OBJECTIVES OF THIS REPORT

This report has been compiled from the analysis of examiners on candidates’ performance in the Initial Test of Competence (ITC) – previously known as Part I of the Qualifying Examination, which was written in January 2016. Its objectives are to –

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

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

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

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

- Statistics for the ITC January 2016;
- Background information on the setting, marking and adjudication of SAICA examinations;
- General comments on the ITC January 2016; and
- Detailed comments by question in each of the professional papers (1–4).
### STATISTICS FOR ITC JANUARY 2016

<table>
<thead>
<tr>
<th>All candidates</th>
<th>% Pass</th>
<th>Passed</th>
<th>Failed</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>76%</td>
<td>1943</td>
<td>618</td>
<td>2561</td>
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#### Average marks per question (all candidates)

<table>
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<tr>
<th>Paper 1</th>
<th>Question 1</th>
<th>Question 1</th>
<th>Total</th>
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<td></td>
<td>Part I</td>
<td>Part II</td>
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<table>
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<tr>
<td></td>
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<tr>
<td>Paper 3</td>
<td>Question 1</td>
<td>Question 2</td>
<td>Total</td>
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</tbody>
</table>

| Total marks    |            |            |       |
| Average marks  |            |            |       |

More detailed statistics can be found on the SAICA website at [www.saica.co.za](http://www.saica.co.za).
BACKGROUND INFORMATION ON THE SETTING, MARKING AND ADJUDICATION OF SAICA EXAMINATIONS

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

1. Source of the questions

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

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

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

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

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

SAICA would like to acknowledge and thank all the people involved in the examination setting process. An alphabetical list of all the people involved in various roles, including members of the Examinations Committee, question composers, subject specific reviewers and external examination sitters, is as follows:

Ahmed Mohammadali-Haji   Lelanie Brdenhann
Anuradha Pandya           Lisa Vidulich
Carmen Westermeyer        Lyndsay Maseko
Charmaine Lathleiff       Mandi Oliver
Cobus Rosssouw            Marielienne Janeke
Elhorere Wesigye           Michelle van Heerden
Ferdinand Mokete          Neville Dipale
Francois Liebenberg       Nico Fourie
Francois van den Berg     Paul Maughan
Frans Prinsloo            Petri Ferreira
Gideon Petrus Swanepoel   Piet Nel
Giel Pieterse             Pieter van der Zwan
Goolam Modack             Reghardt Dippenaar
Graeme Berry              Renshia van Noordwyk
Greg Beech                Ross Peasey
2. Security and confidentiality of examination papers

The examination papers for each year are compiled, printed and sent to each examination centre under very stringent conditions of security. The only persons who know the contents of a particular paper are the members of the Examco. They are all selected with great care regarding their integrity and professional standing and are sworn to secrecy.

3. The marking process

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

Before marking of the scripts commences, copies of the examination papers and suggested solutions are forwarded to all participating universities for comment. The markers and umpires decide on a suggested solution and mark plan once all these comments have been considered and a test batch of scripts has been marked. The suggested solutions, mark plans and test batch results are then reviewed by the Examco, which authorises the final suggested solutions and the mark plans that will be used in the marking process.

Marking is undertaken by teams, with each team consisting of a number of markers (comprising academics, practitioners and representatives from commerce and industry) and an umpire, who are on the whole fully bilingual and equally capable of marking both English and Afrikaans scripts. Markers and umpires are assigned to specific questions based on their fields of expertise.

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

Marking of ITC January 2016 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 who recorded their marks on separate mark sheets. Only once the double blind marking of each batch of scripts had been completed did the markers confer and jointly decide on the final raw mark to be awarded for a particular answer. Thereafter each marker's mark, as well as the final mark, was noted down on the cover of the script. If the markers were unable to agree upon the number of marks to be awarded for a particular answer, the script was referred to the umpire, who then awarded the final mark. The SAICA secretariat was responsible for capturing and final checking of the marks of all candidates.

Consistency marking was introduced in 2012, which entails that a pack of ten scripts (consisting of six scripts selected from first-timer and four from repeat candidates) are selected on a random basis by SAICA’s Examinations Unit, and the exam numbers removed. These scripts are then numbered from 1 – 10 and photocopied. Every person on the mark team has to mark the question to which they have been assigned in the batch of ten scripts. This takes place on the first two days of the main marking process and the umpire, together with his/her mark team, then discusses how the individual markers award the marks point by point for each question. The aim of this process is to identify any concerns, differences and discrepancies in interpretation that the marker(s) may have in awarding of marks as per the final mark plan before actual marking commences. The main objective is to achieve consistency in the way the different markers within a mark team award marks.

4. Adjudication

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

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

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

Adjudication is done by the full IPD Committee as soon as possible after the marking process has been finalised and checked by the SAICA secretariat.

It is important to note that no person from the academe who is a member of SAICA’s IPD Committee is allowed to serve on the Examco, and that candidates’ anonymity is preserved until the final adjudication has been completed.

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

5. Borderline review

In 2013 SAICA introduced a further process to ensure that individual candidates who just fail the exam are not prejudiced in any way. Once the adjudication is finished, candidates who just failed (based on a range determined by the IPD Committee) are selected and a third and final review is undertaken on such candidates’ scripts. This review is undertaken by the umpire or assistant umpire being the most senior and experienced members of the mark team. The marks during this process may either go up or down and is again done on a question by question basis so the final result is not contrived. A sub-committee of the IPD Committee then meets to discuss the outcome of the borderline review and thereafter the pass percentages and other details statistics for the examination are prepared. Candidates who are selected for the borderline review is not awarded the secretaries mark (1 per paper) because they have had the benefit of a further and more detailed review of their papers.

In view of the above stringent marking process no request for re-marks will be entertained (also refer to our examination regulations for ITC in this regard).
GENERAL COMMENTS ON ITC JANUARY 2016

1. Objective

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

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

2. Analysis of topics

<table>
<thead>
<tr>
<th>Accounting &amp; External reporting</th>
<th>Strategy, risk management &amp; Governance</th>
<th>Audit &amp; Assurance</th>
<th>Tax</th>
<th>Fin Man</th>
<th>Management decision making &amp; control</th>
<th>Ethics</th>
<th>Comms</th>
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<tr>
<td>Required ranges in terms of the SAICA guidelines (2013 onwards)</td>
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<td>40 – 60 marks</td>
<td>60 – 80 marks</td>
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<tr>
<td></td>
<td>25 – 30%</td>
<td>10 – 15%</td>
<td>15 – 20%</td>
<td>15 – 20%</td>
<td>10 – 15%</td>
<td>10 – 15%</td>
<td>0 – 5%</td>
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<td><strong>TOTAL</strong></td>
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<td><strong>44</strong></td>
<td><strong>72</strong></td>
<td><strong>60</strong></td>
<td><strong>51</strong></td>
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<td><strong>8</strong></td>
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<td><strong>26%</strong></td>
<td><strong>11%</strong></td>
<td><strong>18%</strong></td>
<td><strong>15%</strong></td>
<td><strong>13%</strong></td>
<td><strong>10%</strong></td>
<td><strong>2%</strong></td>
<td><strong>5%</strong></td>
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#557655
3. Overall comments on the papers

The January 2016 ITC examination was considered overall challenging, yet fair and at appropriate level for the ITC.

From result statistics, it was evident that candidates found paper 4 easier and paper 2 the hardest amongst all 4 papers.

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

Paper 1 Question 1 consisted of two parts, which was considered a moderate to fair auditing, tax and ethics integrated question with a mix of easy and difficult marks. The topic coverage for the auditing, was different to prior years with a significant emphasis on tests of control and professional responsibilities. Even though appropriate, candidates appear to have been caught off guard at this change in focus, which may have contributed to on average, low marks attained. The tax component focused on inclusion in remuneration in terms of Fourth Schedule with respects to right of use of a motor vehicle in terms of par 2(b) and 7 of the Seventh Schedule.

Paper 2 Question 1 related to accounting and external reporting. The scenario tested the critical review of practical IFRS application, including various IFRS topics. The question assessed a candidate’s ability to analyse a set of financial statements relative to IFRS requirements, considered moderate to difficult, due to being deemed unconventional in the financial accounting discipline. The focus of the question was on the accounting treatment (classification, recognition, measurement and presentation) of the items that were included in the statement of financial position and notes to the financial statements.

Paper 2 Question 2 covered management decision making and control (MDM&C) aspects, in particular: budgeting, break-even analysis, identifying variances that would be useful to calculate, capital budgeting and risk identification. Level of difficulty of the question was assessed as moderate. Overall, candidate’s performance was better than in recent MDM&C questions in the ITC.

Paper 3 Question 1 dealt with accounting for a foreign operation in the consolidated financial statements and a discussion on the appropriate functional currency at level of moderate difficulty, with good overall balance between calculations and discussion. Candidates did not provide step-by-step and logical layout of their calculations. This resulted in calculations not used or not used in context. In addition, it was clear that candidates did not plan their approaches well enough which filtered through to exam technique.

Paper 3 Question 2 was a good tax case study and consisted of five subsections. It was an integration of services delivered in Botswana by a corporate taxpayer combined with the income tax calculation of an individual in one question. Level of difficulty was regarded as fair to moderate. Candidate’s’ exam technique with regard to discussion type questions were lacking. Candidates need to address all required parts individually and not combine them, in addition to stating general principles from various tax acts, instead of applying it to the information provided in the question/scenario.

Paper 4 Question 1 consisted of two parts, integrating financial management, accounting and strategy risk management and governance. This question was considered a comprehensive question, which included financial analysis, free cash flow valuation, an earnings-based valuation, the financial reporting aspects of cash
flows, as well as strategic analysis of the proposed merger in the second part of the question. It therefore represents a good integration of testing strategic analysis and computation of cash flows, ratios and valuation metrics. Overall the question was not considered to be difficult.

4. Specific comments

From a review of candidates’ answers to the eight required sections for the ITC January 2016 examination, the general deficiencies set out below were identified. These problems affected the overall performance of candidates, and it is a matter of concern that candidates make the same mistakes year after year. Although these aspects seem like common sense, candidates who pay attention to them are likely to obtain better marks, and it may even turn a low mark into a pass.

4.1 Application of knowledge

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

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

4.2 Workings

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

4.3 Communication

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

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

4.4 Journal entries

A fundamental part of financial accounting is an understanding of debits and credits. A means of assessing whether a candidate understands these fundamental principles is to require the candidate to prepare the relevant journal entries. Candidates often do not understand what journal entries they need to process. In many instances basic journal entries are processed the wrong way around. In addition, account descriptions are poor and abbreviations are used.
This is inexcusable and candidates must ensure that they understand what impact transactions would have on specific account balances, by showing that they know which account in the income statement or balance sheet has to be debited or credited. It is not sufficient for a candidate with Accounts IV to be a technocrat – understanding of the fundamental principles of accounting is critical to the success of a candidate at the ITC level.

4.5 Time management

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

4.6 Layout and presentation

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

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

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

4.7 Irrelevancy

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

4.8 Drilling down

Responses, particularly in the Financial Management, Management Decision Making and Control and the Strategy, Risk Management and Governance areas are often provided by simply repeating the information given in the question. Candidates are unable to drill down to assess what the underlying problem areas are and do not put any effort into going beyond what is stated in the question. Candidates need to draw on their entire knowledge base in order to provide more deep and meaningful insight, particularly in analysis type questions.

4.9 Recommendations / interpretations

Responses to these requirements are generally poor, either because candidates are unable to explain principles that they can apply numerically or because they are reluctant to commit themselves to one course of action. It is essential to make a recommendation when a question calls for it, and to support it with reasons. Not only the direction of the recommendation (i.e. to do or not to do something) is important, but particularly the quality of the arguments – in other words, whether they are relevant to the actual case and whether the final recommendation is consistent with those arguments. Unnecessary time is wasted by stating all the alternatives. Candidates should communicate reasons for calculations, if required. A discussion of a case study should always have a conclusion. Or if it requires a decision, a conclusion alone is not sufficient, discussion beforehand is required.
4.10 Examination technique

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

4.11 Open-book examination

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

- **No loose pages** (of any kind) may be brought into the exam.; and

- Writing on flags – As per section 4.4 of the SAICA examination regulations: ‘Candidates are only be allowed to highlight, underline, sideline and flag in the permitted texts. Writing on flags is permitted for reference and cross-referencing purposes only, that is, writing may only refer to the name or number of the relevant discipline, standard, statement or section in the legislation’.

  **Any contravention of regulation 4 will be considered to be misconduct.**

- Candidates are advised to familiarise themselves with SAICA’s exam rules prior to writing the examination.

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

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

4.12 Paying equal attention to all the competency areas

It is disappointing to note that candidates still appear to be most prepared to respond to accounting and external report questions and do considerably poorer in some of the other disciplines – most notably Financial Management and Management Decision making and Control. Candidates are reminded that the accountancy discipline is a broad one and the other disciplines are equally important. We draw your attention to the following regulation:

“4.2 A minimum of 200 marks (thus 50%) are required to pass the ITC.  
4.3 Candidates need to demonstrate an appropriate level of competence in ALL areas and disciplines, and therefore the overall pass mark of 50% shall be subject to the candidate achieving a sub-minimum of 40% in at least three of the four professional papers.”

For the first time this year we were in a position where we unfortunately had to fail a candidate because they did not achieve the 40% subminimum in two of their four papers. This is really unfortunate and candidates are advised to pay equal attention to all the competency areas in order to obtain an overall pass in the ITC.

In conclusion, a message to those who were unfortunately not successful in the examination:
Please start preparing for the next examination in good time. Don’t give up - sufficient preparation and a review of the basics will stand you in good stead for your next exam!

Best of luck!!
PROFESSIONAL PAPER 1

Paper 1 consisted of one question that dealt with the following aspects:

Question 1 Part I

(a) (i) Tests of controls of the payroll system
    (ii) Substantive analytical procedures over payroll
(b) Discussion of the ability to prepare journal entries for the audit client Ambition (Pty) Ltd
(c) Discussion of the auditor’s responsibility to communicate deficiencies in internal control
(d) Discussion of the auditor’s response in regard to the delay in payments to SARS

Question 1 Part II

(e) Ethics
(f) Inclusion in remuneration in terms of Fourth Schedule with respects to right of use of a motor vehicle in terms of par 2(b) and 7 of the Seventh Schedule
(g) General deduction formula, Fourth Schedule and variable remuneration

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

QUESTION 1 Part I

<table>
<thead>
<tr>
<th>Maximum mark</th>
<th>Average mark</th>
<th>Marks &gt; 50% (Pass)</th>
<th>Marks &lt; 50% (Fail)</th>
</tr>
</thead>
<tbody>
<tr>
<td>76</td>
<td>32.87</td>
<td>22% (552)</td>
<td>78% (2009)</td>
</tr>
</tbody>
</table>

1. What general areas the question covered

Part (a) (i) required candidates to provide the test of controls to test the operating effectiveness of controls over the payroll system provided

Part (a) (ii) required candidates to describe the substantive analytical review procedures that XYZ would perform to test the payroll expense for weekly wages

Part (b) required a discussion and conclusion on whether you are permitted to prepare the journal entries to process the weekly wage expenses and related balances for the month of December 2015 as requested by the Financial Director, with reference to Part (b) (i) the Companies Act, 2008 (Act 71 of 2008), as amended and Part (b) (ii) the SAICA Code of Professional Conduct.

Part (c) required candidates to discuss the responsibilities of XYZ to communicate deficiencies in internal controls as a result of identifying that the warehouse supervisor had not authorised an employee’s overtime (ISA 265 Communicating Deficiencies in Internal Control to Those Charged with Governance and Management)

Part (d) required candidates to discuss what XYZ’s response would be regarding the intentional delay of the payments to SARS
2. In what respect candidates’ answers are considered to fall short of requirements.

Candidates could have done better in the question if they focused on the scenario of the question and answered what was required. Candidates often disregarded the context of the scenario and addressed aspects in their answers which were outside the scope of the scenario. They also often only focused on certain aspects of the scenario and did not consider the broader scope of aspects to address.

The required of the question were also often not properly interpreted and answered. Answers were often given outside the scope of the required, or which was totally wrong.

This was evident in for example:
- Part ai) where test of controls were required to test the operating effectiveness of controls over the payroll system provided, and candidates would list controls to improve the system, or test controls which was not listed in the system description.
- Part aii) where candidates would list tests of controls or detailed substantive procedures to test the wage expense, instead of describing the substantive analytical procedures as required.
- Part b) where candidates would discuss the role and responsibilities of audit committees in terms of section 94 of the companies act to ensure auditor’s independence, although it was a private company and section 94 does not apply.
- Part c) where candidates only discussed the responsibility of the auditor to communicate deficiencies in internal controls in general and omitted to deal with ISA 265 to consider whether this is a significant deficiency as a result of the supervisor not having authorized the employee’s overtime that should be reported to those charged with governance.
- Part d) where candidates only addressed a Reportable Irregularity in respect of the auditor’s response regarding the delay in payments to SARS, and ignored the other audit consideration as prescribed by ISA 240, ISA 250, 315, and ISA 330.

3. Common mistakes made by candidates

As stated above, candidates did not always apply the information of the question in the answering of the required. Candidates also did not always consider what was required, and focused attention thereon. This is also indicative of generally poor examination technique.

4. Areas that the candidates handled well

Sections (ai) on tests of controls were reasonably well answered, as well as for section d) the part on Reportable Irregularities.

5. Specific comments on sections of the question

Part (a)(i)
Describe the tests of controls you would perform to test the operating effectiveness of key controls over the weekly wages payroll system

1. In a few instances candidates misinterpreted the question and described controls that could be implemented to improve the weekly wages payroll system or even provided substantive procedures.
2. Some candidates described system development and implementation controls which were not specifically requested.
3. Tests of controls were in many instances very poorly worded by candidates (lacked the “how”, “what” and “why” of
4. Candidates often struggled with application control versus general controls, such as testing who has access versus general access controls (passwords etc.).
5. Candidates can definitely improve on the way they use the auditing verbs. For example, rather than observing the foreman authorising the schedule, it is a much better test of control by inspecting the signature of the foreman on the schedule afterwards, that will give you much more comfort.

6. Some candidates also gave tests of controls for information given in the scenario that is not a control. For example, inspect that the form is pre-numbered. The fact that the form is pre-numbered is not a control, only when the HR manager follows up on the pre-numbered forms to identify missing forms, it becomes a control.

Part (a)(ii)
Describe the substantive analytical review procedures that XYZ would perform to test the payroll expense for weekly wages

1. In many instances candidates misinterpreted the question and provided either substantive procedures or tests of controls. These students provided procedures for addressing all assertions relating to wages and at most obtained one mark for a substantive analytical procedure.

2. It was also evident that some candidates clearly do not know the difference between substantive tests of detail and substantive analytical procedures.

Part (b)
Discuss and conclude whether you are permitted to prepare the journal entries to process the weekly wage expenses and related balances for the month of December 2015 as requested by the Financial Director, with reference to Part (b) (i) the Companies Act, 2008 (Act 71 of 2008), as amended and Part (b) (ii) the SAICA Code of Professional Conduct.

1. Candidates did not identify section 90 (2) as the applicable section in terms of guiding if service is permitted or not.

2. Many candidates did not realise that Ambition (Pty) Ltd is a private company and therefore described requirements relating to the audit committee as set out in section 94 of the Companies Act. Candidates also described section 93 of the Companies Act requirements related to conflict of interest.

3. Where the candidates however correctly identified that the company is a private company with a PIS score above 350, the identified the correct Companies Act section in most cases.

4. Candidates did not do well in the Companies Act part due to bad examination technique (i.e. not stating the relevant section theory, then applying it to the scenario and then concluding).

5. Candidates performed better in the SAICA Code of Professional Conduct part of this question. Most candidates seemed to have identified the self-review threat to independence caused by the preparation of the journals and even managed to describe some of the safeguards to mitigate the risk.

6. Some candidates however, due to the PIS score being higher than 350, viewed the company as a public interest company and described this situation as an emergency situation as per the SAICA CPC with the relevant requirements.

7. Many candidates also described intimidation and self-interest threats caused by the financial director’s comments on how he/she would value the clerk’s work which was not part of the required.

8. Most candidates did not apply and motivated why the threat to independence was significant.

Part (c)
Discuss the responsibilities of XYZ to communicate deficiencies in internal controls as a result of identifying that the warehouse supervisor had not authorised an employee’s overtime (ISA 265 Communicating Deficiencies in Internal Control to Those Charged with Governance and Management)

1. Examination technique was extremely poor in this section. This question was fairly straight forward with many available marks for theory and limited application. Many candidates however failed to even mention the correct ISA and many failed to discuss the relevant requirements from ISA 265.

2. Many candidates did not demonstrate an understanding of how to determine when is a deficiency significant.

3. Application of the information of the scenario in answering the required was also done poorly.

4. Many candidates also viewed this as a Reportable Irregularity and discussed the definition thereof and why this incident can be viewed as such, clearly ignoring the requirements of the required.

Part (d)
XYZ’s response regarding the intentional delay of the payments to SARS
1. Most candidates only dealt with a Reportable Irregularity and ignored the other aspects that the auditor should consider. This allowed candidates to obtain maximum only half of the available marks.

2. In very few other instances candidates managed to identify the other audit considerations relating to ISA 240, 315 and 330 such as increasing professional scepticism, unpredictability etc.

3. Some candidates identified the threat to going concern but very few candidates managed to identify the auditor’s further considerations in terms of going concern.

4. The issue of non-compliance with laws and regulations was identified by many candidates but the response from the auditor’s side wasn’t followed through which lead to candidates forfeiting the marks.

6. Overall:

The question was of a good standard and fair.

The candidates however did not perform as well as expected in the question which could be attributed to a lack of good examination technique.

Specifically:
- the information of the scenario was often not properly applied in the answers given;
- audit procedures were also often not logically worded in a descriptive manner that would earn students marks;
- regarding the auditor’s response to the “Delay in payment to SARS”, candidates often only focused on one aspect on the answer, namely a Reportable Irregularity, and did not the address the other aspects the auditor should have considered.

**QUESTION 1 Part II**

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<tr>
<td>24</td>
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<td>23% (592)</td>
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1. **What general areas the question covered**

Part (e) required candidates to discuss the ethical implications for a member of the external audit team on receiving an expensive one night only concert ticket in return for not reporting an error regarding employee’s overtime. Candidates were required to address the ethical considerations in terms of the Code of Professional Conduct, which were the fundamental principles of objectivity, integrity and professional behaviour. The candidates needed to identify that receipt of the concert tickets would constitute a bribe and receipt of a bribe would not comply with the fundamental principles. This would also create a threat to the auditors overriding responsibility of independence.

Part (f) required candidates to calculate, with reasons, the amounts to be included in the monthly remuneration of two employees on the right of use of a company motor vehicle provided to each employee for December 2015. The one motor vehicle was provided to an engineer who could use the vehicle for both private and business purposes, while the other vehicle was provided to a company driver who was allowed to use the vehicle only during business hours. In answering this question candidates were firstly required to identify and calculate the cash equivalent of the right of use motor vehicle fringe benefits, in terms of the Seventh Schedule of the Income Tax Act and then determine the amount that would be included the employees “remuneration”, as defined in para 1 of the Fourth Schedule of the Income Tax Act. Further the question also integrated concepts of VAT, as the motor vehicle on which the right of use was granted was not a motor car, as defined in the Value-Added Tax Act. In answering this question candidates had to substantiate their calculations with reasons or references to Income Tax Act and the Value-Added Tax Act.

Part (g) required candidates to discuss whether PAYE withheld in December and not paid by the end of the year of assessment (31 December 2015) would be allowed as a deduction in determining the normal tax of the taxpayer. In answering this question it was required of candidates to identify that PAYE is a component of an employee’s wages and it...
is the wages which is the expenditure that is allowed as a deduction in terms s11(a) of the Income Tax Act. In terms of
discussing whether the PAYE would meet the requirements of s11(a), candidates were required to address whether the
PAYE, not yet paid was actually incurred. Further the discussion had to be substantiated with reference to appropriate
case law.

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

Part (e)
In answering this part it was required of candidates to frame their discussion in terms of the Code of Professional Conduct
(CPC). In applying the CPC, at times candidates failed to address amongst others what the threats would be in terms of
the CPC and the significance of the threats. Candidates also failed to conclude appropriately by stating the gift should not
be accepted.

Part (f)
The required to part (f) asked candidates to calculate, with reasons. Very often candidates provided detailed explanations,
with supporting calculations. Instead candidates should have provided detailed calculations with short and supporting
reasons. This then resulted in candidates wasting valuable time. While on the other hand some candidates failed to
provide reasons or did not provide reasons to all components of the required.
In terms of technical understanding, it was noted that many candidates failed to display an appropriate understanding of
how the right of use of a motor vehicle fringe benefit would be dealt with for the purpose of determining remuneration as
defined in the Fourth Schedule.

Part (g)
In answering part (g) many candidates failed to identify the core issue at hand in answering the required. In addressing
the required, candidates had to identify that PAYE forms part of the wages expense and that it is the wages that is the
actual expense. Candidates failed to identify and discuss whether the expenditure was ‘actually incurred’.

3. Common mistakes made by candidates

Some candidates did not attempt all parts of the required; this may be an indication of poor time management.

Further a large number of candidates lacked basic and appropriate skills of layout and presentation. Candidates would
often answer a discussion question without leaving a space between paragraphs or between the various parts of the
required. In certain instances candidates numbered their answers incorrectly.

Where candidates provided references to the Income Tax Act in support of their answer, these references were not
always technically correct.

4. Areas that the candidates handled well

Part (e)
Most candidates correctly identified the fundamental principles of the Code of Professional Conduct. In general,
candidates could identify that the tickets were a bribe and the unacceptability thereof.

Part (f)
Generally candidate’s correctly identified that the right of use of the single-cab bakkie for the engineer would be a taxable
fringe benefit. Most of the candidates thus were awarded the marks for the determined value amount and multiplying it
with 3,5% in terms of par 7(4)(a)(i) of the Seventh Schedule.

Part (g)
Most candidates correctly addressed this part using the principles of s11(a) and thus correctly applied basic principles and
understanding, while not fully understanding the intricacies of PAYE forming part of the wages and the wages being the
expenditure.
5. Specific comments on sections of the question

Part (e)
In answering this required, most candidates failed to provide a clear structured approach to answering of the question i.e. principle followed by application.

Candidates displayed poor exam technique in not being clear in answering the required and in their conclusion that the gift should not be accepted. At times candidates were vague in their answers, for example in terms of dealing with the ethical considerations of receiving a gift of this nature, as an auditor this matter should be reported to the audit manager/partner and management of the company, yet many candidates merely stated that the matter should be reported without a reference to who.

Further, often candidates were able to competently deal with the principles or theoretical understanding of the Code of Professional Conduct, but provided limited or no application as to why or what the ethical concerns were and how the ethical issues would be resolved. Often candidates merely just dumped extracts of the CPC. Finally candidates failed to provide clear and direct conclusions on the ethical considerations.

Finally it was concerning to note that some candidates were of the opinion that the gift, which amounted to a bribe could be accepted.

Part (f)
Many candidates did not apply the 80% rule in terms of par. cB of the definition of ‘remuneration’ as it relates to the taxable fringe benefit on the right of use of a motor vehicle. Instead students referred to the application of par. 7(7) and 7(8) of the Seventh Schedule, which would apply for the purpose of par. (i) Inclusion into ‘gross income’ and the calculation of ‘taxable income’.

Many candidates failed to identify that no taxable fringe benefit arises in terms of par. 2(b) of the Seventh Schedule on the right of use of a motor vehicle if there is no private and domestic use, as was the case of the company driver. Many candidates incorrectly applied the principles of par. 7(10) and the nil fringe benefit, which was incorrect.

The right of use was granted on a single-cab bakkie, a single-cab bakkie is not a ‘motor car’ as defined in the VAT Act and therefore input tax would not have been denied on acquisition. Candidates also did not clearly indicate the correct terminology with respect to the VAT Act and the acquisition of the motor vehicles. A ‘motor car’ is clearly defined within the VAT Act while ‘motor vehicle’ is not.

While it was noted that the scenario was silent on whether the motor vehicles were acquired with a maintenance plan or not, candidates cannot assume that there is a maintenance plan.

Finally the required to this part, asked candidates to provide the ‘monthly remuneration’ inclusion, yet a large number of candidates provided an annual amount.

Part (g)
In answering this part, candidates very often did not follow a logical and structured approach to answer this part. It is suggested that in a discussion type question of this nature that candidates clearly identify and address what the issues are, the principles, application and conclusion. In this instance, also the relevant case law and principle from the case.

Further a number of candidates did not know how PAYE actually works and that it forms part of wages. Certain candidates addressed the considerations of PAYE as it relates to the employees in terms of Fourth Schedule of the Income Tax Act and the prepayment of normal tax of the individuals who are employed by the company.

Further the required specifically asked candidates to deal with the deductibility of the PAYE, yet it was noted that some candidates applied the incorrect case law principles, i.e. case law which applies to ‘gross income’ instead of s11(a).

In answering this required some candidates discussed the issue of ‘in the production of income’ as a problem for the deductibility of the PAYE and not whether the PAYE was ‘actually incurred’ which was one of the key issues.

While it was noted that in general, candidates generally knew that the general deduction formula had to be applied in part (g), it was apparent that there was some confusion as to whether the initial wage expenditure should be discussed, or the deductibility of the actual PAYE liability as it appears on the statement of financial position..
**PROFESSIONAL PAPER 2**

**Paper 2** consisted of two question that dealt with the following aspects:

**Question 1**

Critically review the extracts of the draft consolidated statement of financial position and notes provided for apparent inaccuracies, inconsistencies, errors in application and non-compliance with IFRS.

**Question 2**

(a) Budgeting  
(b) Break even  
(c) Variance analysis  
(d) NPV & IRR calculations  
(e) Risk identification & discussion

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

**QUESTION 1**

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

The question required a critical review of practical IFRS application, including various IFRS topics. The question assessed a candidate’s ability to analyse a set of financial statements relative to IFRS requirements.

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

Candidates struggled to see the link between the IAS 1 requirement to disclose areas of significant judgement and material uncertainties and the application of this to the information of the question and therefore struggled to identify which aspects of the financial statements in the question required significant judgement.

Very few candidates identified the issue that only relevant accounting policies should be included, once again failing to apply this requirement to the key facts of the scenario.

Candidates struggled to assimilate information from various parts of the question. For example, although many identified financial instruments as an issue in the question, they failed to make the link between the financial risk disclosures provided and the facts of the underlying financial instruments when critically analysing the accuracy of information provided.

3. **Common mistakes made by candidates**

Many candidates erroneously indicated that a loan to an associate company should be eliminated in terms of IAS 28 / IFRS 10 through a pro-forma journal.

Many candidates addressed going concern as a significant issue and went so far as to conclude that financial statements should not be based on the going concern assumption. Although the scenario did indicate risk areas, there was no
indication that the entity intended to cease trading and therefore we do not believe this was a significant area for discussion.

Many candidates addressed the downgrading of Drumeo as evidence of credit risk. It should be noted by candidates that Drumeo’s downgrading relates to their own credit risk and not the recoverability of financial assets.

Very few candidates identified that there were excessive and irrelevant disclosures relating to items not included in the financial statements (“Boiler plate accounting policies”),

Most candidates indicated a sound knowledge of the underlying theory, however struggled with the application of this to the scenario. For example:

- Most candidates identified the issue of setoff of deferred tax and assets and liabilities as well as the appropriate theory. However, they failed to correctly apply this theory to the entity under review (Drumeo), being a group company whose subsidiaries are taxed separately as separate legal entities and who has foreign operations that are governed by a separate tax authority.

- Candidates engaged in excessive theoretical discussion of the classification criteria for financial assets and liabilities even though the policies and disclosures were largely appropriate in this regard in the question, thereby wasting time on irrelevant discussions and not applying their theoretical knowledge to specific line items and analysis of the scenario.

Although the required mentioned that detailed disclosure requirements or sample disclosures were not required, many candidates nevertheless discussed these in detail, resulting in wasted time.

4. Areas that the candidates handled well

Candidates generally structured their answers well by including relevant theory to support their arguments and they mostly followed an appropriate exam technique for the question.

Candidates generally did well in identifying the broad areas for discussion.

Candidates did well to realise that certain issues, for example deferred taxation, impairment and the contingent liability, required a more in depth analysis due to the extent of the information provided, and therefore were able to score well in these areas.

QUESTION 2

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<td>53% (1357)</td>
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</table>

1. What general areas the question covered

This question covered budgeting, break-even analysis, identifying variances that would be useful to calculate, capital budgeting and risk identification.

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

In part (c) a number of candidates were not explicit with identifying variances that could be calculated and therefore did not adequately address the required.

A number of candidate’s answers in part (e) were vague and did not adequately describe the risks that they had identified.
3. Common mistakes made by candidates

In general examination technique were lacking as was evident from the following:
- Many candidates did not read and consider the information in the scenario carefully, or applied it in answering the question.
- A number of candidates failed to provide the answer in a memorandum format (as was specifically required), or provided memorandums which rather resembled a letter or an email.
- Many candidates did not present their answer in a logical way; they did not link the key business risks to the mitigating actions.
- The most common mistake in part (a) was the omission of the 20% share of revenue that was deducted by Ubex.
- In part (b), most candidates did not treat the tyres and service and maintenance costs as stepped costs that would only be incurred every 25 000 kilometres (for tyre costs) and every 25 000 kilometers after the 50 000 kilometre service plan had expired (for the service costs).
- The most common mistake in part (d) was candidates failing to realise that the revenue generated and costs incurred by the partnership were irrelevant to the NPV and IRR calculations as the only income attributable to Mr Umkahi was his fixed profit share and the costs incurred by Mr Umkahi were recovered from the partnership. In addition, many of the candidates who followed the alternative approach incorrectly omitted the recovery of the loan repayments from the partnership. Some candidates who calculated after tax cashflows incorrectly used a pre-tax discount rate in calculating the NPV.

4. Areas that the candidates handled well

As expected, most candidates performed well in part (a).

5. Specific comments on sections of the question

Candidates, as expected, performed very well in section (a) and well in section (d).

Generally, candidates performed less well and sections (c) and (e), although those who could adequately described the variances identified in (c) and the risks in (e) performed well.

Nearly all candidates performed poorly in section (b) due to them not identifying the step nature of the tyre costs, incorrectly calculating the fuel costs and to a lesser extent not identifying the need to perform a break-even calculation.

PROFESSIONAL PAPER 3

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

Question 1
a) Accounting for a foreign operation
b) Functional currency (Accounting – selection of an appropriate functional currency)

Question 2
a) Vat Act
b) Withholding tax
c) South African Income Tax Implications
d) Calculation of Individual taxable income
5 presentation marks were available for this paper. These marks were clearly and separately stated in the ‘required’ sections of each question.

**QUESTION 1**

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<td>17% (442)</td>
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1. **What general areas the question covered**

   This question covered the accounting for a foreign operation in the consolidated financial statements and a discussion on the appropriate functional currency, and totalled 52 marks. The question dealt with:

   **Part (a): Consolidation of Foreign Operations**

   This requirement had to two parts. In the first part, candidates were required to calculate the relevant items that needed to be included in the consolidated profit or loss arising from the loss of control over the foreign operation in the middle of the year. In the second part, the candidates were required to prepare a consolidated statement of changes in equity showing only the retained earnings and non-controlling interest.

   Marks were awarded for presentation, including layout and structure.

   **Part (b): Functional Currency**

   Candidates were required to discuss the appropriateness of the functional currency as chosen by management in terms of IAS 21 The Effect of Changes in Foreign Exchange Rates. Candidates were required to apply the information provided in the scenario to the indicators in IAS 21.9 - 12 to come to a conclusion on the appropriateness of the chosen functional currency.

   Marks were awarded for clarity of expression and logical argument.

2. **Level of difficulty of the question**

   The level of difficulty was generally described as “moderate” or “fair”, with some universities describing the question as being difficult under time constraints.

3. **In what respect candidates’ answers are considered to fall short of requirements.**

   Some candidates did not provide a step-by-step and logical layout of their calculations. This resulted in calculations not used or not used in context. This was especially evident in the calculation of the group gain or loss on the disposal of the foreign subsidiary.

   Candidates did not link and carry-forward the calculation of various amounts that should be included in profit or loss due to the loss of control to the profit or loss line-item that was to be included in the statement of changes in equity. This resulted in amounts calculated in a(i) but not pulled through to the statement of changes in equity in a(ii).  

4. **Common mistakes made by candidates**

   Candidates did not plan their approaches well enough which filtered through to the exam technique used in part (a) and resulted in a number of candidates not finishing their attempts in part (a).

   Candidates provided unnecessary calculations which were not used as part of their calculation of items to be included in
P/L or to be included in the statement of changes in equity.

Many candidates did not reverse the fair value adjustments on the investments in the separate AFS of Pharmsure. Candidates also did not make the necessary adjustments for intragroup transactions with unrealised profits.

Candidates were generally confused as to what should be included in the consolidated profit or loss of the Group and struggled to pull the necessary calculations through to the consolidated statement of changes in equity.

5. Areas that the candidates handled well

Candidates were able to identify the relevant exchange rates to translate from the functional currency (USD) to the presentational currency (ZAR) and calculated the foreign currency translation differences that needed to be recorded in the foreign currency translation reserve (‘FCTR’).

Candidates generally provided well-structured answers showing their calculations clearly.

Candidates generally performed very well in the discussion of the functional currency by applying the information provided to the guidance under IAS 21.

6. Specific comments on sections of the question

Part (a)
In this section, candidates were required to calculate the various amounts that needed to be included in the consolidated profit or loss of the Pharmsure Group and to prepare a consolidated statement of changes in equity for the year ended 30 June 2015.

Candidates who performed well in this sub-section were able to make use of good exam technique to perform the necessary calculations and disclosures to earn marks in a reasonable time. These candidates were able to structure their answers logically and clearly addressed the required. Candidates who identified that the sale of Truehealth will result in a group profit being calculated and that FCTR needed to be ‘recycled’ to P/L and the impact on consolidated profit or loss generally performed well.

Candidates who did not perform well commonly made the following errors or omissions:

Candidates did not present a logical, well-structured answer. In these cases it was clear that sufficient planning of the question was lacking and therefore resulting in important calculations and disclosures not being performed.

Candidates that failed to calculate foreign exchange differences to be recorded in FCTR did not earn the relative easy marks that were allocated in calculating these differences.

Candidates calculated items that needed to be included in the consolidated profit or loss, but failed to include it under the consolidated profit or loss in the consolidated statement of changes in equity.

Candidates who struggled to finish the question often performed unnecessary calculations which earned no or little marks which wasted time to actually complete the required.

Part (b)
In this section, candidates were required to critically discuss the appropriateness of USD as the functional currency of Truehealth. In discussing this, candidates needed to make use of the guidance and indicators contained in IAS 21.9-12.

Candidates who performed well in this sub-section were able to use the provided information in the scenario and apply it to the primary and secondary indicators of IAS 21. Good exam technique was rewarded when candidates stated the relevant theory and then applying the relevant information from the scenario to the response.

Candidates who did not perform well commonly made the following errors or omissions:
Candidates did not identify the issue at hand and discussed functional currency from a risk management perspective and not in terms of IFRS.

Candidates did not discuss all the relevant indicators as per IAS 21 and therefore limited themselves in obtaining marks by not identifying more relevant indicators which was contained in the scenario and IAS 21.

Some candidates did not conclude on the appropriateness of USD as the functional currency.

A number of candidates did not attempt sub-section (b) due to poor planning and exam technique used.

QUESTION 2

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1. What general areas the question covered

Part (a) (i)
Discussion of VAT implications (kind of supply; value of supply and time of supply) in relation to two invoices. The first one: An invoice for consulting services supplied in the Republic, by a South African vendor to a non-resident in respect of immovable property situated outside South Africa.
The second invoice: A separate invoice in respect of consulting services supplied by a South African vendor in respect of immovable property situated outside South Africa but the advice was provided directly to the non-residents while they were present in the Republic.

Part (a) (ii)
Discussion on the VAT implications in respect of three ‘events’ provided.
The first one: Entertainment and car rental costs incurred, in the currency of the foreign country, by a South African employee during a business trip to a foreign country.
The second: Entertainment expenditure incurred, in Rands, by a South African vendor on the accommodation and meals of foreign client (Botswana official).
The third: Entertainment expenditure incurred, in Rands, by a South African vendor on the accommodation and meals of an out-of-town employee during a work assignment. This part of the question tested the exceptions to section 17(2) of the VAT Act.

Part (b)
Discussion of the normal income tax consequences in respect of an invoice for consulting fees in terms of services rendered by a South African taxpayer to a non-resident. The question covered source rules, the treatment of a double tax agreement vs. South African tax legislation and the relief from double taxation available in terms of the provisions of section 6quat (1C) deduction versus the section 6quin credit/rebate. Candidates where further required to make a recommendation based on the limited information available on what would be the most beneficial relief available to the South African taxpayers.

Part (c)
Candidates were required to provide a brief discussion, with supporting calculations, on the South African normal income tax implications in respect of all amounts received or accrued to a South African taxpayer and on the deductibility of expenditure incurred or paid in respect of a part of the scenario provided to candidates. Candidates needed to discuss whether the income, paid in foreign currency, met the requirements of the gross income definition and whether the expenditure, both local and foreign amounts, met the general deduction formula. The candidates also had to discuss the conversion rules in relation to both the income and expenditure and candidates need to recognise the presence of a foreign exchange item as a result of the timing difference in payment and the incurral of an amount (section 24I).

Part (d)
Candidates were required to calculate the taxable income of a natural person (resident) employed by a South African company but required to perform duties in a foreign country. The individuals’ remuneration included the following fringe benefits (accommodation, right of use of a vehicle), an allowances (subsistence) and shares in a share option scheme (section 8C). The individual also received foreign interest and his employer paid for his accommodation while he is working in a foreign country. Due to the individuals working in a foreign country the candidates needed to identify the application of section 10(1)(o)(ii) exemption. Candidates had to provide reasons for items not to be included in taxable income.

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

Many candidates were not able to distinguish between issues that affect basic earnings per share and issues that affect diluted earnings per share, and either included it in both or in the incorrect calculation.

Candidates generally struggled with the calculation of diluted earnings per share. Many candidates failed to treat the effect of the contingently issuable shares of the subsidiary correctly. Candidates also generally struggled to correctly include the effect of the share-based payment options in diluted earnings per share

Part (a)(i)
- Candidates were required to advise the financial director regarding different invoices. In general candidates did not address the two invoices separately and stated general VAT principles without linking it to a specific invoice and applying in to the information at hand.
- A number of candidates only referred to the value of the contract (BWP10 million) and not the invoices – VAT being a transaction tax can only be levied on a valid invoice and the required was clear in this regard.
- Candidates concluded that the supply should be zero rated but were not able to identify the appropriate reason/section resulting in candidates not being able to differentiate between the two contracts.
- The time of supply rule was either left out by candidates or if a candidate provided the supply rule, they never applied the provision to the information provided – in other words did not mention the date of the first invoice.
- Value of supply requires an application. Candidates would state that a supply is either at 14%, exempt of zero-rated with no calculation.

Part (a)(ii)
- A number of candidates answered the two parts (i) and (ii) of Part (a) as one and tried to establish a link between the income and expenditure.
- Candidates that applied the provisions relating to entertainment did not give any indication whether their discussion related to all three events different or just one – this was a problem because the type of expenditure were very similar for each of the three ‘events’ and most candidates never included calculations. By applying basic exam techniques, namely to use headings for each of the expenses, candidates could have achieved better marks as they would have identified and discussed the issues for each of the ‘events’ required in this part.
- Candidates failed to identify that there was three ‘events’ in the question. Candidates should make use of headings to clearly distinguish between the different expenses.
- Many candidates did not include a calculation of the input VAT that can be claimed in their advice if they have done that that could have guided the markers in order to determine whether they were referring to only one of the cases or all three.
- Candidates thus mainly discussed only the first one: Entertainment and car rental costs incurred, in the currency of the foreign country, by a South African employee during a business trip to a foreign country.
- Some candidates did not recognise that hotel cost paid will also fall under the definition of ‘entertainment’.

Part (b)
- Candidates failed to address the source rules in terms of section 9 of the Act.
- As a result of not applying the source rules or applying it incorrectly candidates applied the section 6quat foreign tax credit/rebate as opposed to the section 6quat (1C) deduction and section 6quin rebate.
- Candidates fail to discuss the conversion rules for the foreign income or incorrectly concluded that it would be converted at spot rate.
- Candidates had to take the mark allocation into account in order to determine the length of their discussion – this posed a problem because the answers were either to short or too long or not attempted at all.
Part (c)
• Candidates identified that they needed to discuss whether the income, paid in foreign currency, met the requirements of the gross income definition. Candidates could also identify that the expenditure, both local and foreign amounts, met the general deduction formula. Unfortunately they failed to apply it to the scenario and as a result gave no conclusion or application.
• A number of candidates only did calculations without any discussion and some only a discussion with no mention of the figures in question causing them to lose unnecessary marks.
• This part of the question only referred to point 1.1 in the scenario yet a number of candidates included the income and expenditure of point 1.2 in their solution/answer.

Part (d)
• Many candidates failed to provide reasons for amounts received but not included in the taxable income even though that was specifically required.
• A number of candidates discussed the inclusion, deduction or exemption of amounts without a calculation.

3. Common mistakes made by candidates

Part (a)(i)
• Candidates did not make use of headings to clearly distinguish between the different invoices and lost marks because it was unclear to which invoice their answer referred to.
• In many instances, as a result of the above, candidates only addressed the first invoice regarding the consulting contract and not the second invoice regarding the consulting advice.
• Candidates confused services rendered to a non-resident with exported services and gave the incorrect reasons for the VAT being a zero-rated supply.
• Candidates provided general VAT rules without applying it to the information provided in the question (e.g. stating the time of supply rule for a vendor on the invoice basis, but not indicating the date provided in the question).
• A common mistake made by candidates was indicating that the time of supply for VAT is the earlier of received or accrued, while it should be the earlier of the date that the invoice was issued or when payment/receipt was made. Thus, candidates confused normal income tax (gross income definition) principles and VAT principles.
• Candidates did not read properly that the services that gave rise to both invoices were rendered in the Republic and candidates failed to identify that the difference between the two invoices was that the non-resident was outside the Republic in the first case, and present in the Republic in the second case.
• Candidates did not calculate the value of supply of the second invoice even though the information was provided.
• A number of candidates limited the VAT on a standard rated supply (14%) to 12% (VAT rate of Botswana).

Part (a)(ii)
• A number of candidates ignored the assumption provided in the required and wasted time discussing seminars and similar events or consider whether that VAT input on the entertainment costs would be allowed as a result of it.
• Candidates gave the incorrect reasons for the VAT implications of the expenses incurred in Botswana and failed to identify that you cannot claim foreign VAT levied in South Africa. A large number of candidates believed that a South African VAT vendor can claim Botswana VAT back in relation to services consumed in Botswana and they limited the input to the 12% VAT rate of Botswana.
• Most candidates did not include the hotel accommodation as part of ‘entertainment’ (only the meals and beverages). Hotel accommodation was either regarded as commercial accommodation or a residential dwelling and only a few candidates identified that it meets the definition of ‘entertainment’.
• Candidates that failed to identify the expenditure as entertainment simply stated that because the supply was zero rated, exempt or taxed at the standard rate, the input VAT will be claimed at the same rate or not at all if the supply gave rise to an exempt supply.
• A number of candidates failed to identify that the provisions of section 17(2)(a)(ii) could not apply to the Botswana official because he/she is not an employee of the South African vendor.
• Candidates either just listed the VAT provisions relating to entertainment or did not apply the provisions to the information provided or candidates never concluded that the expenditure were ‘entertainment’ and simply started their discussion with the exceptions of s 17(2) of the VAT Act.
A large number of candidates only discussed the VAT treatment of the hotel accommodation, meals and alcoholic beverages and car rental costs incurred, in the currency of the foreign country (Botswana), by a South African employee during a business trip to a foreign country.

Part (b)
- Many candidates did not realise that the wording ‘the South African income tax consequences of the withholding tax’ in the required meant that they had to consider the consequences regarding the source of the income which gave rise to the withholding tax, as well as any deductions or rebates and the effect of the DTA.
- Candidates erroneously applied that a South African taxpayer can claim a section 6quat rebate (tax credit) in relation to SA source income.
- Candidates did not read the requirement of part (b) – asking for ‘withholding tax implications’. They answered gross income implications as opposed to the withholding tax implications.
- Candidates completely ignored section 6quin.
- A number of candidates incorrectly stated that the taxpayer can either make use of the limitation of 10% withholding tax as stated in the DTA or a rebate for the relief of foreign tax paid.
- In most cases candidates did not provide a conclusion as required.
- Only a few of the candidates, that did identify the source of income to be South Africa and continued to discuss section 6quin rebate and section 6quat(1C) deduction, truly understood the difference between the two relief provisions.

Part (c)
- Candidates formulated their answers very poorly. This can be improved if candidates make use of headings to clearly distinguish between the different expenses and the income.
- Very few candidates identified that an exchange difference in terms of section 24I had to be calculated in terms of the debt receivable (constituting an exchange item) on the consulting service rendered to the non-resident (Botswana Government).
- Candidates identified the applicability of section 11(a) but failed to discuss and apply it properly – candidates need to do a calculation if the information is available and clearly indicate what the income tax implication would be.
- Candidates incorrectly excluded the Botswana VAT from the expenses incurred in calculating the deduction.
- Candidates incorrectly multiplied the Botswana amounts by the exchange rates in order to calculate the Rand values instead of dividing it by the exchange rates. As a result the candidates incorrectly calculated an exchange gain instead of an exchange loss or simply calculate the amounts incorrectly.
- A number of candidates regarded the cost relating to the hotel accommodation, meals and car rental costs incurred, in Botswana, by a South African employee during a business trip as a fringe benefit instead of a cost to the company.
- A number of candidates disallowed the deduction of the cost related to meals and alcoholic beverages.

Part (d)
- Generally part (d) of the required was considered to be a fairly easy part and candidates were expected to perform well in this section (which was not the case).
- Very few candidates indicated that the par 7(8) adjustment in terms of the Seventh Schedule to the Income Tax Act does not apply to the fuel expense due to the fact that the vehicle was an operating lease as defined in section 23A(1).
- Many candidates did not correctly identify and apply section 10(1)(o)(ii) or their application was done poorly. Candidates did not realise that section 10(1)(o)(ii) covers “ANY 12 month period, beginning or ending during a year of assessment”.
- Many candidates were confused between the 2015 and 2016 years of assessments. As a result of the aforementioned, many candidates applied the 2015 year of assessment in respect of some of the items, and the 2016 year of assessment in respect of other items.
- Candidates did not allocate the 9 months worked abroad into two years of assessment but either used 9 months in their calculation or 12 months without indicating the year of assessment at all.
- Candidates gave the incorrect reason for the residential accommodation benefit not being a taxable benefit or simply calculated a Seventh Schedule housing benefit.
- Candidates incorrectly added the fuel cost paid by the employee as part of the fringe benefit.
- Many candidates applied par 7(7) to the fuel cost instead of to the rental.
• Many candidates incorrectly multiplied the foreign interest by the exchange rate in order to calculate the Rand value instead of dividing it by the exchange rate.
• Many candidates incorrectly claimed the section 10B(2) dividend exemption in respect of the foreign interest received.
• Many candidates applied the section 10(1)(nC) or section 10(1)(nD) exemption in respect of the section 8C gain.
• Few candidates indicated that individuals have a choice in terms of the provisions of section 25D(3) to choose between the spot rate and average exchange rate on all amounts.

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

Part (a)(i)
• Candidates used the required MEMO format.
• Majority of candidates identify that the services supplied were in terms of the provisions of section 7(1)(a) of the VAT Act.
• A great number of candidates gave the general rule regarding the time of supply.
• Majority of candidates identified that the VAT in terms of the consulting contract should be levied at a rate of 0%.

Part (a)(ii)
• Most candidates identified some of the expenses as ‘entertainment’.
• Majority of the candidates that identified some of the expenses as ‘entertainment’ knew that VAT input would be allowed if an employee is away from his/her usual place of residence, for at least one night, for business purposes.

Part (b)
• Candidates that seen the extract from the double tax agreement between South Africa and Botswana did limit the withholding tax to 10%.

Part (c)
• Most candidates identified the applicability of section 11(a) on some of the expenditure incurred.
• Candidates knew that they needed to translate the amounts from Botswana pula to Rands.

Part (d)
• Most candidates calculated the salary inclusion to be R600 000.

5. **Overall**

In general it seems as if candidates could still improve their exam technique in respect of discussion type of questions. Especially with discussion type questions that required the VAT implications for separate invoices issued and separate expenditure incurred. Candidates need to address all required parts individually and not combine required parts. Also, candidates need not only state general principles from the various tax acts but need to apply it to the information provided in the question.
Paper 4 consisted of one question that dealt with the following aspects:

Question 1 Part I

(a) Performance evaluation
   • Ratio analysis (revenue focus)
   • Strategy
(b) Cash flow statement (operating activities)
(c) Valuation
   • Discounted cashflow
   • Weighted average cost of capital
   • Risk adjustment
(d) Valuation
   • Earnings based
   • EBIT multiplier
   • Risk adjustment

Question 1 Part II

(e) Investment and finance decision making
(f) Business risks

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

QUESTION 1 Part I

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<th>Maximum mark</th>
<th>Average mark</th>
<th>Marks &gt; 50% (Pass)</th>
<th>Marks &lt; 50% (Fail)</th>
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1. What general areas the question covered

The question was part of a larger integrated 100 mark question, which included 32 Risk Management, Governance and strategy marks. This part of the question covered earnings based and discounted cash flow valuations, weighted average cost of capital, cash flow statements (financial accounting), and performance evaluation in the form of a ratio analysis with a large revenue mix consideration.

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

There were many instances of candidates missing straightforward marks such as identifying adjusting cash flows, performing a WACC calculation, and risk adjustments to discount rates and multipliers.

Candidates performed relatively worse in the ratio analysis, and discounted cash flow required sections. The question required some ratios to be calculated to dissect revenue into the mix by city, as well as considering the role of the acquisitions, and acquired revenue as opposed to organic growth, together with profitability, working capital, gearing and
other ratios relevant to a service company. A large number of candidates did detect the lower than inflation growth, and that the company was acquiring revenue to grow.

Operating profit margin was also calculated well, however the attempted ratios on working capital and gearing were generally poor.

Commentary by candidates on the ratios was also poor. Candidates generally commented on revenue mix, but battled to provide meaningful input on profitability, gearing, and the working capital situation.

For the forecast cash flows, most candidates chose the long route of alternative 3, and on average achieved only around half of these marks. This is understandable as the cash flows were slightly different compared to previous board questions.

In part (c) attempts at the terminal value were mixed, some candidates getting this correct, and some battling with the variables in the formula, and where the cash flows were allocated in the time line. Few candidates adjusted the discount rate or cash flows for the different risk profile of the company.

3. **Common mistakes made by candidates**

In part (a) the attempted ratios on working capital and gearing were generally poor. Commentary by candidates on the ratios was also poor. Candidates generally commented on revenue mix, but battled to provide meaningful input on profitability, gearing, and the working capital situation. Candidates often also commented that a ratio had gone up or down, for instance: "revenue in the Durban office has increased", however no explanation was provided as to why this may have happened based on the scenario, and therefore resulted in a meaningless comment. Judgement needs to be displayed by providing possible reasons as to why the ratio moved.

Calculations of ROE and RONA were mostly incorrect, indicating that candidates have not refreshed on general formulae for ratios.

In part (c), most candidates chose the long way of reconstructing the cash forecasts (alternative 3), rather than utilising the inputs which already calculated these amounts. Further adjustments required were however processed poorly. This is understandable as the cash flows were slightly different compared to previous board questions.

In part (c) attempts at the present value calculations and terminal value were mixed, some candidates getting this correct, however most battled with the variables in the formula, and where the cash flows were allocated in the time line. Attempts at the NPV and WACC calculations were generally poor.

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

Presentation and examination technique was generally good. Ratio calculations on revenue and some aspects of current liquidity were well performed.

The cash flow construction was performed particularly well, and most candidates scored well here.

The earnings multiplier valuation was also well attempted, with most candidates performing well on the maintainable earnings section, and the multiplier determination.
**QUESTION 1 Part II**

<table>
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<th>Maximum mark</th>
<th>Average mark</th>
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<td>21.99</td>
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1. **What general areas the question covered**

The question covered potential synergies (16 marks) and key risks (16 marks) that could arise from the acquisition of a company (OmM by Pub).

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

In part (e) many candidates deliberated the synergies of expanding individually versus through the acquisition, whilst the required focused on the synergies as a result of the acquisition. A further concern was the fact that the candidates’ explanations for the identified synergies were not always well articulated.

In part (f) a number of candidates made a “memory dump” of general business risks, not necessarily as a result of the acquisition of OmM and the majority of candidates included key risks relating to the possible acquisition (acquisition decision) such as the break fee of R2 million, which was not part of the required. Some candidates also only identified the risks without properly discussing the result or effect of the risks.

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

Students were able to identify most factors stated in the question that gave rise to the potential synergies and key risks. The way the required for part (e) was phrased leaded the candidates to the three possible synergies namely strategic enhancements, revenue synergies and cost savings contributing to the area being handled well by candidates.

4. **Specific comments on sections of the question**

In part (e) many candidates deliberated the synergies of expanding individually versus through the acquisition, whilst the required focused on the synergies as a result of the acquisition. A further concern was the fact that the candidates’ explanations for the identified synergies were not always well articulated.

In part (f) a number of candidates made a “memory dump” of general business risks, not necessarily as a result of the acquisition of OmM and the majority of candidates included key risks relating to the possible acquisition (acquisition decision) such as the break fee of R2 million, which was not part of the required. Some candidates also only identified the risks without properly discussing the result or effect of the risks.