be overstatement or understatement.

Cafe Rapide EBITDA (revenue)

The case study explicitly stated that Cafe Rapide's revenue model is complex and provided some details regarding its contract and revenue terms, including an upfront payment of R1,1million and a franchise agreement spanning five years. This should have prompted candidates to analyse the revenue model and consider its revenue accounting treatment to understand Café Rapide's business model.

Additionally, the case study indicated that assurance on Cafe Rapide's EBITDA might be required to confirm that it is not overstated. This required candidates to evaluate how assurance could be provided over EBITDA, which includes revenue considerations.

Information on the day

On the day of the assessment, additional details were provided regarding Cafe Rapide's revenue. This included the revenue breakdown, amortisation, terminations, rebate revenue, and the fact that franchisees were not aware of the rebate agreement.

Comprehensive information was provided to the financial analyst to clarify how revenue is accounted for at Café Rapide. The intention was that this information serve as a guide to candidates for identifying potential areas of concern or opportunities for the overstatement of revenue. Additionally, candidates should have identified that there are various categories of revenue, that are different in nature – and that would accordingly require different tests for overstatement.

Candidates were also provided with a set of procedures categorised according to the different revenue streams. These are procedures that Tom (a university student) suggested could be performed to test Café Rapid's revenue for overstatement. This was the core of the task, which required candidates to evaluate the procedures for appropriateness and suggest additional procedures.

The level of difficulty of this task was assessed as moderate to difficult because candidates had to review procedures that were provided on the day, and because the task focussed on Café Rapide rather than Renovare. Although both entities were triggered, the revenue trigger for Renovare was more direct.

A competent candidate in this task provided valid and technically sound comments on the procedures suggested by Tom as well as additional procedures that addressed the overstatement of revenue, with reasonable coverage of the various revenue categories. These included amongst others the following:

- Identifying that the procedures suggested were not going to sufficiently address the risk of overstatement of revenue, with some of the procedures being inappropriate (e.g., addressing the risk of understatement instead) and some providing insufficient evidence (such as inquiry alone).
- Questioning the validity of the franchise agreements, termination agreements and rebate agreements.
- Questioning the revenue allocation/recognition basis for the R600 000 (60:10:10:10:10), and whether it was aligned with the pattern in which performance obligations were fulfilled, per the requirements of IFRS 15.
- Questioning the accelerated revenue recognition on terminations and formulating appropriate procedures.
- Identifying that renewals would impact the amortisation period and formulating appropriate procedures to address this aspect.
- Recognising that there potentially was a financing component (time value of money): payment is received upfront, yet the related services are rendered over a five-year period. This aspect was not addressed by the procedures that were suggested in the information.

Candidates generally faced challenges with the following:

- Concerns were not always well articulated;
- Some of the procedures were not well formulated, lacking clarity;
- Some of the responses tended to be a laundry list of procedures (including procedures that dealt with understatement even though the task clearly triggered overstatement);
- Insufficient coverage of the various revenue categories; and
- Cut-off procedures that were technically incorrect (procedures based on agreement date instead of the fulfilment of performance obligations).

Overall, candidates seem to have been challenged by the task, with discussions lacking depth and sufficient application of the information provided. Some candidates went as far as discussing whether Café Rapid was even legally required to be audited – which demonstrated a lack of understanding of the task.

Nevertheless, there were candidates who demonstrated a good understanding of the task and provided sufficient valid and critically thought-through concerns and additional procedures.

Task (b)

Competence area	APC 2024 candidate results		
	Not competent	Borderline	Competent
Accounting	21%	32,89%	46,1%

Pre-release information: Document 4

Information on the day: Document B

Task: Prepare a response to Phumzile Teke-Dlamini to provide her with the following:

- Feedback on the journal entries Gill prepared for Leopardis in which you identify and briefly explain any potential errors and omissions; and
- The pro-forma consolidation journal entries that Leopardis should prepare in respect of the acquisition of Café Rapide.

Pre-release information

The concept of business combinations from an accounting perspective was strongly triggered in the pre-release information. There were triggers in document 4 (page 15), which provided the explanation that Leopardis signed an agreement to acquire 55% of Café Rapide shareholding on the last day of the financial reporting period. In addition, issues relating to unrecognised intangibles, that is, the contract with Bazam and the franchise agreement, the founders of Café Rapide, and the deferred and contingent consideration were triggered. Candidates were prompted to consider the accounting implications of this acquisition in Leopardis and the Moos Family Trust financial records. The pre-release information therefore strongly triggered the following from an accounting perspective: IFRS 10, IFRS 3, IFRS 9 and IFRS 13.

Information on the day

On the day, candidates were presented with an email from Phumzile Teke-Dlamini requesting a review of the journal entry provided and the preparation of pro forma journal entries from the Moos Family Trust perspective. The review of the journal entries specifically required the candidates to discuss potential errors and omissions.

The level of difficulty of this task was assessed as moderate to difficult because candidates had to demonstrate the ability to adapt to additional information that was provided on the day of the assessment. Candidates had to demonstrate the pervasive skill of being able to evaluate information (i.e., being able to work through the journal entries and the given fair value calculation in a systematic, analytical and critical manner) and to then respond in an appropriate and professional way to Phumzile Teke-Dlamini's request.

Candidates could have used the pre-researched IFRS 9 and IFRS 3 knowledge to assist in the review of the journal entries. Most candidates who were able to address issues such as the day 1 gain/loss given in the additional information on the day, which demonstrated the ability to adapt and apply themselves to the information.

A competent candidate in this task would have provided valid and technically sound comments with reasonable coverage of the potential issues in the journal entries and the fair value

calculation that was provided. In addition, candidates had to provide an appropriate pro forma journal entry for the consolidation and were expected to support the pro forma journal entries with a discussion on aspects subject to uncertainty. For example, with the contract with Bazam/franchise agreement.

The following were some of the potential errors and omissions in the fair value calculation and the journal entry on which candidates could comment:

- The financial asset had to be recognised in terms of IFRS 9 at fair value, thus R36 960 000 (R672 x 55 000 shares).
- The undervaluation of the property/founding member expertise should not have been included in the fair value for IFRS 9 purposes because it would have already been considered in the earnings multiple valuation.
- Transaction costs (legal and due diligence) were incorrectly included in the value of the assets and should have been expended rather than capitalised, as the investment was classified as fair value through profit or loss.
- Discounting versus not discounting the deferred consideration of R26m due to materiality.
- Inappropriate use of the amount of R10 615 000 versus the R7 million as the fair value provided by the expert.
- Discounting of the R7 million because the payment would only occur in 2027.
- Inappropriate inclusion of the gain on bargain purchase (IFRS 3 concept and principle). Rather a day 1 gain should have been recognised and reasons for the inclusion should have been provided.

As it relates to the pro forma journal entries:

- Elimination of the NAV at acquisition and investment in Café Rapid.
- The undervaluation of the property adjustment.
- Recognition of the Café Rapid brand.
- Recognition of the NCI and goodwill/gain on bargain purchase.
- Elimination of the investment in Café Rapide and the day 1 gain/loss.
- Discussion that there should be no adjustment to the pro forma entries with regard to the founding members, as there was no control over the individuals.

Other insightful questions and/or comments that could have been made:

- Considering whether a portion of the consideration transferred related to a post-acquisition expense (salaries), as it relates to the founding members.
- Recognition of the day 1 gain in the SFP, supported with reasons.
- Contracts with Bazam and the franchisees.

Most candidates displayed a good understanding of the technical aspects encompassed in this task and also managed to raise valid comments in an appropriate and professional manner. However, despite this task being strongly triggered, and considering the vast number of comments that could have been raised by candidates, a concerning number of candidates failed to provide the necessary coverage of valid issues. Candidates also failed to display the necessary application of pre-researched technical knowledge to the case study based on the information provided on the day.

Task (c)

Competence area	APC 2024 candidate results		
	Not competent	Borderline	Competent
Management Accounting and Finance	21,6%	34,7%	43,7%

Pre-release information: Document 4

Information on the day: Documents A, document C

Task: Respond to Cheswill Moos' email regarding the sustainability of Café Rapide's business model and its future revenue streams, and the communication by Leopardis regarding its investment in Café Rapide to Weetland.

Pre-release information

This was a well-triggered strategy task set out in document 4 (page 15), Leopardis signed an agreement to acquire 55% of Café Rapide's shareholding on the last day of the financial reporting period. The document details the acquisition terms and conditions of sale as well as background on Café Rapide's operations, performance, the pricing strategy, supplier relationships and other relevant business arrangements. Additionally, page 17 highlights that due to the shareholding acquired, the investment holdings would have board representation, with two directors expected to be nominated to serve on the board of the investee company. The anticipation was that these board members would add value, and as a result candidates should have begun to formulate strategic recommendations for improving profitability and ensuring long-term sustainability.

Given this context, it was evident that candidates were required as a minimum to undertake research in the following areas: valuation techniques, strategic considerations, funding options, improvements to profitability and long-term sustainability.

Information on the day

On the day candidates were presented with the email from Phumzile Teke-Dlamini providing additional details regarding the acquisition process and how it was executed. In her communication, Phumzile requested candidates to identify any concerns they had regarding the business, particularly revenue-related concerns and overall sustainability of the business model. In addition, she noted that there was another investee company in the group, namely Weetland, that also operated in the coffee industry. Weetland had not yet been informed about the Café Rapide investment. She therefore sought guidance on how to effectively communicate this investment as well as recommendations on how to highlight the potential benefits of integrating Café Rapide into the portfolio.

The level of difficulty of this task was assessed as moderate to difficult, primarily because the information was provided in different documents within both the pre-release material and the information on the day.

Candidates who performed exceptionally well were those who –

- demonstrated that they had conducted thorough industry research relating to the business model of franchise operations and then used that as a backdrop for a comparison between

- such franchises and Cafe Rapide or to critique the Cafe Rapide business model;
- were able to combine the pre-release insights with the new information on the day – for example the 62 stores that were open (pre-release) and that 14 stores had been closed in the last year (information on the day) – to raise the concern around the high closure rate; and
- identified shortcomings of the business model, particularly in relation to sustainability, for example the mismatch between the once-off cash flow and the ongoing costs.

In addition, a lot of information was provided in both the pre-release and information on the day to enable candidates to not only identify key issues that could threaten the sustainability of this business model but also other concerns, such as ethics, supplier constraints and reliability of financial information. While the task was well structured, the information was provided in different documents, requiring candidates to synthesise details from multiple sources to form a cohesive analysis.

The additional requirement to communicate the upside of the investment to the other investee company should not have posed a significant challenge, despite being introduced on the day. There were clear strategic opportunities within the scenario – such as cost savings from the same supplier – that could have been leveraged to highlight the benefits of this investment.

Potential omissions/ errors noted in the responses:

- Candidates did not question whether the company-owned or franchise-operated model was the best business model and which of the two was more sustainable in the longer term;
- Generic sustainability/revenue issues were raised without linking them back to the information provided in the scenario, for example the inflationary increase in the fee without demonstrating an understanding the fee structure;
- Candidates who focused on inflation misinterpreted the pricing dynamics/constraints and therefore failed to recognise that products with different costs still had the same selling price;
- a failure to identify mismatched cash flows as a result of the business model (the once-off fee received versus the ongoing costs of supporting the franchisees and the rebate revenue being less than the actual cost);
- Candidates failed to recognise the possible saturation after 200 stores had been opened and that no additional revenue would be earned;
- Candidates missed, and therefore did not discuss, the undisclosed rebate fee as an ethical concern;
- Repetition of the same consideration – candidates repeatedly referenced the once-off franchise fee shortfall without linking it to broader financial considerations such as cost matching, ongoing support and the long-term financial impact;
- Candidates addressed aspects that were not relevant to this task, for example discussing insider trading and making inappropriate accusations regarding management;
- Obvious concerns such as the renewal at no cost and unaudited financial information were not considered; and
- With regard to the communication to the investee company, some responses focused solely on the negatives of the arrangement rather than the 'upside' as required by the task.

Several candidates demonstrated a strong understanding of the requirements and demonstrated that they had conducted thorough research of the business model and sustainable revenue streams. Most candidates successfully identified the potential negative aspects of the initial once-off fee. Additionally, key factors such as the reliance on the opening of stores to ensure ongoing revenue were identified. The fact that the quality and consistency of the non-coffee items could be of concern was also noted by many candidates. Candidates also questioned closure of stores due to profitability concerns and effectively communicated insights to the investee company, highlighting key positives.

Task (d)

Competence area	APC 2024 candidate results		
	Not competent	Borderline	Competent
Tax and Management Accounting and Finance	40,44%	34,26%	25,31%

Pre-release information: Document 6

Information on the day: Document D

Task: Respond to Cheswill Moos' email regarding the proposed capital raising initiative and Belinda's email to him (containing proposed details of REIFSA's potential investment in Leopardis). In particular –

- briefly comment on any income tax implications for Leopardis, should it issue the convertible debentures (comment on the implications from when they are issued until they are converted);
- briefly comment on the income tax implications for Leopardis with regard to the proposed preference shares. Also, whether Leopardis would have to withhold dividends tax on the preference share dividends paid given that REIFSA is a business trust; and
- critically analyse and compare the funding proposals and indicate, with reasons, which alternative is more attractive for Leopardis at this stage.

Pre-release information

Candidates were provided with an email from the CEO indicating that Leopardis needed to raise capital to fund the 55% acquisition of Café Rapide. However, the CEO wished to explore different funding options, which entailed raising R50 million in capital to be available over the next 24 months. Candidates were requested to research the possible funding alternatives of convertible debentures and preference shares and were explicitly told that the tax implications could be complicated.

Information on the day

Candidates were presented with additional information in an email from the CEO. The email contained a forwarded email from the CEO of REIFSA. This second email provided further details of the two funding options, namely the convertible debentures and redeemable preferences shares.

The details of the two funding options can be summarised as follows:

Alternative A: Convertible debentures

- REIFSA would subscribe at the total principal value of R50 million; the coupon rate would be 12% (higher than the current market-related interest paid on similar debentures of 10%).
- The conversion premium of 50% was higher than the most recent issue price.
- The convertible debentures would be automatically convertible into 333 333 Leopardis ordinary shares five years after the issue date of the debentures. The implied conversion price per Leopardis ordinary share was R150 each (R50 million in total).

Alternative B: Redeemable preference shares

- REIFSA would subscribe for the preference shares for a total consideration of R30 million (the fair value).
- Leopardis would pay cumulative dividends of 10% per annum.
- Leopardis would be obliged to redeem the shares four years after the issue date at face value.

The task was considered moderate to difficult and viewed to be appropriately and adequately triggered. The information was presented in a clear and structured manner. The technical tax sections combined with the integration with MAF added to the complexity of the task.

A competent response addressed all aspects of the task. These aspects included the income tax consequences of both funding instruments, the dividend withholding tax, a critical analysis of the two instruments and a reasoned conclusion as to which of the two instruments was the more feasible funding mechanism to use. In order to demonstrate competence, candidates had to provide adequate coverage of the issues in both parts of the task.

From an income tax perspective, a competent response would be one in which the candidate considered whether the instruments qualified as hybrid instruments in terms of section 8F for the convertible debentures (hybrid debt instruments) and section 8E for the redeemable preference shares (hybrid equity instruments). The discussion of the income tax implications would then have followed with the conclusion on whether the convertible debentures were hybrid debt instruments or not.

For the convertible debentures, candidates were expected to address the following in their responses:

- They had to question whether the current fair value of the shares plus the implied conversion premium were equal to the market value of the shares at the date of conversion.
- If the market value of the shares at the date of conversion was equal to the outstanding debt, the convertible debentures were not deemed to be a hybrid debt instrument. However, if it was not equal to the market value, the convertible debentures were considered to be a hybrid debt instrument. This determination would drive the normal tax implications.
- If the convertible debentures were not deemed to be a hybrid debt instrument, the normal tax implications were as follows:
 - There would be no deduction of the interest expense in terms of section 24J, as interest would not be incurred in the production of income. This is because the funding is used to purchase shares, which gives rise to dividends, which are exempt for normal tax purposes, and section 23(f) prohibits the deduction of expenses, which gives rise to amounts that are exempt from income.
 - The provisions of section 24O, which may deem the interest to be in the production of

income, would not be applicable, as only 55% of the equity shares were acquired in Café Rapide, which is less than the 70% requirement of section 24O.

- If the convertible debentures were deemed to be a hybrid instrument, the normal tax implications would be as follows:
 - The interest is a dividend in specie.
 - Leopardis incurs the dividends tax liability.
 - In cases where candidates concluded that the convertible debentures were a hybrid debt instrument, most were able to identify the dividend in specie and that Leopardis incurred the dividends tax liability.

Most of the responses did not adequately address why the convertible debentures were hybrid debt instruments or not. Candidates would simply state whether it is a hybrid debt instrument or not. Where candidates concluded that it was not a hybrid debt instrument, some did not consider that the interest expense relates to exempt dividends being received and, therefore, not incurred in the production of income.

For the redeemable preference shares, candidates were expected to address the following in their responses:

- The redeemable preference shares were not considered to be hybrid equity instruments, as they were redeemed after four years, not within three years in terms of section 8E
- There was a dividend withholding tax on the dividend to be paid to REIFSA.

Many candidates were able to identify that there would be dividend withholding tax on the dividend paid to REIFSA. Several candidates did not consider the redemption period to determine whether the redeemable preference shares were hybrid equity instruments.

Some candidates incorrectly stated that REIFSA was deemed to be a company as they were trading, and therefore REIFSA would be exempt from dividend withholding tax. Some candidates incorrectly stated that REIFSA was exempt from dividend withholding tax in terms of section 64F(1)(d) as REIFSA was a trust. However, this exemption applies to rehabilitation trusts as contemplated in section 37A. REIFSA did not meet these requirements, as it was not a closure rehabilitation trust.

With respect to both the convertible debentures and preference shares, the task required candidates to address the normal tax consequences from the date of issue until the instrument was converted or redeemed.

Therefore, candidates were expected to address the following in their responses:

- At issue, no amount would be included in gross income, as it is capital in nature.
- At issue or redemption of the preference shares, there would be no disposal.
- At the conversion of the debentures into ordinary shares, there would be no taxable event.
- The issue of shares would not give rise to an expense.
- Any transaction cost or fees would not be deductible, as it is capital in nature.

Candidates generally performed well in their responses to this part of the income tax implications. There were instances where responses lacked a brief reason as to why an amount was not gross income or why there were no tax implications.

The third part of the task required candidates to critically analyse the funding proposals from Leopardis' perspective and indicate with reasons which alternative was more attractive at that stage.

Therefore, candidates were expected to address the following in their responses:

- Capital raise: The convertible debentures provide the R50 million capital required, whereas the preference shares only provide R30 million capital.
- Cost of the instrument: Where the convertible debentures were considered not to be a hybrid debt instrument, the after-tax cost is 12%, while if the convertible debentures were considered to be a hybrid debt instrument, the after-tax cost at maximum would be 14.4% (being 12% p.a. plus the 20% DWT payable by Leopardis on the dividend in specie).
- Liquidity (settlement of outstanding capital): There was no implication for the compulsory conversion of the convertible debentures after five years. In contrast, the redeemable preference shares would require a cash outflow of R30 million. Given Leopardis' business model, they might not have the cash to settle this amount.
- Dilution effect: The convertible debentures will dilute the existing shareholdings at conversion as this entailed a mandatory/compulsory conversion, while the redeemable preference shares will have no dilution effect as it is redeemed.
- Interest rate risk: The convertible debentures are to be issued at a 12% fixed rate. This would give rise to an interest rate risk when the market rates decrease, which would be the case at present given the current interest rate environment.
- Resulting from the candidate's discussion above, the candidate would have reached a conclusion as to which of the two instruments would be the more feasible.

Candidates who critically analysed the instruments were able to adequately address the capital raise, liquidity and dilution effect. However, many of the responses were poor, as candidates only provided the terms of the instruments as indicated in the information on the day. Alternatively, responses addressed the pros and cons of the two instruments or would explain how each instrument functions without applying their discussions to the information provided in the case study. Many candidates failed to adequately address the after-tax cost of the instruments. In other words, the conclusion on the income tax implications was not followed through when considering the after-tax cost.

Overall, most candidates displayed limited competence in this task. This was largely due to the integrated nature of this task and an inability to competently address the income tax implications. Further, the responses to the MAF component of the task lacked critical analysis, as explained above. Candidates often did not see that in critically analysing the two instruments, one would have needed to weigh the two instruments up against each other.

Task (e)

Competence area	APC 2024 candidate results		
	Not competent	Borderline	Competent
Tax	27,83%	28,54%	43,63%

Pre-release information: Document 8, document 3

Information on the day: Document E

Task: Respond to Phumzile Teke-Dlamini's email regarding the VAT implications of the SaaS agreements and Lerato Molote's email to her. Review and provide feedback to Lerato Molote on whether –

- she has correctly accounted for the VAT on each of the items / components outlined in her email; and
- it would be possible to submit corrections to the filed VAT returns in the event that there were errors based on Lerato Molote's calculations. Keep your feedback brief.

Pre-release information

Document 8 related to an email from the CIO indicating that Renovare needed assistance with the tax and VAT implications of the SaaS agreements and was unsure if corrections needed to be made to the tax. This email referred the candidates to a previous email (document 3) in which the details of the SaaS agreements detailing rental package information, were documented.

The email from the CIO asked the candidates to consider the tax implications of the SaaS agreements because Renovare (the investee) required assistance with the tax (and VAT) implications of these agreements. Renovare was uncertain if it had been correctly accounting for the tax on these transactions or if corrections needed to be made.

Relevant information from document 3 indicated that Renovare started providing the Solar as a service (SaaS) rental package early in 2024. These agreements were for a three-year period, in terms of which customers pay a monthly rental fee to Renovare. Renovare was responsible for installing, repairing and maintaining the solar equipment. At the end of the three-year period, the equipment would be returned to Renovare. Attached to this email was a spreadsheet showing the typical cash flows that would take place between Renovare and the customer over three years, and VAT is shown as zero.

Information on the day

Document E was an email from the CIO specifying that Renovare only needed assistance with VAT and a correction of previously submitted VAT returns. The CIO's email included an email from the Renovare financial manager that consisted of seven items.

In this email candidates were asked to briefly respond to the question of whether Renovare would be able to adjust the previously submitted VAT returns.

The email from the financial manager confirms that she was focusing on the VAT effects of the SaaS agreements and stated that she would appreciate it if someone could 'check her logic' and advise if she had been calculating the VAT on each item correctly. She then provided a table with specific items and explained how she treated each item for VAT purposes. The items include the monthly rent charged to customers, maintenance and repairs, purchase of solar equipment (from VAT vendors, non-VAT vendors and imported), insurance premiums and an insurance payout on solar equipment.

Candidates had to review the VAT treatment on each item and provide feedback to the financial manager on whether she had correctly accounted for VAT and whether it would be possible to submit corrections to previously filed VAT returns if there were any errors.

The task was considered moderate to difficult and sufficiently triggered because all items, apart from the insurance premium and payout, were triggered in the pre-release information.

For the monthly rent charged to customers, the financial manager indicated that there was no output VAT charged because it had all been levied and paid on the date of installation. This was clearly an issue in how she interpreted the SaaS agreements for VAT purposes: levying VAT upfront on the installation date indicates that she had treated the agreements as instalment credit agreements (ICAs) for VAT purposes. However, from the given facts, the SaaS agreements were not ICAs because the ownership of the solar equipment does not pass from Renovare to the customer but is returned after three years (therefore not a suspensive sale). Furthermore, Renovare (the lessor) is responsible for all risks of ownership, including insurance, without any reimbursement of this cost by the customer.

Competent candidates were those who were able to indicate that the financial manager's VAT treatment was incorrect because these were not ICAs (or that these were rental agreements). Therefore, VAT should be levied monthly because the time of supply is the earlier of when the monthly payment is due or the date in which a payment is received from the customer. Candidates who did not do well here either incorrectly assumed that the financial manager had not charged any output VAT on the rental payments and therefore focussed on the fact that VAT should be charged as the solar equipment is a taxable supply, or they used financial reporting principles instead of VAT principles to justify the VAT treatment (e.g., arguing that these were operating leases/finance leases).

For the maintenance and repairs, the financial manager indicated that she had claimed input VAT on the cost of the services supplied and invoiced by third parties. A competent response would indicate that this treatment is correct, provided that the suppliers were registered VAT vendors. Alternatively, Renovare would be required to be in possession of valid documentation in terms of the VAT Act in order to be able to claim the input VAT. Some candidates simply stated that this treatment was correct without considering the other requirements that would enable Renovare to claim the input VAT without being challenged by SARS. This was not considered a competent response as it did not provide sufficient guidance to the financial manager.

For the purchases from VAT vendors, the financial manager's VAT treatment was correct, and candidates were expected to identify that Renovare needed to be in possession of a valid VAT invoice to claim the input VAT. For the purchases from non-VAT vendors, the financial manager's treatment was correct provided that the requirements for claiming notional input VAT were met, that is, the equipment was second-hand (previously owned and used) and not new.

For the imported equipment, the financial manager's treatment was incorrect because Renovare could claim the input VAT since it was using the equipment to make taxable supplies (i.e., rental agreements).

Most candidates did not do well with the VAT consequences on the purchase transactions. They failed to indicate that Renovare needed valid documentation or indicated that input VAT could not be claimed if output was not charged in relation to the purchase from non-VAT vendors, without considering that it was possible to claim input VAT if the equipment was second-hand. And for the imports, most of the discussions centred around how the input VAT claim would be measured or calculated without stating the VAT principle that would enable Renovare to claim the input VAT.

The financial manager's treatment of the insurance premium was incorrect because only premiums on life insurance (or long-term insurance) are an exempt supply. Therefore, the insurance on the solar equipment was a taxable supply. Output VAT would have been levied by the insurer on the insurance premiums, so Renovare would be able to claim input VAT. A competent response addressed any of these by indicating that insurance premium was not exempt, or not a financial service or that it was a taxable supply. Candidates who did not do well with this transaction either failed to clearly state that the treatment by the financial manager was incorrect or were unable to identify that the insurance is a taxable supply.

The financial manager's treatment of the insurance payouts is also incorrect as Renovare would be liable for the output VAT because the insurance payout is a deemed supply since Renovare is using the equipment in the carrying on of an enterprise. A competent response addressed these principles by indicating that the payout was a deemed supply and therefore would attract output VAT. Some candidates who did not get this right confused input and output by stating that Renovare would be able to claim input VAT after identifying that the payout was a deemed supply.

Overall, for this part, competent candidates were able to indicate the reason why the financial managers' treatment was incorrect and where it was correct, they picked up on factors that needed to be in place to comply with the VAT Act, such as the need for a valid tax invoice. Candidates who did not support their discussion with principles from the VAT Act or contradicted themselves did poorly in this task.

As far as correcting previously submitted returns are concerned, candidates were expected to indicate that this could be achieved by requesting a correction (on eFiling) or by lodging a notice of objection. Candidates who were able to indicate further that any additional input VAT claims could not be adjusted retrospectively but had to be claimed in the next tax period were considered to show higher levels of application. Where candidates discussed that Renovare could embark on the voluntary disclosure programme (VDP), they were expected to state that they were assuming that the output VAT adjustments would exceed the input VAT adjustments, leading to a net VAT liability. Renovare would not be able to apply for VDP if SARS owed it a refund. Most candidates handled this part of the task well. Those who did not simply failed to answer the question posed in the task and rather addressed other issues that were not relevant, such as onus of proof.

Task (f)

Competence area	APC 2024 candidate results		
	Not competent	Borderline	Competent
Management Accounting and Finance	7,45%	24,03%	68,52%

Pre-release information: Document 7

Information on the day: Document F

Task: Respond to Phumzile Teke-Dlamini's email regarding the key risks facing Renovare, by –

- documenting the risk-mitigating techniques that Renovare should employ for each of the four key risks identified by Phumzile; and
- describing four key risks that Renovare faces in addition to those listed by Phumzile.

Pre-release information

This was a well-triggered risk management task that effectively built upon the information provided in the pre-release period. As outlined in document 7 (page 20), Phumzile, the CIO, serves as a board representative at the investee company, Renovare. During a recent board meeting, discussions centred around the adequacy of the company's risk register, leading to a resolution to establish a risk committee and assess the key risks facing the entity.

Information of the day

In the information of the day candidates received an email from the CIO highlighting four specific risks requiring mitigation strategies. The CIO also requested the identification of four additional key risks relevant to the entity, which operates as a solar solutions company.

Given this context, candidates were expected to anticipate and evaluate potential risks the company may face in preparation for the meeting of the Risk Committee. This approach aimed to ensure a comprehensive assessment of risk management adequacy at the board level.

The level of difficulty of this task was assessed as easy to moderate. It was a clearly triggered, structured task, with sufficient information in the pre-release information on the company to enable candidates to identify relevant risks. Candidates should have leveraged the nature of the entity to anticipate potential risks as part of their preparation for the APC. The task was well-structured with clearly outlined expectations, with no ambiguity. Candidates who performed well were those who had thoroughly researched potential risks within the solar solutions industry. Though the mitigating strategies were a 'twist' on the day of the assessment, the risks that needed to be identified for mitigation were not difficult to determine and candidates who thought outside the box were better able to propose effective mitigation strategies.

Potential omissions/errors noted in the responses:

- Failing to provide valid mitigation techniques.
- Not identifying a viable strategy(ies) for Renovare to mitigate risk 3 (competition);

- Risk 4 (tariffs) was misinterpreted as an exchange rate risk or some candidates suggested that equipment should be imported from other countries, thereby failing to recognise that tariffs may still be applicable;
- Identification of generic or non-key additional risks that were unclear and not directly applied to the case study or industry, for example that the industry was heavily regulated without providing specifics or applying this to the scenario;
- Repetition of risks already identified, incorrectly classifying them as ‘additional risks’; and/or
- Failure to identify four key additional risks – some candidates listed generic, controllable risks such as poor corporate governance.

Most candidates demonstrated a high level of proficiency and understanding of the required in completing this task, showcasing thorough research of the risks faced by the solar solutions company. Most candidates effectively mitigated the risks, particularly risk 1 (credit risk), and risk 2 (sub-optimal installation). In addition, the majority of the candidates were able to identify and discuss at least two additional risks apart from those highlighted by the CIO.

Task (g)

Competence area	APC 2024 candidate results		
	Not competent	Borderline	Competent
Ethics and Strategy	15,4%	38,5%	45,1%

Pre-release information: None

Information on the day: Document G

Task: Respond to Jandri's email, by –

- advising on the possible implications that the information discovered by Jandri may have on Zlisk and Leopardis;
- suggesting what actions Leopardis could take now that it is aware of Seal's disclosures and the news article; and
- explaining two things Leopardis got right and two things the company needs to work on in terms of creating sustainable wealth and making a meaningful difference in the South African society.

Pre-release information

This task was not triggered in the pre-release, which is usually the case with ethics tasks. However, it was important for candidates to take note of the statement in document 1 under the 'About us' section of the website content: 'The vision of Leopardis is to create wealth by making a deep and meaningful difference to our stakeholders all over South Africa over the long term.' This section was incorporated into the third aspect of task (g) where candidates had to specifically discuss two things that Leopardis got right and two things the company needed to work on in terms of creating sustainable wealth and making a meaningful difference in the South African society. It is acceptable that the first and second aspects of the task were not triggered in the pre-release information, in view of its nature (ethics).

Information on the day

Document G presented candidates with an ethical matter relating to Seal McKenzie (who is the CEO and also a 25% shareholder of Zlisk). Zlisk is an investee of Leopardis (35% shareholding interest). The CEO was implicated in irregular activities in which his personal company was engaged. Although these are activities that had taken place more than four years previously and probably even before the CEO was appointed by Zlisk, the fact that the matter was now in the public domain could have several implications for Zlisk and other stakeholders (shareholders, funders, etc.). This was the core of the task.

The task required candidates to provide possible implications for Zlisk and Leopardis. The task also required candidates to consider the matter from the perspective of Leopardis as an investor in Zlisk and provide possible actions that Leopardis as a shareholder with significant influence (35% shareholding interest) could take about the matter. Lastly, the task required candidates to critically analyse the manner in which Leopardis conducts its business and contrast this to the entity's vision statement, namely, to create wealth by making a deep and meaningful difference to stakeholders all over South Africa over the long term.

In answering the task, candidates needed to think critically about the risk of association (i.e., Zlisk's connection to Seal as the CEO and Leopardis' association with Zlisk as an investee). The historic activities in which the CEO was implicated could raise questions and concerns about his current conduct and dealings within Zlisk. These could negatively influence the willingness of customers, investors/funders and employees to be associated with Zlisk going forward. Candidates needed to understand the legal/technical structure and critically consider aspects that were structurally and practically possible and not possible from the perspective of Leopardis. Only a few candidates demonstrated the required understanding of the investor-investee relationship.

The task was evaluated as moderate to difficult, as it was the final task of the day and required the candidate to apply critical thinking, which could have potentially led to time constraints.

A competent candidate in this task would have addressed among others the following points:

Possible implications

- Reputational damage (for both Zlisk and Leopardis);
- Possible financial losses of customers, funders, etc., of Zlisk, and a resultant negative impact on a return on investment for Leopardis;
- A change in perception, in that Zlisk may possibly not deliver on its contracts or that current dealings within Zlisk may lack credibility; and
- Funders and other stakeholders of Leopardis could question Leopardis' vetting processes of investees.

Actions that Leopardis could take

- Leopardis could convene a board meeting to discuss the matter and formulate a strategy to deal with the matter;
- Leopardis could conduct its own internal investigation or suggest to Zlisk that it conduct an internal investigation;
- Leopardis could suggest to Zlisk that the CEO be temporarily suspended, pending the outcome of the internal investigation;
- Leopardis could suggest to Zlisk that Zlisk issue a public statement on the matter; and
- Leopardis could reassure its shareholders, other investees and stakeholders of its commitment to upholding ethical standards in its dealings, despite this matter.

Things Leopardis was doing right

- Voluntary adoption of good corporate governance practices, per King IV (although Leopardis is a private company);
- Continuous support to its investees through various initiatives; and
- Investing in entities that adopted environmentally friendly practices, such as renewable energy and ethical farming.

Areas in which Leopardis needs to improve

- The current investment portfolio does not seem to be as diversified, especially with two of the four current investments (Weetland and Café Rapide) being in the same industry (coffee business);
- Investee vetting processes could be questionable, in view of the matter implicating the CEO of Zlisk; and
- Due diligence processes seem to be rushed (the acquisition of Café Rapid took place and was concluded within two weeks).

Candidates did well in the first aspect of the task (implications), although some struggled to clearly explain the implications – especially those relating to Leopardis as the investor. Most of the candidates correctly identified reputational damage. Candidates struggled to provide other valid implications apart from reputational damage, resulting in limited coverage apart from this point. Some candidates provided implications for the CEO in context of King IV/Companies Act, which was irrelevant for this task as the task required implications from an organisational perspective and not from the perspective of the CEO as a director or shareholder.

Some candidates struggled to address the second aspect of the task, relating to actions that Leopardis could take. There were a few valid points provided in this regard, but most candidates provided actions that were not structurally practical for Leopardis, in its capacity as a shareholder. The most common and valid point that candidates provided was recommending that Leopardis conduct an investigation into the matter affecting the CEO of Zlisk. Some candidates suggested that the CEO should be fired or that Leopardis (as a shareholder) be the one to suspend the CEO. These were not pragmatic actions given the nature of the investor-investee relationship and the context of the discovery, namely that the allegations have not been confirmed to be true at that stage.

With the last aspect of the task, most candidates correctly identified areas in which Leopardis was doing well, such as the continuous support that it provides to its investees and its efforts towards achieving or implementing ESGs. Candidates did however struggle with identifying valid aspects on which Leopardis needed to improve.

Overall, candidates generally seemed to have understood the task and addressed all aspects of the task, and more candidates demonstrated competence than not.