OBJECTIVES OF THIS REPORT

This report has been compiled from the analysis of examiners on candidates’ performance in the Initial Test of Competence (ITC) – previously known as Part I of the Qualifying Examination – which was written in June 2015. Its objectives are to –

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

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

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

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

- Statistics for the ITC June 2015;
- Background information on the setting, marking and adjudication of SAICA examinations;
- General comments on the ITC June 2015; and
- Detailed comments by question in each of the professional papers (1–4).
### Statistics for ITC June 2015

<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>63%</td>
<td>468</td>
<td>275</td>
<td>743</td>
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</tbody>
</table>

#### Average marks per question (all candidates)

<table>
<thead>
<tr>
<th>Paper 1</th>
<th>Question 1</th>
<th>Question 2</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total marks</td>
<td>58</td>
<td>42</td>
<td>100</td>
</tr>
<tr>
<td>Average marks</td>
<td>29,9</td>
<td>16,5</td>
<td>46,4</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Paper 2</th>
<th>Question 1</th>
<th>Question 1</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Part I</td>
<td>40</td>
<td>60</td>
<td>100</td>
</tr>
<tr>
<td>Average marks</td>
<td>24,1</td>
<td>27,6</td>
<td>51,7</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Paper 3</th>
<th>Question 1</th>
<th>Question 2</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total marks</td>
<td>47</td>
<td>53</td>
<td>100</td>
</tr>
<tr>
<td>Average marks</td>
<td>22,7</td>
<td>31,8</td>
<td>54,5</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Paper 4</th>
<th>Question 1</th>
<th>Question 1</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total marks</td>
<td>55</td>
<td>45</td>
<td>100</td>
</tr>
<tr>
<td>Average marks</td>
<td>28,2</td>
<td>25,9</td>
<td>54,1</td>
</tr>
</tbody>
</table>

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

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

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

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

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

In addition, two external examination sitters, who are independent of the exam-setting process, are appointed to review the entire set of questions. The examination sitters provide independent comments on the examination paper, suggested solutions or mark plans, 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 Examco, question composers, subject specific reviewers and external examination sitters, is as follows:

Ahmed Mohammadali-Haji      Janine Claassens
Andrew Hyland                Johnathan Streng
Carmen Westermeyer           Jo Pohl
Cornelie Crous                Lisa Vidulich
Erica Say                    Mandi Oliver
Ernst Koch                   Marielienne Janeke
Ferdinand Mokete             Michael Herbert
Francois Liebenberg          Neville Dipale
Frans Prinsloo               Piet Nel
Giel Pieterse                Pieter van der Zwan
Graeme Berry                 Reghardt Dippenaar
Greg Beech                   Renshia van Noordwyk
Karien Coates                Shelly Nelson
Kobus Swanepoel              Zweli Mabhoza
Jana Lamprecht
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 confidentiality regarding the handling of scripts, questions, solutions and mark plans. SAICA holds the copyright of the solutions and mark plans.

Marking of ITC June 2015 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-time 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 undertakes a point-by-point discussion with the individual markers on how the marks each question was awarded. The aim of this process is to identify any concerns, differences and discrepancies in interpretation that the marker(s) may have had 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.
Four secretaries’ marks (one per paper) are awarded to each candidate who wrote the ITC. The purpose of these marks is to compensate in general for any issues that were not specifically picked up during the marking and adjudication process.

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

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 only just fail the exam are not prejudiced in any way: Once the adjudication has been completed, candidates who only 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, as they are the most senior and experienced members of the mark team. Marking again takes place on a question-by-question basis so the final result is not contrived. As a result of this process the marks for a particular candidate may either go up or down. 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 do not receive the secretaries’ marks 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 SAICA ITC Examination Regulations in this regard).
GENERAL COMMENTS ON ITC JUNE 2015

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 for June 2015

<table>
<thead>
<tr>
<th>Required ranges in terms of the SAICA guidelines (2013 onwards)</th>
<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>Communications</th>
</tr>
</thead>
<tbody>
<tr>
<td>100 – 120 marks</td>
<td>60 – 80 marks</td>
<td>60 – 80 marks</td>
<td>40 – 60 marks</td>
<td>0 – 20 marks</td>
<td>20 – 40 marks</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>25 – 30%</td>
<td>10 – 15%</td>
<td>15 – 20%</td>
<td>10 – 15%</td>
<td>0 – 5%</td>
<td>5 – 10%</td>
<td></td>
<td></td>
<td></td>
</tr>
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</table>

<table>
<thead>
<tr>
<th>June 2015</th>
<th>Accounting &amp; External reporting</th>
<th>Strategy, risk management &amp; Governance</th>
<th>Audit &amp; Assurance</th>
<th>Tax</th>
<th>Financial Management</th>
<th>Management decision making &amp; control</th>
<th>Ethics</th>
<th>Communications</th>
<th>Total</th>
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<tr>
<td>P1 Q1</td>
<td>54</td>
<td>4</td>
<td>58</td>
<td></td>
<td></td>
<td></td>
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<td>P1 Q2</td>
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<td>2</td>
<td>42</td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
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<tr>
<td>P2 Q1 Part I</td>
<td>10</td>
<td>20</td>
<td>6</td>
<td>4</td>
<td>40</td>
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<tr>
<td>P2 Q1 Part II</td>
<td>57</td>
<td>3</td>
<td>60</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>P3 Q1 Part I</td>
<td>25</td>
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<td>2</td>
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<tr>
<td>P4 Q1 Part II</td>
<td>43</td>
<td>2</td>
<td>45</td>
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<tr>
<td>TOTAL</td>
<td>111</td>
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<td>43</td>
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<tr>
<td>% of TOTAL</td>
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<td>11%</td>
<td>19%</td>
<td>15%</td>
<td>11%</td>
<td>10%</td>
<td>0%</td>
<td>6%</td>
<td></td>
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</table>
3. **Overall comments on the papers**

Overall comments received from universities indicated that the papers were of an appropriate standard for the ITC. Together, the four papers were balanced, integrated a variety of topics and were of an acceptable standard.

The fact that there were three 100 mark questions could be regarded as more challenging, but this was balanced by there being one set of information for each such question, which would have made reading time more manageable.

**Paper 1, question 1** was a good case study that covered important parts of the tax syllabus and the question integrated a number of topics well. Some universities felt that because of the substantial discussion component, candidates might have found it a challenge to complete the question within the allocated time. The detailed VAT consequences and the detailed integration of the normal tax and VAT of debt reduction would also have challenged candidates. However, this section is balanced by the easier section on the normal tax calculation for an individual.

While the scenario in **paper 1, question 2** was likely to have been foreign to many candidates, the information provided made it fairly clear how this type of ‘business’ operates. The wording of the required and the less conventional analysis that was required may have caught candidates off guard. Part (a) was relatively unstructured and required candidates to think and plan their approach rather than relying on a memorised formulaic solution. This required a higher level of critical thinking. Parts (b) and (c) required fairly basic calculations and discussions, which balanced the more difficult part (a). The result was an appropriate test of a number of pervasive skills and a fair and well balanced assessment of the candidates’ understanding. Some universities commented that candidates were unlikely to perform well, as they generally struggle when required to analyse the performance of an entity and with discussion questions.

Most universities considered **paper 2** to be fair, with the assessment of the auditing and assurance and risk management and governance technical competencies being of an appropriate standard for an ITC examination. It contained a good integration of various topics.

On the whole, **paper 2, part I** was considered to be fair, although candidates may not have expected this although it is examinable at a level 3 per the examinable pronouncements document. There was a good balance between difficult issues and easy marks. The question would have given a good indication of candidates’ ability to extract information and answer questions by referring to IFRS requirements.

Some universities considered the auditing component of **paper 2, part II** to be fairly challenging, but most agreed that it contained a good coverage of various auditing aspects, as well as an excellent balance not only of different types of auditing questions but also different auditing topics. It was therefore a very good, holistic test of candidates’ understanding of auditing and governance. Candidates may have found the very specific requirements on IFRS 7 challenging. Some universities felt the section relating to the reportable irregularity was a bit basic for ITC level, but others felt it was a good test of candidates’ competence in the fields of audit procedures and reporting on reportable irregularities.

The mining environment in **paper 3** may have been unfamiliar to candidates, but candidates should still have been able to interpret and apply the applicable IFRSs to the scenario. Furthermore, it pertained to a sector that is vital to South Africa (mining) and highly topical, and therefore candidates should have been aware of the difficulties experienced by this sector.

**Paper 3, part I** was considered to be moderate to difficult and some of the technical issues presented in the scenario could have been problematic to candidates. Particularly part (a) on the Companies Act could have been quite challenging, as the sections covered were subject to interpretation and would assess candidates professional judgement. The fact that candidates had to assimilate the information over a number of pages added to the level of difficulty, although it was a realistic and well-integrated question. It was noteworthy that the same issue may have featured in the candidates’ solutions to all parts, given that all these requirements draw on the same fact set, but obviously the information needed to be used from a different perspective. This could have added to the challenge.

Most universities commented that **paper 3, part II** contained a good integration between examinable subjects. The clear and unambiguous required sections were balanced by a complex and challenging scenario. The own credit risk matter could also have caused difficulties for some candidates. The inclusion of testing of recently introduced standards (IFRS 9) and those which have been effective for a while (such as IAS 17) brought a good mix of straight-forward and challenging aspects to the question. The question assessed a fair range of discussion, calculation, journal entry and presentation skills.
The two parts of paper 4, which assessed financial reporting and financial management, had a common scenario which worked well as a cohesive body of text, with a good integration of the capital budgeting aspects with the financial reporting implications. The paper was balanced, with a moderate level of difficulty and sufficient time for what was required.

Most universities considered paper 4, part I to be moderate to difficult, due to the high level of integration of the financial management and external financial reporting information, the fact that information was scattered throughout the question and that it was quite a long scenario. However, it was not overly difficult from a technical perspective. The question achieved good coverage of IFRS 13, IFRS 9, group statement matters and cash flow statements. It tested a range of topical issues and recently introduced standards. The statement of cash flows was a good test of the candidates' understanding across a number of accounting matters.

The level of difficulty of paper 4, part II was considered to be moderate by most universities, although some felt the candidates may have struggled with the taxation implications. The scenario was a real-world capital budgeting application, with the information presented in a well-structured and logical manner. The issues surrounding the valuation of the investment property tested candidates' ability to undertake a capital budget / valuation of an asset and to determine the weighted average cost of capital in relation to a property division, which will have different risks to the main operating division. The manner in which capital budgeting was examined was refreshing in that candidates were required to give each aspect of the budget some thought rather than simply performing a number-crunching exercise. They also had to apply their tax knowledge.

4. Specific comments

From a review of candidates’ answers to the five questions (eight required sections) for the ITC June 2015 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 what 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 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 Examinations, because written communication is a key
competency required in the workplace. Candidates should learn to answer discursive questions properly. This can be done by practicing exam-type answers under exam conditions in preparation for the examination.

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

4.4 **Journal entries**

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

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

4.5 **Time management**

Candidates are advised to use their time wisely and budget time for each question. The marks allocated to each question are an indication of the relative importance the examiners attach to that question and thus the time that should be spent on it. Candidates should beware of the tendency to spend too much time on the first question attempted and too little time on the last. They should never overrun on time on any question, but rather return to it after attempting all other questions. By not managing time appropriately it was evident that candidates left out many marks, often easier marks, whilst the difficult 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. While the secretariat did ensure that candidates who wrote answers in the incorrect book were marked by the correct mark team, this delays the marking process.

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. Any discussion of a case study should always have a conclusion. If a decision is required, a conclusion alone is not sufficient and it should be preceded by a discussion.

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 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 definitions, no matter how detailed, 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 candidates are 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 have sufficient time to complete 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 the IPD Committee was in a position where it unfortunately had to fail a candidate because that candidate did not achieve the 40% subminimum in two of the four papers. This is really unfortunate and candidates are advised to pay equal attention to all the competency areas in order to obtain an overall pass in the ITC.

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

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

*Best of luck!!*
PROFESSIONAL PAPER 1

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

**Question 1**
- Required a deduction of interest paid with reference to case law;
- Required calculation of the normal tax consequences of a settlement agreement;
- Required determination of the value-added tax consequences of acquisition of property and the settlement agreement; and
- Required calculation of the normal tax liability of an individual.

**Question 2**
- Required a performance analysis, evaluation and discussion;
- Required calculation of expected revenue (budgeting); and
- Required an analysis and recommendations on overhead allocation.

6 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>58</td>
<td>29.9</td>
<td>57% (420)</td>
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1. **What general areas did the question cover**

Part (a) required candidates to draft a memo explaining whether interest on a loan would be deductible in the determination of the taxpayer’s taxable income. A shareholder of the company had raised a bond on a personal residence and then loaned it to a company at a higher rate of interest. Candidates were required to address the application of section 24J(2) in terms of whether the interest incurred by the taxpayer on the original loan was in ‘carrying on a trade’ and ‘in the production of income’. In answering this question candidates were required to substantiate their discussion with reference to case law.

Part (b) required candidates to discuss what the normal tax consequences would be for a taxpayer as a result of a settlement agreement between the taxpayer and a creditor. Candidates had to discuss the settlement agreement as a reduction amount as defined in section 19(1) and/or par. 12A of the Eighth Schedule. Candidates needed to identify that the underlying loan, with regard to the settlement agreement, related to both an allowance asset and a deductible expense. Therefore candidates had to address the normal tax consequences of the reduction amount in terms of par. 12A as it relates to the allowance asset and the reduction of the par. 20 expenditure (base cost) of the asset. In terms of the reduction amount, which related to the deductible expenses, candidates needed to address the recoupments in terms of section 8(4)(a), which would have to be recognised in gross income.

In part (c) candidates had to discuss the VAT consequences on fixed property and a settlement agreement, and of both supplier and recipient. Candidates were required to identify the type of supply, time of supply and value of supply. In addressing the VAT consequences on fixed property, candidates were also required to address the VAT effects of the purchase price being settled in instalments, realising that input tax would only be claimed and output tax only be levied to the extent of payments made.

Part (d) of the question required candidates to calculate the normal tax liability of a natural person who retired from employment during the year of assessment. The calculation included a salary, medical aid fringe benefits and a lump sum payment received. The calculation also included a repurchase of shares held by the taxpayer in return for an asset of the
company. Candidates had to address a dividend in specie, the effects of a reduction in the company’s contributed tax capital, the dividend exemption available as well as the capital gains tax inclusion on the sale of the shares. Candidates had to calculate the normal tax liability excluding the lump sum using the tax tables and reduce this by the primary rebate in terms of section 6. Candidates then had to calculate the normal tax on the lump sum received using the retirement fund lump sum benefit tax table before taking into account the medical aid scheme’s fees tax credit in terms of section 6A and the additional medical expenses tax credit. The normal tax liability (after rebates) was then reduced by the employee’s tax withheld.

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

In part (a) candidates had to draft a memo explaining whether interest on a loan would be deductible in the determination of the taxpayer’s taxable income. Most candidates failed to correctly identify that the deduction of interest would be claimed in terms of section 24J and instead dealt with the application of section 11(a) and the general deduction formula. Some candidates dealt only with the gross income inclusion consequences of the interest received, despite the question dealing with the deductibility of the interest.

Part (b) was generally well addressed and candidates easily identified that there was a debt reduction and a reduction amount. However, some candidates were unable to correctly apply normal tax treatment for the reduction amount in terms of section 19 and par. 12A of the Eighth schedule.

In part (c) candidates had to address the VAT for all parties to the transaction on two transactions. Some candidates only discussed the VAT consequences for one party to the transaction, instead of both and likewise only addressed one of the transactions.

Candidates generally displayed poor use of VAT terminology and limited understanding of basic VAT principles (time and value of supply rules).

In part (d) on the calculation of the normal tax liability of a taxpayer, many candidates were unable to perform a normal tax liability calculation. Candidates also did not apply the correct sequence/order in calculating the normal tax liability.

3. Common mistakes made by candidates

Part (a)

Some candidates addressed the gross income implications of the interest received by Mr Cele from Pine Jel instead of addressing the deduction consequences of the interest Mr Cele incurred on the amounts borrowed. Many candidates could thus not differentiate between the amount which Mr Cele had borrowed (using a bond) and the amount which Mr Cele had lent to Pine Jel. In answering this part, candidates were thus required to address the deduction of interest on the amounts borrowed by Mr Cele. Most candidates did not refer (nor considered) to section 24J at all.

In addressing the deductibility of the interest on the amounts borrowed, most candidates failed to identify that interest received on the amounts lent to Pine Gel would be included in Mr Cele’s gross income. Some candidates identified that there would be an inclusion but they were not specific and stated that the interest is included in taxable income. This is incorrect as income (gross income less exempt income) from interest is included in taxable income.

Furthermore some candidates confused the fact that because the loan was raised by Mr Cele (via a bond on his personal residence) that this would result in the interest being capital in nature or would be disallowed by application of section 23(a) or (b) as it was personal expenditure of the taxpayer.

Where candidates did refer to case law in their solutions, some referred to incorrect case law to support their arguments or to case law which would be relevant to gross income. It was also noted that candidates often did not present a logical argument and often contradicted themselves in the conclusions presented or did not present a conclusion at all. Finally, some candidates failed to draft their answer in memo format.

Part (b)

Some candidates did not recognise the debt reduction in terms of section 19 and par. 12A of the Eighth Schedule. On the other hand, where candidates did identify the debt reduction, they were uncertain how to treat a debt deduction for normal...
tax purposes. Candidates often mixed up the requirements of section 19 and par. 12A of the Eighth Schedule or failed to split their answer into section 19 and par. 12A components. Candidates therefore displayed poor understanding of the order in which to apply the principles of section 19 and par. 12A.

Many candidates did not clearly state that the recoupment in terms of the previous deductions granted in terms of section 11(d) would be included into gross income and instead used the term taxable income.

Part (c)
Candidates did not illustrate good exam technique in discussing the VAT consequences. A discussion of VAT consequences always requires a discussion of the ‘type of supply’ (e.g. either a taxable supply or an exempt supply).

Very few candidates discussed the ‘value of the supply’ as part of their answers. Furthermore candidates displayed limited understanding of the time of supply rules of fixed property. That is that where the purchase price is settled in instalments, only input tax would be claimed and output tax would only be levied to the extent to which payments have been made.

In answering this part some candidates also determined that no VAT would be levied by National Bank (the supplier of the fixed property) as the supplies of a bank, in providing financial services as defined, would be exempt from VAT. However, the sale of the fixed property is not a supply of a financial service and thus output tax would have been levied on the sale. These candidates could not differentiate between the sale of the property and the loan which would be used to settle the purchase price. The loan and interest would have no VAT consequences. This being said, candidates were not required to address the VAT consequences of the interest as this was not required.

Finally in answering the question many candidates discussed VAT consequences on the settlement agreement (waiver of debt) and the implications of the irrecoverable debts, when in fact there were no VAT implications, as VAT would have only be dealt with to the extent of payment.

Part (d)
A number of candidates incorrectly included retirement benefits and leave pay in taxable income at amounts net of employees’ tax deducted. Candidates therefore failed to understand how amounts are disclosed on an employee payslip. The amounts presented to candidates in the question were gross amounts and therefore no consideration needed to be given to the employee’s tax amounts for the purpose of taxable income. Candidates clearly showed a lack of understanding that employees’ tax is a prepayment of normal tax and does will not reduce taxable income.

Candidates were not sure whether to include lump sums in gross income or not. Lump sums are included into gross income in terms of par. (d) and included into gross income. The lump sum is however subject to a separate tax table.

Many candidates did not deal with the leave pay appropriately. Although the question stated that the leave pay was not a severance benefit, many candidates still treated the leave pay as a severance benefit.

Most candidates did not recognise that after retirement, medical contributions to the taxpayer is a nil value fringe benefit (the taxpayer has retired due to ill health). On the other hand, the after retirement medical contributions to the taxpayer’s wife is a fringe benefit.

Many candidates did not calculate the dividend in specie and the related exemption. Candidates failed to apply the definition of a dividend in section 1, particularly in relation to a reduction in contributed tax capital.

When calculating the taxable capital gains inclusion, candidates did not apply parr. 35 and 20 of the Eighth Schedule. Candidates also forgot to apply the annual exclusion of R30 000 and some candidates used a different amount. Some candidates used the incorrect capital gains tax inclusion rate as set out in par. 10 of the Eighth Schedule, using 66,6% instead of 33,3%.

Candidates displayed very poor knowledge of retirement benefits. Many candidates failed to add the R100 000 (previous withdrawal benefit) to the lump sum of R500 000 to calculate the normal tax on the lump sum. Candidates also used the incorrect tables to calculate the normal tax on the retirement benefits, using the retirement table for the R500 000 and the withdrawal table for the R100 000.
The medical tax rebates in terms sections 6A and 6B were very poorly answered. Candidates confused the order of the steps in the section 6B rebate. Many candidates used the section 6B(3)(b) rebate applicable to a disabled person instead of the rebate in terms of section 6B(3)(c). The question did not state that the taxpayer or any dependents were disabled. Merely retiring due to ill health does not equate to a disability.

Finally the order and structure of the normal tax liability calculation of most candidates were incorrect. Candidates are advised to ensure that the correct structure of the taxable income and normal tax liability is followed. Normal tax per the tax tables should first be reduced by the rebates in terms of section 6. Thereafter the tax on retirement lumps is added, after which the section 6A and 6B rebates is taken into account. The final deduction is then the amount of employees tax paid to determine normal tax liability.

4. Areas that the candidates handled well

In part (a) the majority of the candidates used the correct memo format and substantiated their discussion with reference to case law.

In part (b) the majority of the candidates identified that the waiver of a loan is a debt reduction for tax purposes.

In part (c) candidates were able to identify that input tax would be claimed on the purchase of the fixed property.

In part (d) most of the candidates were able to identify that gross salary would be included into taxable income.

5. Overall comments

In general candidates performed well in the discussion-type questions compared to the calculation question. Despite this, some of the candidates’ solutions displayed a lack of planning, no logic and very little clarity in arguments and discussions.

While it was noted that some candidates did not manage their time and therefore did not finish the question, this was a result of the candidate spending far too much time on a general discussion of facts instead of focussing on the issue itself.

In conclusion it was noted that far too many candidates were still applying outdated legislation when answering this question. Candidates are reminded to update their knowledge according to the most recent tax legislation.
QUESTION 2

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

This question covered a broad range of topics, including performance analysis and evaluation, budgeting and overhead allocation.

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

Candidates particularly struggled to identify any meaningful and insightful analysis and commentary. Generally candidates performed very disappointingly in this question as can be seen by the low average mark and very disappointing pass rate for this question.

3. **Common mistakes made by candidates**

Most candidates hadn’t attempted to carefully consider their approach to answering the question and had simply jumped straight into their answers by applying a formulaic approach to answering the question.

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

As expected, most candidates were able to calculate the forecast revenue required in part (b) and therefore scored well in this section.

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

Candidates performed the worst in part (a), which required an analysis and evaluation of the Assurance Division’s profitability. It was evident that most candidates hadn’t taken any time to carefully plan their answer and consider which key areas required analysis. Most candidates simply jumped straight into their answers trying to apply a formulaic approach to answering this section. This resulted in limited meaning and insightful analysis and commentary being performed.

The vast majority of candidates performed satisfactorily in part (b). Those who did not perform well did so due to an inability to manipulate percentages. A number of candidates did not adjust the 2015 billable hours for the Quake audit for the once-off assignment completed in 2014.

Candidates’ typically scored enough marks to pass or come close to passing part (c). A number of candidates, however, wasted time by dumping theory relating to ABC systems which showed no understanding or relevance to the scenario or what was required.
PROFESSIONAL PAPER 2

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

Question 1 Part I

- Required determination of the deductibility of expenses for tax purposes (corporate credit cards);
- Required related party disclosure in terms of IAS 24; and
- Required a discussion of concerns regarding compliance in terms of King III.

Question 1 Part II

- Required determination of whether issues constitute reportable irregularities;
- Required the design and documentation of tests of key controls over Capex;
- Required a description of substantive procedures over –
  - the completeness of directors’ remuneration; and
  - the completeness, compliance with covenants and presentation and disclosure of long-term debt.

7 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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<td>40</td>
<td>24.1</td>
<td>88% (655)</td>
<td>12% (88)</td>
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1. What general areas did the question cover

Part (a) on taxation required a discussion on whether expenses incurred in respect of corporate credit cards that were issued to directors, would be deductible for tax purposes.

Part (b) on financial reporting required related party disclosure in terms of IAS 24 (no amounts were required).

Part (c) on corporate governance required candidates to discuss concerns relating to the company’s compliance with King III.

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

The question was answered relatively well by most candidates. Answers were mostly of an acceptable standard and in an appropriate format, in line with the required. Most candidates displayed a sound knowledge and understanding of the topics covered in the question. The majority of candidates attempted all the subsections.

3. Common mistakes made by candidates

Part (a)

Common mistakes made by candidates

- The majority of candidates based their discussions on ‘obvious’ information that was given in the case study, failing to identify the actual issue on hand, being that the corporate credit card payments formed part of directors remuneration (payment for services rendered), or even a possible dividend from the company’s perspective, and not merely staff meals and entertainment expenses.
- Many candidates discussed whether the private expenditure incurred by the directors (e.g. monthly groceries and clothing) were incurred in the production of income, which was not relevant from the company’s perspective in this situation.
Part (b)

**Common mistakes made by candidates**
- Many candidates incorporated disclosure requirements relating to directors’ remuneration in terms of the Company’s Act into their answers, which was not relevant.
- Some candidates only listed the disclosure requirements of IAS 24 and did not prepare the related party disclosure note that was required (i.e. theory dump, lack of application).
- Many candidates did not include the required information regarding balances owing to/from subsidiaries (including the relevant terms and conditions), thereby losing a relatively easy 4 marks.
- Some candidates did not disclose the key management personnel compensation per category as required by IAS 24 (e.g. short-term employee benefits, post-employment benefits etc.).

Part (c)

**Common mistakes made by candidates**
- Very few candidates were able to identify the board’s responsibility regarding compliance with relevant laws and regulations (see section 5 of the solution) and providing relevant examples in this regard.
- Some candidates misread the information that was given regarding the CEO and Chairman of the Board of Magic (see page 3 of case study). Candidates discussed concerns relating to the CEO and Chairman of the Board of the parent company (Starmedia), which was not relevant.
- Many candidates went into a lot of detail regarding the company secretary and composition of the audit committee, even though the case study never mentioned or referred to any of these aspects (there was not enough information in the case study to reach a conclusion regarding any of these aspects). No marks were allocated for this and candidates therefore wasted unnecessary time on this.

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

All three subsections were answered relatively well by the majority of candidates.

Part (a)

**Areas that the candidates handled well**

Even though most candidates failed to correctly identify the actual nature of the expenses, most candidates were still able to score most of the available marks by simply discussing and applying the requirements of section 11(a) of the Income Tax Act. Most candidates illustrated good exam technique in this regard, by simply going back to basics.

Part (b)

**Areas that the candidates handled well**
- Candidates generally did well in this section, since the related party relationships and transactions were straightforward and easy to identify and the question did not require any amounts to be disclosed.
- Since most candidates probably did not know IAS 24 disclosure requirements off by heart, they illustrated a good ability to use and refer to IFRS (open book) in order to answer this part of the question.

Part (c)

**Areas that the candidates handled well**
- This part of the question was answered relatively well by most candidates.
- Many candidates managed to focus their discussions on relevant issues that were clearly evident from the case study (i.e. no theory dump).
- Most candidates displayed good exam technique by firstly identifying the relevant principle of King III which they were concerned about, and then providing valid reasons for their concerns (application of the information provided in the case study).

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

Nothing further to note.
QUESTION 1 PART II

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<td>60</td>
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1. **What general areas did the question cover**

The auditing aspects of 60 marks formed part of an integrated 100 mark question, with accounting and taxation. The auditing part covered reportable irregularities, tests of key controls over Capex, substantive procedures and completeness of spreadsheet for directors’ remuneration. The latter dealt with completeness, compliance with covenants and presentation and disclosure of long-term debt.

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

Although it was evident that candidates do not lack auditing knowledge, examination technique was again, as in previous examinations, a problem. Many candidates did not read and consider the information of the question carefully, and applied this in answering the question.

This was very evident in part (e) on tests of key controls of CAPEX, where candidates often ignored the controls given as per working paper A115, as well as in the substantive procedures of part (f) where candidates often listed generic procedures, ignoring the information given.

It was also clear that candidates are still battling with the pervasive skills requirements as per the Competency Framework, as aspects were often only identified or listed instead of discussed or described as per the required.

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 was very evident in the section on substantive procedures where candidates often addressed the accuracy and occurrence assertions as opposed to completeness.

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

Section (d) on reportable irregularities was well answered. It was clearly evident that candidates understood the statutory requirements and were able to address this from the information in the scenario.

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

Part (d) on reportable irregularities was generally well answered. Candidates did however often made the mistake of only stating that there is no compliance with the Companies Act, rather than being specific on what aspects or sections had been breached.

In part (e) on the tests of key controls over CAPEX some candidates made the mistake of ignoring the controls given in the question as per working paper A115, and then testing those controls.

In part (f) on substantive procedures candidates often ignored the information of the question as a focus for their substantive procedures, resulting in generic procedures being listed.

Candidates also did not focus on the required, and often addressed a different assertion than what was required, for example dealing with existence and occurrence, rather than completeness of the loans and directors’ remuneration.
PROFESSIONAL PAPER 3

Paper 3 consisted of one question that dealt with the following aspects:

Question 1 Part 1

- Required a discussion of Companies Act contraventions;
- Required risk assessment of overall financial statement level and assertion level risk;
- Required an audit response on overall financial statement level risks; and
- Required the identification and description of key business risks.

Question 1 Part II

- Required presentation of financial instruments;
- Required accounting for a financial liability at fair value (own credit risk);
- Required preparation of journal entries to account for a finance lease;
- Required a discussion on accounting for the early settlement of a financial liability with own shares; and
- Required a discussion on accounting for the investment in a joint arrangement.

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

1. **What general areas did the question cover**

The question covered potential Companies Act contraventions (15 marks), the effect of the information in the scenario on financial statement level risk and assertion level risk (10 marks), audit responses to the identified financial statement level risk (11 marks) and key business risks (11 marks).

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

The candidates mainly focused on the obvious aspects in each subsection, and in the majority of the cases only obtained the obvious marks.

3. **Common mistakes made by candidates**

Many candidates listed the information from the scenario without linking it to the required or made generic statements without linking it to the given information. In part b(i) many candidates did not indicate the effect (increase and/or decrease) on the risks although the required specifically asked for the effect of the information on the risks.

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

The risks at financial statement level part of b(i) was well answered and this part of the question had the highest average percentage.

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

In general part (a) of the question was poorly answered. Although the question asked for any possible contraventions of the Companies Act, the candidates only focused on the obvious matters that were breached, such as sections 22 and 76,
which were obvious from the scenario but did not sufficiently expand on their application regarding these sections. Some candidates gave examples from the scenario without explaining the Companies Act contraventions or stated the requirements of certain sections, without any application to the information in the scenario, thereby forfeiting marks.

The required noted possible contraventions and many candidates did not take into account the fact that if the scenario is silent about a specific requirement of the Companies Act, but there is some information about the requirement for example section 45, that there is the possibility that the requirements of the section were not met. Candidates also tended to state the contraventions by the audit committee, although the required specifically stated contraventions by the Board. Many candidates included King requirements, Auditing Professions Act requirements and Code of Professional Conduct requirements whilst the required dealt specifically with the Companies Act. Section 77 regarding liabilities of directors was included in many candidates answers while this would be the consequence of the contravention and not the contravention itself.

In part b(i) candidates stated risks at overall financial statement level well but their answers relating to the risks at assertion level was disappointing. The candidates tended to only focus on the financial statement level risks, with very little attention given to the assertion level risks. Generic statements were made, and in many instances did not indicate the risk or the reason from the scenario for their statements and often included business risks in this part. The other concern is that although the required asked for the effect of the information on the risks, many candidates did not indicate the increase and/or decrease.

Part (b)(ii) was well answered as the majority of the marks came directly from the ISAs, although some candidates provided responses for each of the identified risks (in tabular format) although that was not what was required. Candidates often excelled in this part by addressing the fraud risk responses while the response to the going concern risk was addressed less often, but nevertheless still frequently identified.

Part (c) was poorly answered with many of the candidates giving only the indicators and not the risks (thus the consequences to the business), or the risks without the indicator from the scenario. In many instances candidates repeated the financial statement risks instead of focusing on key business risks.
1. **What general areas did the question cover**

This was an external financial reporting question which dealt in the second part of a common integrated scenario with auditing, strategy, risk management and governance.

- In required (d) candidates were required to prepare the relevant extracts of the statement of financial position, the statement of profit or loss and other comprehensive income and the statement of cash flows relating to convertible bonds issued.
- For required (e) candidates were required to prepare journal entries to account for a leasing arrangement as a lessee.
- For part (f), on IFRIC 19, candidates were required to draft a memorandum which explained the impact of the restructuring of the amount owing to Mastglass on the consolidated financial statements of the entity.
- For part g candidates were required to discuss how the entity would have accounted for its investment in a joint arrangement.

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

- Part (d): Candidates performed tax calculations and disclosed tax in the financial statements even though the scenario clearly stated ‘Ignore taxation and value-added tax (VAT)’ at the very beginning. Candidates did not disclose their own credit risk fair value adjustment in the statement of financial position. In certain instances, candidates also did not present their fair value adjustments for own credit risk in other comprehensive income. There were some candidates who presented current and non-current amounts in the financial statements even though this was specifically excluded in the requirement.
- Part (e): Candidates prepared tax journals which were not required (see above).
- Part (f): Candidates did not discuss broader accounting implications, such as the impact on disclosure, earnings per share and cash flow.
- Part (g): Candidates identified correctly that IFRS 11 *Joint Arrangements* was applicable, but did not sufficiently apply the theory to distinguish between a joint operation and a joint venture. Candidates omitted the basis of accounting for the joint operation or venture.

3. **Common mistakes made by candidates**

- Candidates did not provide journal narrations in part (e).
- Candidates did not identify that IFRIC 19 was the appropriate interpretation for the issue in part (f).
- The application of the theory to classify a joint arrangement as a joint venture or joint arrangement was done poorly by candidates in part (g).

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

- Candidates generally attempted all parts, which indicates that they managed their time well.
- Candidates provided supporting calculations for amounts disclosed and journalised parts (d) and (e).
- In part (f), candidates discussed the impact of the restructuring on the financial statements with supporting amounts as well as indicating whether equity, liabilities and profit/loss would be affected.
- Candidates’ application of the joint control definition was good in part (g).

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

**Part (d)**

- Candidates who performed well in this section were able to identify that the carrying amount of the liability at year end had to be calculated for a fair value ‘including own credit risk’ and a fair value ‘excluding own credit risk’ and
subsequently calculating the fair value adjustments to be recognised in profit or loss and other comprehensive income and transferring these figures correctly to the face of the statement of profit or loss and other comprehensive income.

- Some candidates did not perform well in this part, as they –
  - calculated a future value for the liability at transaction date as well as year end;
  - did not calculate a year end fair value ‘including own credit risk’ and a fair value ‘excluding own credit risk’; and/or
  - re-measured the equity component at year end.

**Part (e)**

- Candidates who performed well in this part prepared most of the required journals, including the finance costs and contingent rental journal entries.
- Candidates who did not perform well in this part were those who provided incorrect journal entries and/or did not provide supporting calculations for finance cost and depreciation.

**Part (f)**

- Candidates who performed well in this part identified the applicable accounting standard (IFRIC 19) or the correct principles and applied those principles to the scenario with supporting amounts and included a discussion on the impact on the financial statements.
- Candidates who did not perform well in this part were those who missed the issue and discussed inappropriate accounting principles such as restructuring provisions.

**Part (g)**

- Candidates who performed well in this part discussed and applied the criteria for joint control against the information in the scenario and also discussed the classification of the joint arrangement as either a joint venture or joint operation.
- Candidates who did not perform well in this part were those who only discussed the identification of joint control and/or stated the theory for classification as a joint venture or joint operation with no or limited application.
PROFESSIONAL PAPER 4

Paper 4 consisted of one question that dealt with the following aspects:

Question 1 Part I

- Required a critical discussion on whether the fair value measurement of investment property is appropriate in accordance with IFRS 13;
- Required the preparation of a table indicating the fair value hierarchy of various items included in the financial statements; and
- Required a calculation of net cash flows from operating activities.

Question 1 Part II

- Required a capital budget for investment and finance decision making; and
- Required the identification and discussion of business risks with regard to investment in a property development project.

7 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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<td>47.78% (355)</td>
<td>52.22% (388)</td>
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1. **What general areas did the question cover**

The question required a critical discussion on whether the fair value measurement of the investment property was in accordance with IFRS 13. Here candidates had to argue about the measurement technique to be used, including available observable inputs, as well as the tension between highest and best use of the property either as industrial or residential.

The question further required an indication, with supporting reasons, the fair value hierarchy of various items at fair value, including investment property, PPE, FECs, financial assets and liabilities at amortised cost, bank loans and a contingent consideration.

The last part of the question required candidates to pull together information from various parts of the scenario in order to calculate cash flows from operating activities in a group scenario.

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

Candidates likely did not expect a large IFRS 13 discussion and application question and hence did not seem prepared for part (b) and especially part (a) of the paper. Part (a) was poorly answered and application of the standard was lacking. Many relevant parts of IFRS 13 were also not discussed. Part (b) was well answered, although candidates should ensure that the reason for the chosen level makes sense with respect to the given information in the scenario and the chosen level. The only comment on part (c) is that candidates should focus on completeness of their answers and try ensure they address everything relating to the required based on the mark allocation of the question.
3. Common mistakes made by candidates

Candidates should be careful to ensure that they take all relevant information into account in answering a question and that they work accurately, as easy marks are often lost by ignoring some necessary information or including it incorrectly in their solutions. For specific comments, see section 5.

4. Areas that the candidates handled well

The candidates mostly obtained most communication skills marks and the layout of their solutions was generally good and in accordance with the required. For specific comments, see section 5.

5. Specific comments on sections of the question

The candidates generally approached the question correctly, but application was lacking in certain instances.

In the part (a) discussion on IFRS 13 the application was very poor. Candidates most likely did not expect such a detailed IFRS 13 application question, and hence only performed well with the very basic discussions, i.e. definitions and theory, with only a little application. As IFRS 13 has so many aspects, candidate discussions were also mostly incoherent and they were not certain which section of IFRS 13 to focus on.

The candidates generally performed well in part (b) of the question, as this was an easier application and shorter to answer. The question also included a lot of conceptual repetition between 8 different items to discuss. Candidates should just make sure that their reasons coincide with their chosen level, as well as information in the scenario and should not discuss a variety of different levels.

Part (c) performance was average, based on the following: The candidates generally knew the adjustments that had to be made, but since information was scattered, candidates did not take everything into account and missed information that was presented elsewhere. In general, when candidates made adjustments, they were correct. However, many adjustments were not taken into account.

Areas where candidates performed well:
- The obvious amounts and easy adjustments such as depreciation and impairment reversal were made with ease.
- If candidates calculated the re-measurement gain on disposal of associate, they generally scored well in the calculations.

Areas where candidates performed poorly:
- Many candidates were given negative marks because of incorrectly adjusting for OCI items and the dividend in the calculations.
- Contingent consideration were calculated, but not necessarily adjusted for in the calculation.
- A large contingent of candidates did not calculate a re-measurement gain on disposal of the associate and hence lost out on 7 marks.
- The amortisation on the intangible asset, share of profit of the associate and interest expense was often ignored.
- Candidates should also be extra careful to include adjustments correctly, i.e. added/deducted, as easy marks are lost if the sign is incorrect.
1. **What general areas did the question cover**

The question was part of a larger integrated 100 mark question, which included 55 financial accounting marks. This part of the question covered valuations, weighted average cost of capital, and some identification of key other factors. The context was a residential property development, and subjects examined included capital budgeting, the weighted average cost of capital (Hamada model, pooling of funds), the capital structure and a valuation. It was integrated with, albeit discrete from, taxation consequences, which included section 13sex (an allowance, inclusions and recoupments), capital gains tax and a normal tax calculation. Candidates were also required to identify and discuss other key considerations for decision making relating to the property development project.

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 initial cash flows and sunk costs, and allocating cash flows to the incorrect years.

A number of candidates missed the fact that during the first two years, there would be no rental income as the residential building would still be under construction. This resulted in cash flows being allocated to incorrect years. Also, it was concerning to see candidates calculate tax on all cash flows (rather than taxable income), including capital costs.

The weighted average cost of capital (WACC) calculation was poorly attempted, illustrating a general lack of knowledge on how to calculate WACC. This included non- or misapplication of the Hamada model, not re-levering the beta, and not identifying that a WACC needed to be calculated. There were a sizable number of candidates who did not display the mathematical ability, failing to be able to manipulate and solve the Hamada formula. Very few candidates adjusted the rate for risk, or identified that the competitor was different to the company.

3. **Common mistakes made by candidates**

There was a diversity of solutions relating to the section 13sex calculation, with many candidates not identifying that section 13sex applied.

In part (e) many candidates identified factors, but did not discuss these in the context of the company as required, resulting in them only earning one of the two marks per point.

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

Presentation and examination technique was generally good. There were however many instances where candidates missed out on more straightforward marks such as identifying initial cash flows and sunk costs, and allocating cash flows to the incorrect years.

The calculation of the capital allowances, recoupment, and capital gains tax implications was generally identified and calculated correctly.

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

Included in the above.