



MARKERS' AND UMPIRES' COMMENTS
INITIAL ASSESSMENT OF COMPETENCE
JANUARY 2025

OBJECTIVES OF THIS REPORT

This report has been compiled from the analysis of examiners on candidates' performance in the Initial Assessment of Competence (IAC), which was written in January 2025. Its objectives are to –

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

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

The purpose of the IAC 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 IAC January 2025;
- Background information on the setting, marking and adjudication of SAICA examinations;
- General comments on the IAC January 2025; and
- Detailed comments on each of the three professional papers.

STATISTICS FOR IAC JANUARY 2025

	Pass %	Passed	Failed	Total
All candidates	70%	2 251	947	3 198

Average marks per question (all candidates)

Paper 1	Part I	Part II	Total
Total marks	59	61	120
Average marks	34,08	27,21	61,29
Paper 2	Question 1	Question 2	Total
Total marks	57	63	120
Average marks	27,57	37,04	64,61
Paper 3	Part I	Part II	Total
Total marks	61	59	120
Average marks	35	31,28	66,28

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

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

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

1 Source of the questions

The IAC Examco is a sub-committee of the SAICA Chartered Accountant Professional Development Committee (CAPD Committee) and takes overall responsibility for the setting of the examination papers.

Academics or former academics are also involved in reviewing exam questions in each of the core subject areas. However, academics who have any involvement whatsoever in the presentation or otherwise of Board courses may NOT act as reviewers. These academics or former academics are appointed by core subject area and their role is to –

- review questions for conceptual problems and consistency in the use of terminology;
- give an indication as to whether the relevant examination questions are set at an appropriate level;
- provide comments on whether the number of marks and time limit are appropriate; and
- provide comments on the validity and reliability of the assessment.

Four external examination sitters, who are independent of the exam setting process, are also appointed to review the entire set of questions. These sitters are chosen from the persons who passed the ITC the previous year. The examination sitters provide independent comments on the examination paper, suggested solutions or mark plans, and report on these to the IAC Examco.

In addition, the examination questions are also reviewed by a third expert for cultural and language bias.

SAICA would like to acknowledge and thank all the people involved in the examination setting process.

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

2 The marking process

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

Before marking of the scripts commences, copies of the examination papers and suggested solutions are forwarded to all accredited programme providers for comment. The markers and umpires finalise the 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 IAC Examco, which approves the final suggested solutions and the mark plans that will be used in the marking process.

Marking is undertaken by teams, with each team consisting of a number of markers (comprising academics, practitioners and representatives from commerce and industry) and an umpire. Markers and umpires are assigned to specific questions based on their fields of expertise.

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

Consistency marking was introduced in 2012, which entails that a pack of scripts are selected on a random basis by SAICA's Examinations Unit, and the exam numbers removed. These scripts are then re-numbered and photocopied. Every person on the mark team has to mark the question to which they have been assigned in the batch of scripts. This takes place on the first day of the main marking process and the umpire, together with his/her mark team, then discuss point by point how the individual markers awarded the marks for each question. The aim of this process is to identify any concerns, differences and discrepancies in interpretation that the marker(s) may have in awarding of marks as per the final mark plan before actual marking commences. The main objective is to achieve consistency in the way the different markers within a mark team award marks.

Marking of the IAC January 2025 took place at a central mark centre. An administration hub was set up, from which administrative personnel controlled which scripts were signed out, to whom, and when the marked scripts were returned. Each script was marked independently by two persons, using an electronic marking tool. The tool records marks per subsection, section and question automatically. Only once the double-blind marking of each batch of scripts had been completed did the markers confer and jointly decide on the final raw mark (what is referred to as 'marking reconciliation') to be awarded for a particular answer. This was also recorded on the marking tool. If the markers were unable to agree upon the number of marks to be awarded for a particular answer, the script was referred to the umpire, who then reviewed the paper and awarded the final mark. After the reconciliation process, the electronic tool captured the final marks of all candidates and prepares a report for the IAC Examco.

3 Adjudication

Adjudication is a process during which the CAPD Committee considers all relevant evidence, including the following, to determine whether the marks to be awarded for each question should be adjusted:

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

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

Adjudication is done by the full CAPD Committee as soon as possible after the marking process has been finalised and checked by the SAICA secretariat. During the adjudication three 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 academia is allowed to serve on the IAC Examco, and that candidates' anonymity is preserved until the final adjudication has been completed.

In order to ensure that the whole marking and adjudication process remain anonymous, the instructions to candidates clearly state that their names should not appear anywhere on their scripts.

4 Borderline review

In 2013 SAICA introduced a further process to ensure that individual candidates who just fail the exam are not prejudiced in any way. Once the adjudication has been complete, the scripts of candidates who just failed (based on a range determined by the CAPD Committee) are extracted and a third and final review is undertaken of such candidates' scripts.

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

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

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

GENERAL COMMENTS ON THE IAC JANUARY 2025

1 Objective

In view of the primary objective of the IAC, 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

	Reporting on value creation	Strategy and governance to create sustainable value	Stewardships of capitals: business processes and risk management	Assurance and related services	Tax governance and compliance	Decision-making to increase, decrease or transform capitals	Ethics (including CPC)	PVAAs (excl. Ethics)	Total
Paper 1 Part I					57			2	59
Paper 1 Part II			18	25			14	4	61
Paper 2 Part I		19				26	8	4	57
Paper 2 Part II	61							2	63
Paper 3 Part I			11			46		4	61
Paper 3 Part II	24			33				2	59
	85	19	29	58	57	72	22	18	360
	24%	5%	8%	16%	16%	20%	6%	5%	100%

3 Overall comments on the papers

The January 2025 IAC examination was considered to provide a fair assessment of technical competence overall, with a mix of easier and more challenging areas. There was a good balance between easy, moderate and difficult sections within each paper and the themes and scenarios were topical and relevant.

Paper 1 consisted of a single scenario, with the required sections divided into two parts. The first part dealt with **tax governance and compliance** and the second part with **stewardships of capitals: business processes and risk management**, **assurance and related services**, and **ethics**.

Paper 2 consisted of a single scenario, with the required sections divided into two parts. In part I **decision-making to increase, decrease or transform capitals, strategy and governance to create sustainable value** and **ethics** were examined and in part II **reporting on value creation** was examined.

Paper 3 consisted of a single scenario with two parts. Part I examined **stewardships of capitals: business processes and risk management** and **decision-making to increase, decrease or transform capitals**. Part II covered **reporting on value creation** and **assurance and related services**.

4 General comments

From a review of candidates' answers to the IAC January 2025 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, in particular **foundational core knowledge**. Many responses by candidates were a 'shopping list' of items in the form of a pure regurgitation of what candidates may have learnt about the theory at university, but with no real relevance to the question in hand. Candidates also do not appear to be able to identify the correct issues stated in the scenarios. This is a major concern, because by the time candidates qualify for entry to these examinations, one would expect them to have assimilated the knowledge, at least to the extent of being able to apply it to simplified facts as set out in an examination question. Obviously, candidates who are unable to identify the correct issues do not do well in the examination.

4.2 Workings

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

4.3 Communication

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

In addition, markers found that candidates used their own abbreviations (text 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 accounting and external reporting 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 incorrectly. 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 (and which financial statement) has to be debited or credited. It is not sufficient for a candidate with Accounting at the PGDA level to be a technocrat – understanding of the fundamental principles of accounting is critical to the success of a candidate at the IAC 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 part of the paper attempted and too little time on the last. They should never overrun on time on any required, but rather return to it after attempting all other parts.

Candidates should address the time management issue by starting with the questions they feel more comfortable with or can consider to be 'easier' while still feeling fresh in the exam. This ensures two things: confidence is gained by the candidate and good marks are earned easily, such that some time is saved – which can then be used as a 'buffer' to add to the time allocated for the more challenging questions. This gives the candidate a fair opportunity to do well. This is considered an 'exam success strategy'.

4.6 Layout and presentation

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

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

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

4.7 Irrelevancy

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

4.8 Drilling down

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

4.9 Recommendations / interpretations

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

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

4.10 Examination technique

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

4.11 Open-book examination

Candidates are reminded that they **MUST** familiarise themselves with SAICA's open book policy and be aware that this may differ from that of their endorsed academic provider university. Candidates are also reminded that only SAICA has the authority to interpret its own open-book policy and **any contravention of IAC regulations will be considered to be misconduct**. Candidates are advised to familiarise themselves with SAICA's Examination Regulations prior to writing the examination.

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

Candidates should also remember that one has to be very well prepared for an open-book examination. There is not enough time in the examination to look up *all* information from the texts. With regard to certain aspects one would be

expected to offer an immediate response based on embedded knowledge. Complex information needs to be fully understood before the examination. Candidates who enter the examination hoping to look up data that they have not processed in advance will be at a disadvantage as they are unlikely to finish the papers.

4.12 Paying equal attention to all the competency areas

It is disappointing to note that candidates still appear to be most prepared to respond to **reporting on value creation** questions and fare considerably poorer in some of the other disciplines – most notably **decision-making to increase, decrease or transform capitals**. Candidates are reminded that the accountancy discipline is a broad one and the other disciplines are equally important.

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!!

DETAILED COMMENTS ON EACH OF THE FOUR PROFESSIONAL PAPERS

PROFESSIONAL PAPER 1

Paper 1 consisted of a 120-mark question, with the required divided into two parts that dealt with the following aspects:

Part I

- (a) Candidates had to calculate a trainee accountant's normal tax payable for his 2024 year of assessment.
- Calculations had to start with the vending machine trade with gross profit of R48 095.
 - Candidates had to provide brief reasons for amounts that do not affect the taxable income calculation.
- (b) A discussion, from income tax and VAT perspectives, whether it would have been more advantageous for a new company (VendiBoys) to have acquired the shares in another, or to have purchased the assets of the business.
- Calculations were not required.
- (c) A discussion of the income tax implications for VendiBoys for its 2024 year of assessment in relation to second-hand vending machines acquired in exchange for the 100% equity shares in VendiBoys issued to the trainee accountant.
- (d) Candidates had to calculate the VAT payable or refundable for the March / April 2024 tax period for VendiBoys.
- Candidates had to provide brief reasons for amounts that did not affect the VAT payable or refundable calculation.
 - The amounts in the management accounts were inclusive of VAT.

Part II

- (e) A discussion of a company's (VendiBoys) business and financial risks arising from the purchase and operation of the assets from another company.
- (f) Candidates had to identify and discuss, with reference to VendiBoys, the risks of material misstatement at the assertion level for FY2024 for the following account balances:
- Inventory: existence, completeness and valuation; and
 - Property, plant and equipment: valuation.
- (g) Based on the data fields available from a software application, candidates had to describe how the audit team could use automated tools and techniques to obtain sufficient and appropriate evidence that VendiBoys' revenue was fairly presented in the financial statements for FY2024.
- (h) A discussion of the ethical concerns regarding how the VendiBoys business is run by two brothers. Candidates had to –
- exclude the Companies Act and King IV Report on Corporate Governance from their answers.
 - exclude any threats to fundamental principles from their answers.

Six communication skills and professional values, attitudes and acumens were available for this paper. These marks were clearly and separately stated in the 'required' sections of each part.

PAPER 1 PART I

Maximum mark	Average mark	Number of candidates who passed	Number of candidates who wrote
59	34,08	2 455 (77%)	3 198

1 General comments on the degree of difficulty of the question

The question was considered to be moderate, with few difficult areas.

Part (a)

- This required section was easy to moderate, as the information provided gave the candidates a direction to follow to facilitate the normal tax payable/refundable.
- Candidates performed relatively well, and the majority were able to use the provided information in an efficient manner to deliver the calculation.
- Some candidates argued that the card reader would not be considered as a repair and maintenance but rather as a separate asset and proceeded to process section 11(e) consequences. Other candidates argued that the card reader would be considered as a repair and maintenance expense and thus did not make any adjustment to the provided amount. Both alternatives were catered for in the suggested solution.

Part (b)

- This part was considered to be moderate to difficult as candidates needed to decide, from both an income and tax perspective, if it would be more advantageous to acquire shares or the assets of a new business.
- Most candidates could clearly identify and apply both the Income Tax Act and VAT Act and discussed the two options clearly. They could also identify that option 2 would result in future capital allowances and that a notional input tax may be claimed by Vendiboy.
- Only a few candidates could identify and discuss the tax effect of the underlying financial instrument and consequently did not discuss section 24O (operating company) and the resulting section 24J deduction in option 1.
- It is disheartening that in the conclusion on their discussions many candidates failed to show a golden thread, as they simply chose an option without giving reasons for their choice.

Part (c)

- Although it entailed the discussion of assets for shares (section 42 of the Income Tax Act), it was a straightforward part of the scenario and seen to be moderate.
- Candidates did relatively well in this part as most could identify the shares for asset section.
- Surprisingly, many candidates used the anti-avoidance provision in section 24BA and then based their discussion on a notional market value for shares. As no market value of shares was provided in the scenario, candidates based their discussions on assumptions – which they should not have done (and wasting time in the process).

Part (d)

- This required section was regarded as moderate as it was relatively easy for candidates to navigate the VAT calculation (technical competencies).
- There were very few complications in the provided information, apart from being scattered between pages 1, 4 and 6 of the scenario. This required the candidates to read the overall scenario carefully to integrate the information provided in their responses.
- Candidates performed relatively well and were able to adequately apply the tax fraction (i.e., 15/115) to the provided amounts.

- Candidates were also able to identify the notional input tax implications with regard to the second-hand goods.
- Candidates were able to provide adequate reasons for amounts where there were no VAT implications.

2 Feedback on the candidate responses

Exam technique

- Candidates who did well provided a well-structured layout, an articulated response and addressed the required tasks. These candidates included their conclusion in line with their arguments and their thought process could be followed and understood.
- Many candidates first attempted the calculation-focused required tasks, which were easy to moderate, providing a good way to score marks before attempting the more difficult tasks.
- It is of concern that some candidates did not clarify their workings, for instance to indicate input tax as a negative and output tax as a positive in the VAT computations. In addition, some candidates provided calculations on a different page, even if it was a straightforward calculation. We recommend that calculations be embedded in the solution.
- Proper exam technique was lacking, with some candidates failing to provide sufficient technical reasons for amounts that did not have a tax effect on both parts (a) and (d).
- It is important that candidates focus on the use of proper terminology or correct section references in discussion questions.

Time management

- Candidates generally managed time well and responded to most, if not all, parts of the paper.
- In part (a) some candidates were confused by the requirement to start with the gross profit to calculate the normal tax payable, leading to unnecessary adjustments and re-computations of the gross profit (as if it were an accounting profit), contributing to time wastage.
- Most candidates did not perform well in part (b) of the question, as they did not address the comparison of options 1 and 2 for both income tax and VAT. Candidates often discussed only one aspect, either VAT or income tax, and not both.
- Candidates should have noted that part (b) counted 12 marks, and should have correlated the length of their discussions to the marks allotted.

Communication

- Candidates must remember to add valid reasons for entries with no tax consequences. This was required in both part (a) and part (d).
- Candidates should note that inconsistent or incorrect accounting terminology may cost them valuable marks.
- In part (b), candidates needed to make a recommendation on their discussion of two options. Marks can only be awarded for a well-motivated recommendation.

Layout, structure and presentation

- Note that in any calculation (technical competence), brackets need to be used for deductions and exemptions (required part (a)).
- In VAT calculations, candidates must clearly indicate whether an entry creates an output tax levied or results in an input tax claimed (required part (d)). The amount calculated should be included in the taxable income or VAT liability.
- Some candidates missed amounts in part (a) due to not dealing with both business and personal income taxes in full and or not incorporating the business income in the calculation of the individual's tax calculation.
- Candidates should refrain from squeezing in words in small print at the bottom of their attempts, as it points to a lack of planning of the structure of the attempt and may appear not to be in context. It is recommended that candidates use a new page for each required task and space their work out appropriately.

Relevance

- Requirements of any tax provision triggered in the paper must be applied to the detail of the scenario. No marks can be awarded, in an open-book examination, for simply re-writing provisions from legislation without application of the scenario.
- It is worrisome that some candidates demonstrated technical knowledge gaps, such as identification of depreciation as a non-cash item, confusing vehicle expenses and multiplying by 85%, applying section 11F incorrectly, applying two months to the salary amount, and including cell phone and data without recognising them as private expenditure.
- Most candidates responded in line with the correct Income Tax Act requirements.
- In part (c), candidates often identified the incorrect section (section 40CA of the Income Tax Act), instead of demonstrating an understanding the requirements of section 42.

Recommendations

- Candidates must read and plan their responses, using the mark allocation as a guide to determine the amount of detail required.
- The integration of information broadens the response required from candidates, necessitating deep thinking and planning before attempting a task.
- Knowing and applying the pervasive skills in the Competency Framework is beneficial and will produce candidates who do not think in silos in the future.
- Candidates are advised, with respect to discussion questions, to always ask if they have provided the 'why' in their attempts and not simply state the requirements of a section or apply the scenario without explaining why it is relevant.
- Candidates should pay careful attention to whether amounts include or exclude VAT and ensure they do not account for VAT incorrectly, especially when the person is not a VAT vendor.

Workings (and references to workings)

- Workings in calculation questions must always be provided.
- In this scenario there was some overlap between requirements of part (b) and part (d), although from a different perspective. Where candidates do not want to repeat reasons or calculations, they must clearly refer to the place in their solutions where the reason, amount, or calculation was first provided.

3 Feedback per each required section of the part

3.1 Areas that candidates handled well

Part (a)

- Most candidates demonstrated a good understanding of the taxation framework for individuals and correctly included the sole proprietorship income in Marchant's taxable income.
- They were able to differentiate between accounting- and taxation-related entries and recognise private expenditure, demonstrating a good understanding of the tested section.
- Candidates started the vending machine trade with the gross profit provided and then deducted the allowable deductions.
- Candidates could apportion private/domestic expenditure and business expenditure correctly, demonstrating that only business expenditure could be deductible for tax purposes.
- Candidates' gross income and deduction principles seemed solid as they provided valid reasons for amounts that did not affect taxable income.
- Candidates easily identified the cash salary and the no-value benefit regarding the use of the cell phone.
- Candidates who identified the travel allowance and were able to calculate it accordingly did well in obtaining the relevant marks.
- Candidates could calculate the tax liability of an individual with applicable rebates and medical tax credits.

Part (b)

- Most candidates discussed the purchase of shares vs. assets from both an income tax and VAT perspective, concluding on the chosen option and organising their solutions under different headings.
- **Purchase of shares**
 - In general candidates identified that shares are acquired as investments and are capital in nature and that the return on shares is dividends, which are exempt for income tax purposes.
 - Candidates who identified section 240 (operating company) and subsequently discussed the underlying financial instrument) generally did well.
 - For VAT purposes candidates identified that shares are financial instruments and are exempt under section 12(a) of the VAT Act.
- **Purchase of assets**
 - Candidates identified that the second-hand capital assets purchased could qualify for a wear-and-tear allowance or trading stock deductions for income tax purposes.
 - Candidates identified that as it was second-hand assets, it may qualify for a notional input for VAT purposes.

Part (c)

- Most candidates discussed the requirements of section 42, applied them to the scenario, and discussed the application.
- Those candidates also identified that section 24BA does not apply.
- Candidates who identified the applicability of section 42 received all relevant marks if they stated the requirements needed for the section to be applicable and applied the facts of the scenario to section 42 requirements.
- In addition, most candidates identified that the market rate of the second-hand vending machines was equal to the base cost and that the machines continued to be held as a capital asset.

Part (d)

- Candidates did well in this part, and their VAT principles seemed solid.
- Most candidates dealt with basic VAT calculations correctly and provided correct reasons for nil values.
- They approached the question by responding to each item in the management accounts, which gained them marks when this approach was followed.
- Most candidates identified that the amounts provided included VAT and used the tax fraction (15/115) to calculate the input tax and output tax accordingly.
- Most candidates correctly indicated that there is no VAT on employee costs because a supply by an employee to an employer is specifically excluded from the definition of an 'enterprise' (section 1 of the VAT Act).
- Most candidates correctly indicated that there is no VAT on depreciation because it is an accounting entry and correctly indicated that fuel is a zero-rated supply.
- Many candidates understood that the purchase of assets from OMW and Marchant respectively had VAT implications for VendiBoys. This was commendable as the information was spread across the scenario, making accounting for the VAT implications in its entirety for VendiBoys more challenging.
- On the whole, candidates used a clear layout to determine inputs/outputs.
- Candidates managed to get straightforward marks relating to ordinary transactions seen in tutorials and tests, such as rental payments and bank charges.

3.2 In what respect candidates' answers are considered to fall short of requirements**Part (a)**

- Some candidates incorrectly adjusted the amounts for VAT, even though Marchant was not registered for VAT, leading to unnecessary calculations to exclude VAT from the calculation.
- Candidates did not distinguish between the right of use of the cell phone and the voice and data plan as two

separate fringe benefits, losing marks for it. Most candidates only identified the impact of the right of use the cell phone but did not address the voice and data plan.

- Most candidates did not reduce the allowance for incidental costs and included the full amount.
- Several candidates were unable to correctly deal with the travel allowance or incorrectly indicated that there were both a travel allowance and a right of use on the same entry. This knowledge gap needs to be corrected. In certain instances, private kilometres were used when business kilometres were needed to determine the deductible portion of the allowance. Some candidates did not identify the travel allowance impact and instead performed a fringe benefit calculation on the right of use asset. Some candidates were confused about the term maintenance and assumed that divorce-related maintenance was the same as motor car-related maintenance.
- Most candidates were confused by the requirement to start with the gross profit to calculate the normal tax payable. This led them to unnecessarily attempt to adjust the gross profit and, in some instances, recompute the gross profit, contributing to time wastage.
- Most candidates correctly allowed only 15% of the vehicle expenditure related to business use as a deduction but lost a mark because no reason was provided for the 85% private and domestic use that is prohibited from being deducted.
- The section 6B medical cost rebate was either not attempted or incorrectly applied, and this knowledge gap needs to be addressed. Many candidates incorrectly assumed that if there were no qualifying medical expenses, section 6B would not apply. Most candidates did not mention that medical aid contributions are non-deductible as they represent private expenditure.
- Some candidates deducted the primary rebate and medical aid credits from taxable income instead of the tax liability.
- Many candidates did not provide sufficient reasons for amounts that do not affect taxable income, or where reasons were provided, they did not sufficiently address the item in question.
- The impact of the new card reader transaction was treated inconsistently by candidates.

Part (b)

- Candidates spent a fair amount of time discussing the income tax and VAT implications of each asset separately, instead of undertaking a comparative analysis of the two options.
- Candidates addressed the acquisition of shares as being capital in nature but then indicated the 'tree vs. fruit' principle from the Visser case (which relates to an amount accrued to/received by and not expenditure incurred). In line with this court case, candidates applied gross income principles instead of section 11(a) principles.
- Only a few candidates discussed the underlying financial instrument (loan and interest payments) that would have arisen in both options to acquire either the shares or the assets. As a result, candidates did not consider sections 24J and 24O of the Income Tax Act. Candidates were not clear with respect to second-hand goods, implying that all second-hand goods received input VAT regardless of the VAT status of the seller.
- The conclusion on whether it would have been more advantageous to acquire the shares or purchase the assets was poorly motivated. Candidates needed to consider tax and other relevant points to make a business recommendation. They should work on formulating stronger arguments based on points discussed.
- This indicated a lack of knowledge and confusion about the requirements, not answering what was required, and not providing a recommendation.
- It is of concern that some candidates discussed section 102 (anti-avoidance), showing a lack of understanding of the required task.
- Candidates need to note that their conclusions should be in line with their discussions and not a simple open-ended one-liner.

Part (c)

- It is important to identify the correct taxpayer from the required. Candidates were only required to discuss the income tax implications for VendiBoys and not for Marchant.

- Many candidates did not apply section 42 of the Income Tax Act but rather went to sections 40CA or 24BA, which were not applicable in this case, hence losing many marks. These sections were forced onto the question in many instances. Some candidates contradicted themselves by concluding that section 42 was applicable and then applying section 40CA to establish the base cost of the assets instead of section 42.
- Many candidates considered the application of section 24BA but either –
 - compared the base cost of the asset with the market value of the asset and stated that the section was not applicable;
 - stated that there was not enough information available, therefore the market value of the shares could not be determined; or
 - used the information in part (b) to determine the market value of the shares.
- Candidates must remember to first prove a provision applies before discussing its application. Many candidates did not first discuss and apply all the requirements of section 42 of the Income Tax Act or discussed the requirements without application.

Part (d)

- A few candidates still struggled to distinguish between input and output VAT, which is a knowledge gap that needs to be corrected. Some candidates struggled with the application of 15% or 15/115 with reference to the information provided in the scenario. Some candidates used 15% throughout the question or 100/115 or 115/100, leading to confusion and a loss of marks. They included coins in the calculation, not recognising them as money, and included depreciation and interest incorrectly.
- Candidates demonstrated a lack of knowledge of VAT rules, including what was exempt and what was zero-rated. Some apportioned the calculation to two months when the figures were already in the correct format. Some candidates did not indicate whether an amount was input or output tax, forfeiting many marks. Many candidates did not include the VAT consequences of the acquisition of the assets (in part (b)) under this part. Reasons provided for why an amount had no VAT effect were often insufficient.
- Most candidates did not pick up that the information under note 3 relating to the 'New business opportunity' also needed to be considered in the two-month VAT period (March and April 2024), not realising that the transaction to buy the assets took place on 2 March 2024.
- Candidates need to revisit section 2 of the VAT Act to verify what is included as 'financial services' or not, as many candidates incorrectly indicated that business insurance and bank charges are financial services.
- Some candidates did not identify the 'going concern' provision under section 8(25).
- Many candidates were inconsistent with their use of signs (positive or negative) for input tax and output tax and were penalised as a result. Many candidates did not use the tax fraction for the notional input tax deduction but rather simply multiplied the amount by 15%, which is incorrect. Furthermore, many candidates did not demonstrate that they chose the lower of the consideration or open market value for the notional input tax deduction, hence losing an easy mark.
- Some candidates did not understand the appropriate reasons for a VAT treatment, even though they understood the principle. Some candidates addressed employee costs as zero-rated instead of addressing the definition of remuneration.
- Overall, there were not many shortfalls in the question.

PAPER 1 PART II

Maximum mark	Average mark	Number of candidates who passed	Number of candidates who wrote
61	27,21	878 (27%)	3 198

1 General comments on the degree of difficulty of the question

The endorsed academic providers on the whole considered this part to be easy to moderate overall.

Part (e) was considered to be moderate, but candidates could have misread the required. They could have interpreted the required to specifically include risks relating to assets only and not the new business acquired as a going concern. Some providers also raised the concern that candidates may be confused by the inclusion of 'financial risks' and then discuss from a ROMM perspective instead.

Part (f) was considered to be easy, but due to the consideration of risk factors from part (e) candidates might have questioned the validity of their responses/limit coverage on some of the risk factors.

Part (g) was considered to be difficult, coming up with audit procedures over revenue solely relying on CAATS is complicated and requires practical experience/exposure. However, it was possible to attain some of the available marks.

Providers were of the opinion that part (h) was moderate, although the required could have caused candidates to struggle to articulate the issues due to the exclusion of the principles from King IV and Companies Act. In addition, the required at a glance could have been interpreted as excluding all considerations from the CoPC. The umpire and team rated this section as easy to moderate, and considered the paper to be fair, with easy moderate and difficult (part (g)) sections.

Part (h), and specifically the CoPC, required candidates to be familiar with the scope of the CoPC, which could be a discussion of threats and/or actual breaches. The required excluded 'threats' and not an 'actual breaches'.

Overall candidates should have been able to perform fairly well as each required provided opportunities to earn easy marks if the candidate understood the required.

2 Feedback on the candidate responses

Candidates performed poorly in this paper and there were aspects that were not covered at all. However, within each required there were some aspects that candidates managed to address appropriately. The nature of the required sections, i.e. business risks, risk of material misstatement and ethical concerns, resulted in candidates being able to use the same indicator in the case study (e.g., non-compliance with laws) and address it in different required sections, just in a different context. If candidates identified and addressed an issue they could obtain the marks across the different aspects, but if they missed an issue, it could also have resulted in them not addressing that particular issue across the different parts.

Issues that most of the candidates managed to address include –

- removal of expiry dates;
- capacity/knowledge because of increased vending machines;
- selling of counterfeit goods;
- selling products without having the necessary licences; and
- mixing of personal and business expenditures.

3 Feedback per each required section of the part
3.1 Areas that candidates handled well
<p>Part (e)</p> <ul style="list-style-type: none"> Candidates described risks relating to theft, removal of expired goods, capacity and knowledge issues and selling of counterfeit goods very well. <p>Part (f)</p> <ul style="list-style-type: none"> The risk of expired goods not being written off to NRV was well discussed <p>Part (g)</p> <ul style="list-style-type: none"> Candidates were able to pull exception reports on errors such as duplicate IDs and negative sales values. <p>Part (h)</p> <ul style="list-style-type: none"> Most candidates focused on discussing good for self and others for all ethical issues presented in the scenario.
3.2 In what respect candidates' answers are considered to fall short of requirements
<p>Part (e)</p> <ul style="list-style-type: none"> Candidates often struggled to discuss the impact: they could identify the risk, but then struggled with the explanation. Candidates often focused excessively on one specific aspect and discussed it in too much detail. They would focus on those risk factors they were comfortable with (e.g., theft, expiry dates) and not raise sufficient points to earn sufficient marks. Some of the candidates misinterpreted the required and discussed risk of material misstatement at the financial statement level. Candidates missed risks relating to the loss of connectivity to the app. Candidates struggled with explaining the risks relating to variable interest rates. <p>Part (f)</p> <ul style="list-style-type: none"> The most common issue identified was that candidates were too generic, raising risks related to accounting in general (i.e., the risk of incorrect capitalisation, risk of inventory not being at lower of cost or net realisable value, risk of theft) without giving an explanation or applying it to the scenario. <p>Part (g)</p> <ul style="list-style-type: none"> Candidates often performed manual procedures and not CAATS/AATs. Many candidates overemphasised error conditions, focusing solely on extracting reports to identify errors (e.g. on negatives, on duplicates or missing data). The response to this part is usually limited, with candidates writing very little. <p>Part (h)</p> <ul style="list-style-type: none"> Most candidates did not attempt to refer to the CoPC in their responses. Many candidates focused significantly on discussing good for self and others for each instance of non-compliance that was apparent in the scenario (e.g. expiry of goods, selling vapes with a licence). The discussion of good for self and others for each of these instances of non-compliance often resulted in repetition. Some candidates reverted to discussing or identifying irrelevant issues as non-compliances (e.g. the charging of higher prices on products). There were some candidates who discussed reportable irregularities, or NOCLAR.

PROFESSIONAL PAPER 2

Paper 2 consisted of a 120-mark question, with the required divided into two parts that dealt with the following aspects:

Part I

- (a) A discussion of the key risks that a grocery, clothing and general merchandise retailer was exposed to in its operating environment before the company shifted to an eco-friendly strategy.
- Candidates were instructed to ignore risks that would be addressed by a shift to an eco-friendly strategy.
- (b) A critical evaluation of the strategic actions that the company has undertaken to become more eco-friendly.
- (c) Candidates had to write a memorandum to the board of directors in which they critically reviewed its decision to vote against a rights issue as a means of reducing the company's debt.
- Candidates had to include calculations and key ratios.
- (d) A discussion of the ethical behaviour and ethical leadership of the company as demonstrated by the directors towards the following stakeholders: the lenders, suppliers represented by a company that manufactures and sells laundry detergents, the store managers and the local communities.
for the company and for its employees.

Part II

- (e) Candidates had to prepare the correcting journal entries to account for the sales made by the selected stores via a delivery app during December 2024 in a grocery, clothing and general merchandise retailer's FY2024 financial statements.
- Candidates were instructed to –
- ignore all forms of taxation;
 - not add dates and journal narrations;
 - assume that all amounts were material; and
 - round all calculated amounts to the nearest rand.
- (f) A calculation of the annual effective cost of the new loan from a bank.
- Candidates had to ignore all forms of taxation.
- (g) Candidates had to prepare, based on the information on a store in Sandton (referred to in a section dealing with the impairment of operations), an extract of the company's FY2024 property, plant and equipment note as it would appear in the notes to its financial statements.
- Total columns were not required.
 - Candidates had to round all calculated amounts to the nearest rand.
- (h) Candidates had to prepare all the journal entries necessary to account for all aspects relating to the solar panels in the company's FY2024 financial statements.
- Instructions to candidates:
- Ignore all forms of taxation.
 - Do not present dates and journal narrations.
 - Round all calculated amounts to the nearest rand.
- (i) A calculation of the total FY2024 profit or loss effect related to single store of –
- (i) a contract with a company that manufactures and sells laundry detergents (Cisty); and
- (ii) a change in the leave policy.
- Candidates had to assume the following additional information:
 - On 1 January 2024 and 30 November 2024, each store had (on average) 4 000 and 9 000 Cisty detergent units respectively on hand and were able to sell Cisty detergent units (on

<ul style="list-style-type: none"> ○ average) at R120 per detergent unit prior to 1 December 2024. ○ The 9 000 units on hand on 30 November 2024 were sold to another company on 1 December 2024. All other cash flows occurred at the end of each month. ○ An appropriate discount rate was 10% per annum (compounded monthly). ○ The stores did not buy more than the minimum number of Cisty detergent units they were contractually required to purchase. • All forms of taxation were to be ignored. • All calculated amounts were to be rounded to the nearest rand.
<p>Six communication skills and professional values, attitudes and acumens were available for this paper. These marks were clearly and separately stated in the 'required' sections of each part.</p>

PAPER 2 PART I

Maximum mark	Average mark	Number of candidates who passed	Number of candidates who wrote
57	27,57	1 323 (47%)	3 197

1 General comments on the degree of difficulty of the question

The mark team agreed with the providers that overall, part 1 was set at a moderate to difficult level, with section (c) being regarded as the most difficult part of the paper.

Part (a)

This question was rated as moderate and reasonable, and candidates were expected to pass this section.

Part (b)

At face value, this section could have been regarded as easy, but what elevated it to moderate or even difficult was the verb used, namely 'critically evaluate'. Critical could be good or bad, whereas candidates usually linked it only to negative aspects. The evaluation according to Bloom's Taxonomy implies judgement and the question in this instance would then be to judge it against what? The key reasons for the eco-strategy were alignment with values and profitability concerns. Candidates who could not make this link to judge the strategic actions against values and/or profitability therefore struggled.

Part (c)

The mark team and providers agreed that the open and unstructured nature of this required, with very little guidance on what was required, elevated the difficulty level. An open question such as this requires reflection and time to digest.

The question required high level application in a corporate setting. It therefore assessed the candidate's ability to apply and interpret (judgement and decision making) without having been provided with the comfort of much guidance. This question therefore assessed a critical skill that educators aim to develop in candidates.

The mark allocation for the calculation was fairly tight, considering that candidates were not prompted as to which calculations to perform and candidates struggled to generate sufficient calculations for the mark allocation.

The discussion of the calculations relating to the rights issue required a high level of application from candidates.

Part (d)

This required was considered to be moderate. It was also very specific about the stakeholders that had to be dealt with, which would have made it more difficult for the candidates. However, the fact that it was specific in essence made it easier to

address

2 Feedback on the candidate responses

Exam technique

- Candidates who did well were those who took the time to really understand what the requirements were asking. For example in part (a) candidates were asked to discuss risks, which implied the need to identify what the risk is, and why/how it impacted FreschKart. A good number of candidates showed that they did not understand exactly what the different requirements were asking. Thus, many candidates' answers lacked depth and/or were not relevant to what was being asked.
- In part (c) many candidates performed calculations without using them in their discussion. This is bad exam technique as they would have wasted time doing calculations that had no relevance to their answers or what was being asked.

Time management

- There was no evidence of poor time management, except on part (c) – not too surprising seeing that this was the most difficult required. The poor time management in this part could thus most likely be linked to the fact that candidates did not know what to do, which wasted a lot of time.

Communication skills and PVAAs

- In general candidates showed good application of the PVAAs except for part (c) where most candidates were lacking in the judgement and the decision-making acumen (Y4). This shows a need for candidates to understand a problem/decision evident in a scenario and use the technical competencies to address the problem/decision.

3 Feedback per each required section of the part

3.1 Areas that candidates handled well

Part (a)

- Most candidates were able to use the relevant external environment as well as the specific context given in the scenario fairly well to articulate a number of key risks. For example, most candidates identified the risk of exchange rate and interest rate volatility and the cost impact for FreschKart given its imports and high gearing. In addition, there were also specific contextual matters provided in the scenario such as high competition, which candidates were able to turn into valid key risks for FreschKart.

Part (b)

- Most candidates were able to evaluate the strategic actions against the background of profitability and values, which were the key motivations for the eco-friendly strategies.

Part (c)

- This section was complex and was not handled well by the vast majority of the candidate population. Candidates who performed well in this section, were those who understood that FreschKart was very highly indebted and in no position to take on additional debt, thus a rights issue was imperative.
- These candidates also understood that there were covenants that FreschKart had already breached, and through calculations they were thus able to show how a rights issue would have improved the covenant ratios.

Part (d)

- Candidates who performed well in this section were those who were able to use the ethical frameworks such as good for self and good for others, and apply the frameworks to the four stakeholders required, using the actions evident in the scenario.

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

Part (a)

- Candidates who did not perform well in this section were often those who could identify a risk but could not articulate the impact for FreschKart.
- Candidates often simply listed interest rate risk or exchange rate risk, without discussing what in the scenario triggered the risk, and how the risk negatively impacted FreschKart. For example, FreschKart imports goods from the US (trigger) and should the rand depreciate against the dollar, FreschKart will have higher import costs (impact).

Part (b)

- Candidates who did not perform well in this section did not pick up that the key motivation for the eco-friendly strategy was profitability and alignment with values. Thus, candidates who failed to recognise this, struggled to have anything against which to evaluate the suitability, acceptability and feasibility of the strategic actions.

Part (c)

- Candidates who did not perform well in this section, failed to recognise that FreschKart was very highly indebted and in no position to take on additional debt, and that a rights issue was thus the best option.
- These candidates also failed to understand that there were covenants given in the scenario which FreschKart had already breached. Thus their calculations were generic performance evaluation calculations, instead of showing whether a rights issue would have improved the covenant ratios.
- Many unexpected ratios, such as current ratios and gross profit, were calculated which showed that candidates did not realise what the question was asking for. Candidates seemed to calculate ratios without a purpose in mind. They calculated superficially without thinking deeply about the calculations.
- The majority of candidates calculated the ratios and undertook a comparison of 2023 and 2024 instead of with and without the rights issue, showing that they did not understand the context and the required.
- Many candidates went on a discussion of debt tangent, prompted by the debt information in the same section.

Part (d)

- Candidates who did not perform well in this section, followed a very theoretical approach and simply stated theory without any application.
- Candidates often did not focus on the ethical leadership or behaviour towards the four stakeholders that was explicitly asked in the required.

PAPER 2 PART II

Maximum mark	Average mark	Number of candidates who passed	Number of candidates who wrote
63	37,04	2 484 (78%)	3 197

1 General comments on the degree of difficulty of the question

The majority of the endorsed academic providers on an overall basis assessed this part of the paper as easy to moderate. Their overall view was that this part of the paper was fair. Some providers indicated that most of the part was very easy.

The umpires and mark team were of the opinion that overall, the part was easy to moderate. While the accounting principles that were tested were not technically that difficult, candidates tend to find correcting journal entries challenging.

2 Feedback on the candidate responses

Exam technique

- Candidates demonstrated good exam technique by effectively interpreting the questions and addressing each part with clarity.
- Their ability to identify key requirements and apply the right approach to each question was good.

Time management

- It seemed that candidates were able to manage their time effectively.
- Candidates allocated sufficient time to each section of the exam, ensuring that they left no required section unanswered.

Communication

- Candidates' communication was on the whole clear, concise, and easy to follow.

Workings and calculations

- Candidates in general structured their workings effectively.
- The workings in most instances were thorough and accurate.
- Candidates mostly clearly showed their thought process and steps in arriving at their conclusions.
- Candidates' references to workings were also done well.

3 Feedback per each required section of the part

3.1 Areas that candidates handled well

Part (e)

- Candidates identified that the revenue to be allocated to the loyalty points could not be recognised immediately and that it needed to be deferred to a later stage when the points were redeemed.
- Candidates were able to calculate the stand-alone selling price of the loyalty points.
- Candidates were therefore able to correctly reverse a portion of the revenue that was recognised and subsequently recognised a contract liability on the date of sale for the loyalty points.
- Candidates were able to successfully realise a portion of the loyalty points redeemed to revenue at the end of the reporting period.

Part (f)

- Candidates were able to calculate the capital redemption payments accurately.

- Candidates were able to calculate the interest payments accurately.
- Candidates did identify that an effective interest rate (i.e. IRR) needed to be calculated.

Part (g)

- Most candidates performed well in all aspects of this required.
- Most candidates were able to calculate the impairment loss accurately.
- Most candidates did allocate the impairment loss to goodwill first and the remaining impairment loss to the remaining assets within the scope of IAS 36 *Impairment of Assets*.

Part (h)

- Most candidates performed well in all aspects of this required.
- Candidates correctly identified the transaction date and the exchange rate to be used to recognise the solar panels as property, plant and equipment on the transaction date.
- Candidates correctly raised a creditor/payable for the remaining 50% to be paid after the deposit and correctly remeasured the creditor to the spot rate on the payment date.
- Candidates were able to correctly calculate and recognise the forex difference on the remeasurement of the creditor/payable of the payment date.
- Candidates were able to distinguish between the costs incurred to be capitalised vs. to be expensed with the acquisition of the solar panels.

Part (i)

- Candidates were able to calculate the leave provision balances very well.
- Candidates were able to calculate the effect on profit or loss as the difference between the opening and closing balance of the leave pay provision.

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

Part (e)

- A limited number of candidates were able to successfully identify the errors in the given journal entry.
- A number of candidates adjusted the 'Bank' in their correcting journal entries.
- Most candidates did not exclude the delivery fees from the calculation of the stand-alone selling price of the loyalty points.
- Many candidates missed the principle of allocating the transaction price between the sales, deliveries and the loyalty points (material right).
- Many candidates performed unnecessary calculations and journal entries and the lack of structure was evident.

Part (f)

- Candidates on the whole did not convert the nominal interest rate to an effective rate
- Candidates could not handle the difference in payments terms with interest being paid quarterly and capital payments annually.
- Many candidates also did not consider the capital payment when calculating their interest.
- Candidates calculated PV, FV and PMT's or an NPV instead of a rate.
- Many candidates used a normal PV calculation when calculating the rate instead of a cash flow format due to the cash flows being uneven.

Part (g)

- Some candidates became confused with the goodwill principle in calculating and allocating the impairment loss.
- A number of candidates noted that land should not be impaired and, as such, did not allocate an impairment loss to land.

- A number of candidates did not present the note in terms of the requirements of IAS 16 *Property, Plant and Equipment*.
- Many candidates did not show calculations.

Part (h)

- Some candidates missed the remeasurement of the creditor and, as such, did not recognise an exchange loss.
- A few candidates applied the incorrect transaction date, resulting in incorrect measurement.
- All required costs were mostly correctly capitalised, apart from the testing costs, which some candidates expensed.

Part (i)

- Some candidates omitted the actual sales and costs of sales impact on profit or loss.
- Most candidates did not account for the onerous contract, although the question clearly stated that the contract was onerous.
- Some candidates did not perform the comparison of the onerous contract provision with the R1,5 million penalty, although they did perform a present value calculation for the contract.
- The 2023 leave provision was not split or was split incorrectly by most candidates when calculating the opening balance for 2024 due to a portion being vesting and a portion being non-vesting.
- Many candidates calculated the 2024 leave provision on the number of days taken (45), instead of the number of days not taken (i.e., remaining at the end of 2024).
- Most candidates did not limit the 2024 leave provision days to 60% (i.e. the non-vesting portion).
- Candidates could not differentiate the write down of inventory from the onerous contract.

PROFESSIONAL PAPER 3

Paper 3 consisted of a 120-mark question, with the required divided into two parts that dealt with the following aspects:

Part I

- (a) Candidates had to calculate the WACC as at 30 November 2023 that a transport and logistics company could use in evaluating whether to invest in a drone project.
- VAT had to be ignored.
- (b) Candidates had to use forecast information for a drone project provided by the operations director to calculate the IRR and conclude on whether it was the correct decision for the company to go ahead with the drone fleet purchase.
- Candidates were given the following instructions:
- Use the WACC rate provided by the director as the benchmark rate.
 - Provide brief explanations for any irrelevant amounts.
 - Ignore the information relating to the sale of the planes.
 - Ignore VAT.
- (c) Candidates had to discuss the key strategic risks and benefits in the decision to invest in drones that may affect the overall sustainability of the company's crop-spraying division and provide overall mitigating actions for the strategic risks identified.
- VAT had to be ignored.

Part II

- (d) Candidates had to provide the correcting journal entries relating to a loan from a specialist business financier, for the year ended 30 June 2024.
- Candidates had to provide brief explanations for their correcting journal entries.

- Candidates could ignore all forms of taxation.
- (e) Candidates had to discuss of any concerns they may have about the draft journal entry prepared by the accountant relating to the share option scheme for the year ended 30 June 2024, and advise the accountant on the correct accounting treatment of the share option scheme.
- Instructions to candidates:
- Support your discussion with calculations where necessary.
 - Do not provide correcting journal entries.
 - Do not discuss any presentation and disclosure requirements.
 - Ignore all forms of taxation.
- (f) Candidates had to recommend substantive tests of details that the auditors of a transport and logistics company should perform to obtain sufficient and appropriate audit evidence related to the classification; rights; and accuracy, valuation and allocation assertions pertaining to the agricultural drones of that company for the financial year ended 30 June 2024.
- The following procedures have already been performed and were not be included in candidates' recommendations:
 - Obtained all relevant schedules from management.
 - Cast and cross-cast all relevant schedules.
 - Obtained a management representation letter regarding all assertions.
 - Agreed all totals to the general ledger and trial balance.
 - Stratified all fixed asset registers.
 - Selected a sample for testing.
 - Auditing of the notes to the financial statements.
 - Scanning for and following up on abnormal / unusual items.
 - Candidates had to consider VAT.

Six communication skills and professional values, attitudes and acumens marks were available for this paper. These marks were clearly and separately stated in the 'required' sections of each part.

PAPER 3 PART I

Maximum mark	Average mark	Number of candidates who passed	Number of candidates who wrote
61	35	2 528 (79%)	3 197

1 General comments on the degree of difficulty of the question

Paper 3 consisted of a single scenario with two parts. Part I dealt with the following aspects:

- Strategy and governance to create sustainable value; and
- Decision making to increase, decrease or transform capitals.

The paper was of an acceptable length, and there is a good balance between calculations and discussion. The breadth of topics from the two areas of the Competency Framework identified above was good. The scenario incorporated the use of technology to generate value for a business. This was done in a context that was relatable to candidates.

The context of the scenario was topical and relevant within a changing world and the use of drones. The paper had a high degree of business acumen within the scenario which added to the complexity and specific context of the scenario. This also increased the nature of the difficulty, and the scenario included some information that was not relevant.

2 Feedback on the candidate responses

Candidates lacked depth in their responses and in some instances demonstrated limited technical knowledge in the strategy and governance discipline to create sustainable value and decision making to increase, decrease or transform capitals areas.

The candidates often displayed poor computational thinking skills around the number of hectares, pilots required, etc. Candidates also demonstrated limited business acumen in particular around the external business environment.

3 Feedback per each required section of the part

3.1 Areas that candidates handled well

Part (a)

- Candidates were able to calculate the after tax cost of debt.
- Candidates were able to use the cost of equity and cost of debt calculated to estimate the WACC based on market value weightings.

Part (b)

- Candidates were able to identify and include the calculations for the following basic aspects:
 - Initial investments (drones, batteries and charging stations);
 - Sales/residual values of the drones, batteries and charging stations;
 - Revenue and variable maintenance cost and the inflationary impact thereof;
 - Salaries of the pilots; and
 - Inclusion of the operating cash flows in the tax calculator.

Part (c)

- Candidates were able to identify the internal operational risks and some benefits.

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

Part (a)

- Candidates did not include the impact of WACC in the calculations and most used the book values to calculate the weightings.
- Candidates failed to un-lever and re-lever beta as part of the calculations.
- The CAPM model was not used to calculate the cost of equity.
- Candidates did not determine a fair value for the NCI and include it in the debt/equity weightings.

Part (b)

- Candidates used the incorrect number of drones and were not able to calculate the number of hectares which could be sprayed.
- Candidates struggled to understand the nested decision to repair and continue using the old vehicles OR to sell the vehicles in their current condition and opt to buy the new vehicles.
- Some candidates included the tax consequences at gross values and not at 27% of the allowance.
- Candidates did not compare the IRR to the provided WACC plus premium to make the correct decisions.
- Calculations were not referenced back into the IRR calculations.
- Signage and timing of cash flows was not correctly addressed.
- There were numerous conceptual errors (e.g., the inclusion of non-cash flows such as depreciation and financing cash flows in the investment decision appraisal).

Part (c)

- Candidates copied facts that were provided in the scenario and did not identify what the particular benefit or risk was.

- Candidates missed the obvious number of risks and benefits that were contained in the scenario (such as not using fuel has a positive impact on the environment).
- Generic risk/laundry lists (e.g., compliance risk) were provided without application to the scenario.
- Many candidates did not provide sufficient risks and benefits in relation to the number of marks available.

PAPER 3 PART II

Maximum mark	Average mark	Number of candidates who passed	Number of candidates who wrote
53	31,28	1 954 (61%)	3 197

1 General comments on the degree of difficulty of the question

Parts (d) and (e) were considered to be moderate to easy and part (e) was assessed as easy because it was relatively straight forward. However, part (f) was more challenging, as it required candidates to have a thorough understanding of the financial accounting principles underlying the measurement of drones, both at initial and subsequent recognition, to identify appropriate substantive procedures. Many candidates provided generic procedures without sufficient application, highlighting a lack of understanding of the relevant financial accounting principles.

This part had a 33-mark question towards the end of the paper. To plan such a big question (in terms of mark allocation) was challenging for candidates. They had to really understand the financial accounting very well to formulate substantive procedures, particularly as most of the general procedures had been excluded in the required.

2 Feedback on the candidate responses

Candidates answered all parts of the required. However, there was a seeming lack of comprehension with respect to understanding the required as candidates would answer some, but not all, aspects as listed in the required.

Some candidates demonstrated good exam technique with how they approached this part of the paper, namely by starting with parts there were most comfortable with and not going in sequential order. Some candidates included headings and highlighted/underlined key words when drafting their responses.

Candidates did not in all instances fully engage with the scenario or sufficiently recognise the integration of 'modules' and 'technical competencies'. The required parts were not necessarily derived from a single piece of information or a specific section of the scenario. As a result, some candidates struggled to appreciate the interconnected nature of the information provided.

Candidates' answers in some instances lacked application and were generic in nature.

Candidates who structured their answers using a well-planned layout and structure (such as using themes or headings) tended to perform well, as this approach facilitated a logical flow and clarity.

3 Feedback per each required section of the part

3.1 Areas that candidates handled well

Part (d)

- Candidates were able to identify that the loan was not a compound instrument but a full financial liability and were able to provide the correcting journal entries.

Part (e)

- Candidates were able to identify the core issue, being that the IFRS 2 payment was incorrectly accounted for as a cash-settled share-based payment as opposed to an equity settled share-based payment.
- Such candidates were able to interrogate the calculation, discuss the concerns and provide the relevant advice.

Part (f)

- Candidates successfully identified the use of a management expert and developed substantive procedures to evaluate whether reliance could be placed on the expert's work.
- The candidates also earned marks for inspecting the purchase agreement and formulating several procedures to verify key details from the agreement, including the purchase terms, cost price, and relevant spot rate.
- Most candidates provided substantive procedures to inspect bank statements, to use an auditor's expert, and to inspect minutes of board meetings.
- Additionally, candidates provided multiple examples of recalculations to be performed on various figures and calculations presented in the scenario, demonstrating a thorough understanding of the required verification processes to recalculate specific amounts.
- Candidates who structured their answers using themes or headings tended to perform well, as this approach facilitated a logical flow and clarity. It also enabled them to effectively articulate multiple procedures under each theme or heading. Examples of such themes include contracts, use of experts, depreciation, fair value and value in use calculations.

3.2 In what respect candidates' answers are considered to fall short of requirements**Part (d)**

- The question required that candidates provide reasons for the adjusting entries processed, but many candidates failed to do so and only provided narrations to the journal entries.
- The discussion element of this part was not well answered as candidates relied on the narrations as the reason for the adjustment instead of articulating the basis/principle of the adjusting journal entries.
- Some candidates assumed that the error was the allocation of transaction costs to the compound instrument and assumed that the adjusting entries related to that and missed all the marks relating to the reversal of the equity component of the loan.

Part (e)

- Some candidates did not fully articulate the errors and worded the errors as recommendations. This led to some candidates losing the error identification mark and only getting the advice/recommendation mark. Some candidates did not identify the core issue of equity vs cash settled and only interrogated the calculation provided.

Part (f)

- Most candidates did not provide any substantive procedures related to the value-in-use calculation.
- Many candidates failed to sufficiently incorporate the information about the drones provided throughout the scenario when formulating substantive procedures. Key aspects such as useful life and residual value were overlooked, despite being available elsewhere in the scenario rather than in the section primarily focused on the purchase of the drones and the subsequent damage to the drones (which resulted in an impairment).
- Furthermore, candidates demonstrated a limited understanding of the distinction between 'brought into use' (a tax term) and 'ready for use' (a financial accounting term), which is important in determining when depreciation should commence.
- In some cases, candidates provided only general 'considerations' or 'factors' to be assessed, particularly regarding the management expert used to calculate the fair value of the drones. Consequently, they failed to phrase substantive procedures appropriately and instead listed considerations from the ISA standard without proper application.
- Many candidates did not effectively apply substantive procedures to the scenario or make use of the information provided. Candidates were dumping generic procedures, and were not specific to question. There was no application

to the question. For instance, some responses included generic procedures such as 'Inspect the contract for the purchase price' without referencing the actual cost price of the drones, which had been provided in the scenario.

- Candidates frequently presented theoretical responses without sufficient application. They would for example state: 'Inspect the general ledger to assess whether all direct costs have been capitalised to the cost of the drones' without considering the specific types of expenses incurred in the scenario. Candidates needed to demonstrate an understanding of which costs should be capitalised or excluded and incorporate this into a well-phrased substantive procedure.
- Candidates deviated in part (f) and discussed the loan with Buzzfin that was used to finance the drones (not relevant for the required) and also discussed the external auditor's expert in detail.
- Some of the candidates' substantive procedures focused on the batteries and solar packs and not necessarily on the drones.