OBJECTIVE OF THIS REPORT

This report has been compiled from the analysis of examiners on candidates' performance in Part I of the Qualifying Examination, which was written in March 2009. 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 two examination papers.

The purpose of Part I of the Qualifying Examination is to test the integrated application of cognitive knowledge, 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 Part I of the qualifying examination 2009
- Background information on the setting, marking and adjudication of SAICA examinations
- General comments on Part I of the Qualifying Examination 2009
- Professional paper 1 – detailed comments by question
- Professional paper 2 – detailed comments by question
### STATISTICS FOR PART I OF THE QUALIFYING EXAMINATION 2009

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#### Average marks per question:

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<tr>
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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 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 Examinations Committee, a sub committee of the SAICA Education Committee takes overall responsibility for the setting of the examination paper. Examination questions could be 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, public practice or from academics but EXCLUDES academics who have any involvement whatsoever in the presentation or otherwise of Board courses should suitable questions not be available in the above mentioned question pool.

Academics or former academics are also involved in reviewing exam questions by subject area after their teaching commitment for the year have been completed. 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 around whether the number of marks and time limit is appropriate; and
- Provide comment on the validity and reliability of such assessment.

In addition two external examination sitters, who are independent to the exam setting process, are appointed to review the entire set of questions after the review from the academics has taken place. The examination sitters provide independent comment on the examination paper, suggestion solution or mark plan and reports back to the Examinations Committee.

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 EXAMCO, question composers, subject specific reviewers and external examination sitters is as follows:

Steven Ball
Greg Beech
Mike Benetello
Graeme Berry
Kim Bromfield
Helouise Burger
Danie Coetzee
Xolani Dludla
Derek Forsyth
Hendrik Fourie
Lindsay Mitchell
Ferdinand Mokete
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 Examinations Committee. They are all selected with great care regarding their integrity and professional standing and are sworn to secrecy.

2.1 Marking of the scripts

The Education Committee 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 after 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 Education Committee, who authorises the final suggested solutions and the mark plans that will be used in the marking process.

All markers and umpires have to sign a declaration of secrecy regarding the handling of scripts, questions, solutions and mark plans. SAICA holds the copyright of the solutions and mark plans, and they are returned to SAICA together with the mark lists once the marking has been completed.

Each marking team consists of a number of individuals (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.

Each script is marked independently by two different persons who record their marks on separate mark sheets. Once the marking has been completed, the markers confer and jointly decide on the final mark to be awarded. Then each marker's mark, as well as the compromise mark, is noted down on the cover of the script. In the event of the markers being unable to agree upon the number of marks to be awarded for a particular answer, the script is referred to the umpire, who then awards the final mark.

*In view of the above stringent marking process no request for re-marks will be entertained.*

2.2 Adjudication
Adjudication is done by the full Education Committee as soon as possible after the mark lists have been received and checked by the SAICA Secretariat.

Candidate names are not known by the members of the Committee at the time the adjudication process takes place.

During the adjudication process, the Education Committee considers all relevant evidence, including the following:

- Whether there were any time constraints encountered by candidates;
- 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.

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

In order to ensure that the whole marking and adjudication process remains anonymous, the instructions to candidates clearly state that their names should not appear anywhere.
GENERAL COMMENTS ON PART I OF THE QUALIFYING EXAMINATION 2009

1 Objective

In view of the primary objective of Part I of the Qualifying Examination, namely to test the integrated application of cognitive knowledge, 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 Overall comments on the papers

Overall comments received from universities indicated that the papers were of an appropriate standard for Part I of the Qualifying Examination.

- The accounting questions were of a good standard as can be expected for Part I of the Qualifying Examination. The accounting questions were adequately integrated between accounting topics and also incorporated knowledge relating to taxation. The questions were not exceptionally difficult but required candidates to have a good knowledge of and solid foundation regarding the basic principles underlying the topics. Topics examined were relevant and of importance both in practice as well as in the academic syllabus.

- The tax questions were of an easy standard and most candidates passed the tax questions. Despite this, candidates did not score as well as expected and markers continue to comment on the lack of candidate’s basic and current tax knowledge.

- The standard of the management accounting and financial management questions was also considered appropriate for Part I of the Qualifying Examination. Despite this both questions were answered poorly by most candidates and lack of basic knowledge and examination technique was evident. Many candidates spent valuable time writing information that was given in the question, an endeavour that achieved no marks.

- The standard of the audit question was moderate and considered appropriate for Part I of the Qualifying Examination. The auditing tested basic theoretical knowledge which is appropriate for Part I of the Qualifying Examination. Candidates did not fare well in this question mainly due to the fact that they were unable to apply their theoretical knowledge to the facts presented in the question. Examiners are increasingly concerned about candidate’s inability to score well in auditing questions at a QE Part I level. Candidates who regurgitated “shopping lists” of information did not score marks. Candidates performed poorly by not demonstrating sufficient insight to identify the weaknesses. Such candidates therefore could not score the additional related marks by identifying assertions, describing the impact on financial statements or nature of audit procedures.
3 Specific comments

From a review of candidates’ answers to the seven examination questions for the March 2009 examination the following general deficiencies were identified. These problems affected the overall performance of candidates, and it is a matter of concern that candidates annually make the same mistakes. 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.

3.1 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 – this being a pure regurgitation of what candidates may have learnt about the theory at university, but of no real relevance to the question in hand. Candidates also do not appear to identify the correct issues in the scenario provided.

This is a major concern, because by the time candidates qualify for sitting for 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. Candidates who are unable to identify the correct issues do not do well in the examination.

3.2 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. In many instances workings were performed by candidates but not cross referenced to the final solution. Once again, 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 these must be properly and neatly cross referenced to the final solution.

3.3 Communication

Candidates fared better in questions requiring calculations than in discursive questions. It is important that candidates note that written answers are a large component of the Qualifying Examination as written communication is a key competency required in the work place. Candidates should learn to answer discursive questions properly. This can be done by practicing exam type questions 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. It is concerning to note the increased use of SMS style of writing in a professional examination. Candidates should pay specific attention to the way in which they write their answers bearing in mind that this is a professional examination.
3.4 Journal entries

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

This is inexcusable and candidates must ensure they understand the impact transactions would have on specific account balances by knowing which account in the income statement or balance sheet to debit or credit. 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 a Part I level.

3.5 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 relevant 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.

3.6 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, i.e. in the form of a letter, memorandum or a report.

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 qualifying examination. 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 which resulted in some delays in the marking as the correct question had to be found and then sent to the correct mark team. Despite this the secretariat has made quite sure that candidates who answered in the incorrect book had all their answers appropriately marked.

3.7 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.
3.8 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.

3.9 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, answered questions in words where calculations were required or presented financial statements where a discussion of the appropriate disclosure was required.

3.10 Open-book examination

Candidates are reminded that they MUST familiarise themselves with SAICA’s open book policy and be aware that this may be different to 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. This includes index pages which was seen by some candidates in this years exam not to “supplement texts” and therefore considered appropriate;
- Candidates are also advised that from 2010 SAICA will no longer allow NOTES of any kind in the prescribed books allowed to be brought into the exam.
- Candidates are advised to familiarise themselves with SAICA 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 essential 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. In 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 before will be disadvantaged as they are unlikely to finish the paper.

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

Best of luck!!
PROFESSIONAL PAPER 1

Paper 1 consisted of three questions that dealt with:

Question 1:
This question was a financial accounting question counting 60 marks in total. 20 marks of the question were allocated to the performance of a taxable income calculation. The question dealt with the following issues:

- The correction of the profit before tax figure by applying a basic knowledge of the treatment of share-based payment in terms of IFRS 2 Share-based Payment and the reclassification of other comprehensive income to profit or loss in terms of IAS 1 Presentation of Financial Statements and IAS 39 Financial Instruments: Recognition and Measurement;

- The calculation of the taxable income of the company by means of the traditional profit or loss method of calculation – i.e. commencing with the adjusted profit before tax as calculated in the first part of the question and then comparing the differences in treatment between accounting and taxation to calculate the final taxable income figure from a taxation point of view;

- The calculation of the deferred tax balance in the statement of financial position at reporting date in terms of the assets and liabilities method and disclosing this information in the notes to the statement of financial position and statement of comprehensive income – i.e. a tax rate reconciliation and note disclosure relating to the composition of the deferred tax balance was also required and necessitated the deferred tax calculation according to the assets and liabilities method.

Question 2:
The question was a 50 mark question which examined the following main topics:

- Financing issues
- Cost of debt
- International finance (forex)
- Weighted average cost of capital
- Asset backed securitization
- Creditworthiness considerations

Question 3:
The question consisted of 80 marks of financial accounting and 10 marks auditing.

Part (a) of the question counted 14 marks and dealt with the calculation of goodwill or bargain purchase gain arising on a business combination by using the “full goodwill method”. This required candidates to perform various fair value adjustments on acquisition date together with the resulting deferred tax adjustments and also to take into account a settlement gain on a pre-existing relationship.
Part (b) counted 10 marks and dealt with the audit procedures to audit the accuracy and valuation of a business combination, i.e. mainly the audit of all components affecting the amount of goodwill or bargain purchase gain arising on a business combination.

Part (c) counted 49 marks and required of the candidates to prepare a consolidated statement of comprehensive income. The question required the candidates to start with the line item “profit after tax” and candidates therefore had to first calculate this amount by adjusting for information given in the question. A large proportion of the marks were allocated to the calculation of the profit after tax. In order to answer part (c) of the question, candidates had to integrate principles relating to, amongst others, business combinations, non-current assets held for sale, discontinued operations, impairment, deferred taxation, provisions, property, plant and equipment and presentation of financial statements.

Part (d) counted 12 marks and required of the candidates to prepare the revaluation surplus and non-controlling interest columns of a consolidated statement of changes in equity. Candidates had to apply principles regarding to revaluations of property, plant and equipment (especially the transfer of a revaluation surplus to retained earnings), as well as business combinations and changes in ownership within a group of companies.

The remaining 5 marks were allocated to arrangement and layout, clarity of explanation, logical argumentation and language usage.
Question 1

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<td>60</td>
<td>42.83</td>
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Level of difficulty:

The question was on a good standard as can be expected for Part 1 of the Qualifying Examination. The question was adequately integrated between accounting topics and also incorporated knowledge relating to taxation. The question was not exceptionally difficult but required candidates to have a good knowledge of and a solid foundation regarding the basic principles underlying the topics. Topics examined were relevant and of importance both in practice as well as in the academic syllabus. The difficulty of the question was unfortunately elevated by the presence of a significant time problem in the question, which is estimated to be in the region of 30 marks (i.e. 45 minutes). This complicates the decision of whether candidates performed badly due to a general lack of knowledge and ability, or due to the time problem that was evident in the question.

Main subjects/topics examined in the question

This question was a financial accounting question counting 60 marks in total. 20 marks of the question were allocated to the performance of a taxable income calculation. The question dealt with the following issues:

- The **correction of the profit before tax figure** by applying a basic knowledge of the treatment of share-based payment in terms of IFRS 2 *Share-based Payment* and the reclassification of other comprehensive income to profit or loss in terms of IAS 1 *Presentation of Financial Statements* and IAS 39 *Financial Instruments: Recognition and Measurement*;

- The **calculation of the taxable income** of the company by means of the traditional profit or loss method of calculation – i.e. commencing with the adjusted profit before tax as calculated in the first part of the question and then comparing the differences in treatment between accounting and taxation to calculate the final taxable income figure from a taxation point of view;

- The **calculation of the deferred tax balance** in the statement of financial position at reporting date in terms of the assets and liabilities method and disclosing this information in the notes to the statement of financial position and statement of comprehensive income – i.e. a tax rate reconciliation and note disclosure relating to the composition of the deferred tax balance was also required and necessitated the deferred tax calculation according to the assets and liabilities method.

General comments:

The question was interesting and dealt with issues that are commonly encountered in practice. There is still concern about some candidates' general exam technique when completing an integrated question like this. The question tested the candidates' abilities to integrate their knowledge across topics and subjects and to plan their answers within the time allocated to each section of the question. The question was generally viewed as at the right level of difficulty by all major universities. There was however a time problem in the question that would have negatively impacted on the candidates' ability to complete the question, no matter how well the time planning was done by the candidate.
Areas the candidates handled well:

The second part of the question, relating to the taxable income calculation, was generally well-answered by candidates and they appeared to have a good general knowledge of the topics/issued examined. Many candidates scored full marks for this section, partly due to the large number of available marks in the section (36 limited to 20).

Areas the candidates handled poorly:

A few areas should however be highlighted, which may be of use to candidates for future examination purposes relating to this question:

- A very poor exam technique existed in the calculations relating to the share-based payment transaction in part (a). It should be noted that the onus is on the candidate, and not on the marker, to provide legible, logical and well-presented answers in a professional exam.

- Many candidates failed to provide the deliverable in part (c) of the question. The question asked for the disclosure of taxation in the notes to the financial statements and hardly any candidate provided adequate and proper disclosure. It is of the utmost importance that candidates address the required parts adequately and make sure that they deliver the final product required of them by the question.

- There seems to be a general lack of knowledge regarding the application of the principles of deferred tax. Candidates that actually tried to calculate the deferred tax balance applied incorrect tax rates, incorrect tax bases and calculations were just generally poor.

- Time management still seems to be a problem for many candidates. This was worsened by the time problem that is evident in the question – part (c) was very poorly attempted.

- Certain candidates have a major problem in providing legible answers. Their handwriting is very difficult to read and this, together with a poor layout, makes their answers very hard to mark. This is a problem that candidates should address to the best of their abilities.

Specific comments on sections of the question (where questions are subdivided into different parts):

Part (a)

In this section, candidates were required to calculate the adjusted profit before tax after certain errors had been made by the client in recognising and measuring the relevant transactions. This posed to be a major problem to candidates and most candidates do not have the faintest idea how to correct an error that was made or how to process an adjustment that is required based on the information given in the question. This is a grave concern and should be addressed by universities as auditing correcting (or adjusting) journal entries forms part of the day-to-day activities of the auditor.

Part (b)

This section of the question required candidates to calculate the taxable income of the company from a taxation point of view. Most candidates performed very well in this part of the question due to the following reasons:
• The adjustments required in most taxable income calculations are rather straight-forward and predictable and candidates would have encountered examples of this in their CTA study material;
• There were 36 marks available in this section, with the section being limited to 20 marks. This was a pity as most candidates would have spent too much time on part (b) of the question dealing with the equivalent of 36 marks and only earning 20 marks on the final mark plan.

Part (c)

This section of the question required candidates to provide the disclosure of the tax information in the notes to the financial statements.

Many candidates’ general knowledge of disclosure is weak. Irrelevant calculations were performed and incorrect information was disclosed. Due to the time problem evident in this question, most candidates did not attempt this part of the question at all and failed to earn the 34 marks required in this section. Those candidates that did attempt to perform this section of the question would have found themselves experiencing a time problem later in the paper.

Candidates had to disclose the following in this section of the question:

• The SA normal tax expense components;
• A tax rate reconciliation;
• An aggregated deferred tax composition summarising the main categories represented in the deferred tax balance in the statement of financial position at the reporting date.

In order to provide the necessary disclosure, a full deferred tax calculation had to be performed where all assets and liabilities at the reporting date had to be assigned a carrying amount, tax based and temporary difference (if any). Candidates struggled immensely with the tax bases of the relevant assets and liabilities and although a time problem would have prevented most candidates from attempting this section adequately, those candidates who attempted this section illustrated poor knowledge.

It was enlightening to find that certain candidates calculated the tax bases and carrying amounts correctly, which indicated that the required part of the question could be performed.
Question 2

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<th>Average mark</th>
<th>Marks &gt; 50%</th>
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<tr>
<td>50</td>
<td>24.64</td>
<td>692</td>
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Level of difficulty:

The question was well balanced with a good mixture of practical and theory components. There were a large number of marks which were easy to obtain.

The University comments included comments such as: fair, average, low standard, easy, moderate, very reasonable.

One University rated the question as difficult, and one as tough.

Main subjects/topics examined in the question

The question was a 50 mark question which examined the following main topics:

- Financing issues
- Cost of debt
- International finance (forex)
- Weighted average cost of capital
- Asset backed securitization
- Creditworthiness considerations

General comments:

The question was considered to be relatively easy, which candidates would likely have chosen to do first in the overall paper. There was no evidence of a time issue in this question.

Areas the candidates handled well:

Performance on part (c) of the question, the weighted average cost of capital calculation.

Areas the candidates handled poorly:

- In general the candidates displayed a poor understanding of core finance concepts. Most candidates did not even detect that they were required to use net present value concepts (NPV or IRR). Candidates are exposed to these concepts from their first year of study, and there is much focus on this in particular in both 3rd and 4th years. The attempts were therefore disappointing.
- Most candidates battled with exam technique. This was indicated by the following:
  - Time management - It would appear that some candidates spent much time on part (f) as it was easy (but only had 4 marks) and less time on other sections.
  - Not reading the entire "Required section" before starting with the question - This came across in the case where candidates answer part (b) in (a) or (d) in (a).
  - Poor application - Candidates did not seem to apply the background information in their answers. Generic theoretical answers were provided rather than using the context in the question.
Repetition – Some points were rewritten in different formats rather than fresh points. This can be linked to poor planning.

Poor planning - in some cases candidates prepared a solution, and then crossed out and re-attempted. Some candidates attempted, crossed out, and then never reattempted. In some instance candidates crossed out the correct answer and replaced it with an incorrect attempt.

Specific comments on sections of the question (where questions are subdivided into different parts):

**Part (a)**
Most candidates performed poorly in this question. Many candidates did not identify that the question was about NPV/IRR, and completely ignored the time value of money. Those that did apply NPV/IRR still battled to do the relatively straightforward NPV/IRR calculation properly.

A straightforward comparison of total interest on both loans was performed in some cases, which did not allow for different timing on interest and loan repayments.

Many candidates also compared the international loan rate with the South African loan rate, without adjusting for exchange rate implications.

Candidates also fared poorly in dealing with quarterly compounding, consequently, they often calculated annual payments based on an amortisation schedule for the loan, which did not take into account the annual R40mil repayment (an annual or quarterly repayment would have reducing capital amounts).

A number of candidates interpreted the required as an accounting question and calculated forex gains and losses, which the markers felt was less to do with ambiguity in the question, and was rather lack of exam practice and exam technique. A number were reluctant to ignore tax despite the question stating this.

**Part (b)**
This part of the question provided easy marks which candidates failed to capitalize on. Generally it appeared that candidates did not give enough attention to this section, and therefore only earned 3 of the 6 easy marks, which evidenced poor exam technique. A number of the points provided were not specific i.e. they did not link the variable rate specifically to the syndicated loan or they did not discuss both the repayment of the interest as well as the capital portions. Candidates should use the information given in the question and apply it to the required.

Other candidates placed the answers to this part either in part (a) or in part (d).

**Part (c)**
Generally candidates performed better in this part of the required. However, there were still number of easy marks that most missed. For example:

1) describing why they were not including short term liabilities and bank overdraft,
2) describing the fact that they are using the market values and
3) justifying why they selected R204 rate of 9% or 9.4% (i.e. maturity date). Most incorrectly used the international bond rate (6.9%) for the interest rate calculation, evidencing little understanding as to what an effective rate constitutes.
The question did ask them to calculate “with reasons” yet very few of them fully explained their choices.

It was concerning that a number of candidates did not understand the concept of calculating a weighted average cost of capital, which is considered to be a basic and core topic. Candidates in general were also unable to use the capital asset pricing model, or the gordons growth model.

**Part (d)**
Most candidates either had zero or one mark for this question, the mark team felt that this was due to the question being difficult, but did not feel that it was unreasonable. Many candidates seemed to be either under the impression that interests rates have increased in South Africa, or did not make their answer applicable to the current economic environment and merely answered generically, which indicates a lack of practical experience and/or exam technique.

Many candidates merely provided a theory dump for this part of the required. In general candidates battled to apply context on either a company or an environmental context. It was evident from the answer that students have knowledge, but they were unable to make it relevant to the question.

**Part (e)**
Candidates performed poorly on this question. Candidates in general did not understand the 'securitisation' concept and they confused this with factoring of receivables, or described using assets as surety. Some candidates did not attempt this part of the question which also indicated that they did not understand the concepts.

However it was clear from the scripts that some Universities or board courses covered this - candidates answers had a text book style and were similar but even these answers did not always demonstrate a very clear understanding. Although many candidates covered reduced rates almost all of them linked this to a reduced rate for Cloth Group and not the funder.

The mark team felt that the markplan for this section was particularly lenient.

**Part (f)**
Although most candidates attempted this part of the question, there was a large amount of repetition in the sense that students would give one point more than once describing it differently which indicated poor exam technique and lack of planning.

Some candidates answered this part of the question as an audit procedure, i.e. 'check that a credit control application form is filled in' or 'check that the credit manager reviewed the file'.

Virtually none of the candidates addressed FICA and National Credit Act requirements, again a lack of real world factors.
Question 3

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Level of difficulty

University comments supported the assessment of this question as an appropriate level question for the examination with adequate topic coverage. The question integrated various topics effectively. As evidenced by the university comments, there were however some possible technical ambiguities in the question which could have caused some confusion and added to the complexity of the question. Possible time constraints could have also had a negative impact on the results of this question.

Main subjects/topics examined in the question

The question consisted of 80 marks of financial accounting and 10 marks auditing.

Part (a) of the question counted 14 marks and dealt with the calculation of goodwill or bargain purchase gain arising on a business combination by using the “full goodwill method”. This required candidates to perform various fair value adjustments on acquisition date together with the resulting deferred tax adjustments and also to take into account a settlement gain on a pre-existing relationship.

Part (b) counted 10 marks and dealt with the audit procedures to audit the accuracy and valuation of a business combination, i.e. mainly the audit of all components affecting the amount of goodwill or bargain purchase gain arising on a business combination.

Part (c) counted 49 marks and required of the candidates to prepare a consolidated statement of comprehensive income. The question required the candidates to start with the line item “profit after tax” and candidates therefore had to first calculate this amount by adjusting for information given in the question. A large proportion of the marks were allocated to the calculation of the profit after tax. In order to answer part (c) of the question, candidates had to integrate principles relating to, amongst others, business combinations, non-current assets held for sale, discontinued operations, impairment, deferred taxation, provisions, property, plant and equipment and presentation of financial statements.

Part (d) counted 12 marks and required of the candidates to prepare the revaluation surplus and non-controlling interest columns of a consolidated statement of changes in equity. Candidates had to apply principles regarding to revaluations of property, plant and equipment (especially the transfer of a revaluation surplus to retained earnings), as well as business combinations and changes in ownership within a group of companies.

The remaining 5 marks were allocated to arrangement and layout, clarity of explanation, logical argumentation and language usage.

General comments:

Perhaps the main reason for poor results was that many candidates failed to use and integrate all relevant information in the question, i.e. their answers were incomplete. This could have been due to time constraints, or perhaps candidates did not know what to do with some of the given
information. This question demanded of candidates to think laterally and candidates who failed to identify links between various pieces of information performed poorly. Furthermore, the audit procedures were often answered poorly and incompletely.

Areas the candidates handled well:

- In most cases it appeared that candidates knew their principles of IFRS 3 reasonably well, especially regarding the calculation of goodwill/bargain purchase gain. They generally scored well in part (a).
- The majority of candidates showed their calculations clearly and referenced them to the statement of comprehensive income and statement of changes in equity. There were however also many instances where this was not the case.

Areas the candidates handled poorly:

- It was clear that time was an issue since many candidates did not attempt or sufficiently attempt part (d), the last part of the question. This is a pity as there was several principle marks awarded for carrying forward amounts from the statement of comprehensive income to the statement of changes in equity.
- It was also apparent that candidates did not follow a holistic approach to answering the question. Those candidates with good technique who saw part (c) and part (d) holistically were able to score maximum marks. Another example of this is that some candidates missed the marks awarded for taking into account the bargain purchase gain calculated in part (a) of the question in the profit after tax calculation in part (d).
- Many candidates lost marks due to sign usage, e.g. they added amounts to profit where the amounts in fact decrease profit and vice versa.
- Many candidates failed to take into account the tax effects of amounts and hence lost many marks (a large proportion of the marks in this question were allocated to tax adjustments).

Specific comments on sections of the question (where questions are subdivided into different parts):

**Part (a)**
In this section, candidates were required to calculate the goodwill or bargain purchase gain arising on the business combination.

This section was generally answered well. However, the marks could have been higher if all candidates made the necessary tax adjustments to fair value adjustments.

The majority of candidates did not know what to do with the R25 000 settlement gain arising from the pre-existing relationship.

Some candidates were confused whether to add or subtract an amount, thus using the wrong signs.

Furthermore, it was concerning to note that many candidates called the result of their calculation "goodwill" when in fact it was a gain from a bargain purchase, or vice versa (e.g. when the acquirer pays less for the acquiree than what it’s worth, it is a bargain purchase).

**Part (b)**
In this section, candidates were required to list the audit procedures to audit the accuracy and valuation of the amounts recognised in respect of the business combination.
Many candidates performed poorly in this section, mainly due to the following reasons:

- Candidates listed only a few, sometimes irrelevant or repetitive audit procedures even though there were many possible valid procedures to audit the accuracy and valuation of the business combination (there were 21 available marks with a maximum of 10 marks).
- Audit procedures were not thoroughly described and applied to the information given in the question, i.e. the use of cryptic statements rather than thoroughly explaining the procedure (“what, when and how”).
- Some candidates attempted to perform a procedure of comparing goodwill and consolidation working papers with audited financial statements of Gamelands. The question clearly stated that no external audit had been performed on Gamelands. Therefore this required candidates to think a bit more creative and agree client working to management accounts, etc.
- It was also evident that some candidates do not understand the logic and systematic process behind the audit of the goodwill calculation. For example, an obvious starting point is to obtain the client’s calculation of the goodwill calculation. Thereafter major procedures are performed thereon to obtain assurance about the accuracy and valuation of the amounts recognised in the business combination.
- It was disappointing to find that some candidates did not earn the marks relating to relying on the work of an expert for fair value estimates.
- Lastly, we found that many candidates focussed on the assets given in the question, but very few addressed issues about the completeness of the information provided, for example around commitments and contingencies.

**Part (c)**

In this section, candidates were required to prepare the consolidated statement of comprehensive income by starting with profit after tax.

This section was generally answered incompletely and many candidates failed to use and integrate all relevant information in the question. Some specific issues include but are not limited to the following:

- Some candidates started the statement of comprehensive income with profit before tax although the question required that candidates should start with profit after tax.
- Many candidates failed to identify the necessary depreciation adjustment (increasing profit) due to the fact that non-current assets held for sale are not depreciated.
- Candidates lost out on a substantial amount of marks by not including the tax effects of their adjustments (question required to start with profit after tax, hence all adjustments should be post-tax). This is probably because these candidates do not understand how to convert their adjustments to an after-tax basis i.e. by simply multiplying by the after tax rate to account for either deferred tax or current tax.
- Many candidates did not calculate tax adjustments at the correct rates (normal vs. CGT rates depending on the intention with the underlying assets). Only a few candidates calculated a deferred tax adjustment due to the change in intention resulting from the decision to sell the disposal group and recognised this in other comprehensive income.
- Some candidates treated the impairment loss on land as permanent differences. This is incorrect and reflects a capital loss for which a deferred tax asset should be raised.
- Many candidates attempted to calculate the total impairment loss on the disposal group, but did not allocate the impairment loss to the individual assets. This was necessary because the impairment losses on e.g. land and plant are taxed at different rates. The resulting tax marks were therefore also lost.
- Almost none of the candidates discounted the onerous contract penalty firstly for 32 months on 31/3/2009 (date that lease contract is cancelled) and then a further 3 months on 31/12/2008 (year-end).
• Many candidates included the provision for termination benefits under part (a) of the question and not part (c), even though it clearly relates to a period after the acquisition date.
• Only a few candidates got the Gamelands revaluation surplus right. The principle is that the revaluation surplus for the group should be reduced by the revaluation that was already accounted for at acquisition.
• The majority of candidates did not depreciate the market and off-market components of the Gamelands equipment separately as per the requirement of IAS 16.44.
• Many candidates failed to include relevant information that they have already calculated elsewhere, e.g. the settlement gain on a pre-existing relationship and gain on bargain purchase calculated in part (a).

**Part (d)**

In this section, candidates were required to prepare the revaluation surplus and non-controlling interest columns of the consolidated statement of changes in equity.

This section was generally answered incompletely, possibly due to poor time management. Some specific issues are the following:
• Presentation of the statement of changes in equity was often poor, e.g. a lack of proper headings for the statement and columns, vague descriptions of line items, etc. Many candidates still uses “old” descriptions like “profit for the period” and “revaluation for the period” instead of “total comprehensive income” that are carried forward from the statement of comprehensive income.
• A vast number of candidates did not calculate and include the transfers of the revaluation surplus to retained earnings, or the calculation was performed incorrectly.
Paper 2 consisted of four questions, and dealt with:

**Question 1:**
This question was solely a taxation question counting 55 marks in total. It was a relative easy calculation question on a recoupment of stock (for income tax purposes) as well as its Value-Added Tax implications, a discussion of a personal service company, small business corporation and a calculation of the employee's monthly tax as well as a discussion of the deductibility of expenses in general. A really easy calculation of the third provisional tax payment made up the rest of the question.

**Question 2:**
The question was a 70 mark question which examined the following main topics:
- Key controls and weaknesses in a revenue system;
- Control objectives;
- Assertions at risk;
- Audit procedures;
- Reliance on the work of the internal auditor (organizational status, technical competence and due professional care);
- Risks of material misstatement at financial statement level and at assertion level;
- Matters to be considered to accept re-appointment.

**Question 3:**
The question was a 45 mark question which covered:
- Financial analysis (20 marks);
- Nature of costs (5 marks);
- Costing systems (10 marks);
- Risk analysis (8 marks).

**Question 4:**
The question was a 30 mark question which tested the definition of financial instruments as well as the calculations relating to a foreign held-to-maturity investment that was impaired, requiring candidates to apply definitions and produce journal entries.
Question 1

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**Level of difficulty:**

The question was adequately integrated but was not set at an appropriate level of difficulty for Part I of the Qualifying Examination.

**Main subjects /topics examined in the question**

This question was solely a taxation question counting 55 marks in total. It was a relative easy calculation question on a recoupment of stock (for income tax purposes) as well as its Value-Added Tax implications, a discussion of a personal service company, small business corporation and a calculation of the employee’s monthly tax as well as a discussion of the deductibility of expenses in general. A really easy calculation of the third provisional tax payment made up the rest of the paper.

**General comments:**

Although it was a relatively easy question, the candidates did worse than expected, because they did not apply the basics. In general the question was well attempted. Candidates did well in this question and could use the right terminology and presentation. Queries were answered in the right sequence with definite differentiation between part a, b and part c.

**Areas the candidates handled well:**

**E-mail 1:**
The question proved not to be a problem for most of the candidates. The answers were well worded and systematic. Some of the students saw the action of taking supplies by the sole owner as a fringe benefit, which shows a lack of understanding of the employee-employer relationship in context of fringe benefits.

**E-mail 2:**
This part of the question did not prove problematic for students.

**E-mail 3:**
Part (a) proved not to be a problem for most of the candidates. The answer was well worded and systematic. They knew how to calculate employee’s tax. However, half of the candidates calculated the fringe benefit on residential accommodation incorrectly.
Part (c)’s calculation of the third provisional tax payment was well answered. Most candidates could determine it.

**Areas the candidates handled poorly:**

**E-mail 1:**
Some of the students saw the action of taking supplies by the sole owner as a fringe benefit, which shows a lack of understanding of the employee-employer relationship in context of fringe benefits.
E-mail 2:
The candidates had to apply the basic principles of a personal service company and a small business corporation. Some students only provided the legislation regarding this and did not apply it to the scenario provided. Most students did not understand “personal service” in regards to a small business corporation and confused it with the provisions of a personal service company.

Most candidates could not provide the tax consequences for the employer if he/it did not deduct employee’s tax.

In e-mail 2 it was clear that students either could not, or don’t know that they should apply the theory. Most simply had a “memory dump” and did not apply the legislation to facts of the case study.

E-mail 3:
Part (b)’s discussion of the deduction of expenditure did prove to be problematic. Candidates did not recognise that ‘trade” should be the prerequisite before expenditure can be deducted.

Specific comments on sections of the question (where questions are subdivided into different parts):

Email 1:
This part of the question dealt with the acquisition, by a sole trader, of items similar to his normal trading stock items and the “subsequent” use thereof for his own private purposes. It examined both the income tax and the value-added tax consequences thereof. Students did relatively well in this part.

Email 2:
The facts of this part of the question relate to the rendering of a service through a close corporation and it was required of candidates to discuss whether or not the CC was a personal services company and a small business corporation. It then required a discussion of the tax consequences of the client resulting from their failure to deduct employees’ tax from the payments made to the CC and this was not dependent on the conclusion in the previous parts of the question.

Email 3:
The facts dealt with a retired natural person employing an individual as his full time driver. The natural person derived income from pension, interest, dividends and rental. It was required of candidates to calculate the employees’ tax consequences of the benefits provided by the natural person to the driver. It then continued to require that candidates discuss whether the cost thereof qualified to be deducted for purposes of determining taxable income of the natural person. The last part of the question required a calculation of the provisional tax due by the natural person. Whilst candidates mostly did very well in the last part of the question they did not do well in the only part of the question that really tested the application of knowledge. The part that required of them to discuss the deductions was not answered well at all.

It was a relative easy calculation question on a recoupment of stock and its VAT implications, a discussion of a personal service company, small business corporation and a calculation of the employee’s monthly tax as well as a discussion of the deductibility of employee’s expenses. A really easy calculation of the third provisional tax payment made up the rest of the paper.
Question 2

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Level of difficulty:

It was a balanced paper, at an acceptable level of difficulty, where difficult sections (parts b and d) were offset by easier parts of the question (parts c and e) and where the leniency of mark plans contributed to balance the paper.

Main subjects/topics examined in the question:

The following main topics were examined:
- Key controls and weaknesses in a revenue system
- Control objectives
- Assertions at risk
- Audit procedures
- Reliance on the work of the internal auditor (organizational status, technical competence and due professional care)
- Risks of material misstatement at financial statement level and at assertion level
- Matters to be considered to accept re-appointment

General comments

The Auditing syllabus was reasonably covered and time allocation was considered to be fair. Although the suggested solution was comprehensive the candidates did not perform well in the question. The following discussion provides more detail:

Areas the candidates handled well:

Part (a) was reasonably well answered by candidates and the majority of the candidates passed this section.

Areas the candidates handled poorly:

Candidates performed poorly in part (b), by not demonstrating sufficient insight to identify the weaknesses. Such candidates therefore could not score the additional related marks by identifying assertions, describing the impact on financial statements or nature of audit procedures.

Specific comments on the sections of the question

Part (a)

In this section candidates were required to identify the key controls:
- Describe the control objective relating to each key control
- Describe a maximum of two audit procedures to test the operating effectiveness of each control.

As indicated above most candidates were able to identify the key controls in the revenue system. Some candidates did not describe the control objective, but merely state an assertion and did not capitalize on this opportunity to earn relatively “easy” marks.
Although candidates listed more than two audit procedures, many were not relevant and also included substantive procedures. It appeared to be a memory "dumping" of audit procedures, rather than formulating appropriate tests of controls.

**Part (b)**
In part (b) candidates were required to identify the internal control weaknesses in the revenue system, state the specific assertion(s) that are at risk, describe the potential impact of the risk on the financial statements and describe the nature of the audit procedures necessary to respond to the risk.

Universities’ comments anticipated this section to be the most difficult section of the question. It resulted in a poorly answered section. Many of the candidates could not identify the weaknesses and thereby demonstrated that they did not have sufficient insight into the described revenue system. Where they did not identify any of applicable weaknesses, they lost all the marks relating to the affected assertions, its impact and nature of audit procedures.

Many candidates did not refer to the current terminology and made use of terms such as *authorization* when giving assertions.

**Part (c)**
Part (c) required of candidates to discuss any concerns about relying on the work of the internal audit division. The question provided further guidance by identifying the following areas which should be considered:
- Organisational status;
- Technical competence; and
- Due professional care.

With all the guidance provided in the question, it was an easy section which candidates should have used to improve their marks. Many candidates did not read the required section properly and discussed concerns relating the *audit committee* and not *internal audit*. It justifies the notion that some candidates exhibit poor communication skills under examination conditions.

**Part (d)**
In this sections candidates had to identify and discuss the risk of material misstatements that arise at financial statement level and assertion level for classes of transactions, account balances and disclosures. They had to refer to the internal audit work paper.

Many candidates discussed the internal audit work paper and the internal audit division, which were not required. Other candidates discussed general risks and not those related to the working paper of internal audit that was provided in the question. The majority of candidates were unable to distinguish between risks at financial statement level and at assertion level.

**Part (e)**
Part (e) required candidates to describe the matters that should be considered by the audit firm in deciding whether to accept the reappointment as auditors. Candidates were required to refer to the information provided. Many candidates merely "dumped" pre-engagement considerations of the auditor without applying them to the situation described in the question.
Question 3

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Level of difficulty

Overall, the question was adequately integrated and set at an appropriate level of difficulty for Part 1 of the Qualifying Examination.

Main subjects examined in the question

The question was a 45 mark question which covered:
- Financial analysis (20 marks);
- Nature of costs (5 marks);
- Costing systems (10 marks); and
- Risk analysis (8 marks).

General comments

Poor examination technique was evident yet again. Many candidates spent valuable time writing information that was given in the question, an endeavour that achieved no marks.

Areas the candidates handled well

Part (d) dealing with business risks was generally well answered and candidates scored well in this section.

Areas the candidates handled poorly

Parts (a), (b) and (c) were not well answered by most candidates. Specific comments on each of these sections are detailed below.

Specific comments on sections of the question

Part (a)

This part of the question required candidates to analyse and comment on actual direct labour expense incurred versus budgeted cost. Candidates were guided to include commentary on labour rates, efficiencies and capacity utilisation. The scenario covered a manufacturer of generator sets, a topical business given Eskom’s load shedding during 2008.

Part (a) required candidates to read and absorb 2 pages of information regarding the budgeted and actual direct labour costs for the most recent financial year. Candidates then had to perform relevant calculations and provide commentary. Given that actual production volumes exceeded budgeted output, the original budget needed to be flexed in order to meaningfully compare actual to budget. The majority of candidates missed this issue. The mark plan catered for two alternate approaches to answering the question. Candidates who compared actual results to the original budget were able to potentially score 29 marks (maximum 20 marks). Candidates who prepared a flexed budget and then compared this to actual results were handsomely rewarded for their efforts.
Overall, the standard of candidates’ answers was poor. Particular criticisms and areas for improvement included:

- It was disturbing to note many candidates were unable to calculate the budgeted and actual hourly wage rates for production personnel and electricians from the information given in the question. This required a very basic knowledge of algebra;
- For those candidates who did attempt the calculation of hourly wage rates, some were confused about how to treat idle time. This highlighted that either candidates did not understand the concept of idle time or failed to read the question carefully;
- The majority of candidates attempted to perform a standard costing variance analysis. The company in question did not have a standard costing system in place however, there was sufficient information for candidates to perform variance analysis. It was disappointing to note that few candidates managed to correctly calculate variances. This indicates poor knowledge of standard costing and/or a lack of understanding of how idle time and overtime are incorporated into standard costing variances;
- Significant time was wasted by candidates attempting to perform a complete standard costing variance analysis. This was beyond the scope of the question particularly given that the company did not use such a costing system. This reflects a lack of judgement on the part of candidates;
- No marks were awarded for repeating the results of calculations in words. For example, a candidate that correctly calculated that hourly wage rates had increased by 10% from budget would not receive a further mark for stating that fact in their commentary. Similarly, candidates stating that production personnel were inefficient did not receive a mark for this comment. It was obvious that production personnel were inefficient from the information in the question and from performing the necessary calculations. Candidates who questioned why they were inefficient or provided possible reasons for the inefficiency were awarded marks; and
- Many candidates stated that electricians were inefficient because they were not fully utilised during the year. This statement is most concerning given that electricians should have worked overtime based on the production levels and yet managed to have idle time.

Part (b)
Candidates were essentially asked to discuss whether direct labour costs, as set out in the scenario, are a fixed or variable cost in nature. Most candidates concluded that direct labour costs were variable in nature because hourly wage rates were determinable. This conflicted with the production director’s statement that wages had to be paid irrespective of output. More concerning were the following typical comments made by candidates:

- “…direct labour costs are variable in nature because in terms of IAS2 all costs directly related to production should be included in the cost of inventory…” [No comment required]
- “…direct labour is a variable expense as wage rates are variable. If wage rates increase then labour costs also increase…” [Rent paid for premises generally escalate too but this does not mean this cost is variable in nature!]

Part (c)
Candidates were required to identify and discuss potential areas for improvement in the costing and pricing of orders. An example of a typical costing estimate was provided in the question to provide more insight into the company’s costing and pricing processes. Unfortunately most candidates interpreted this to be a “special order” scenario. Many launched into a diatribe about ignoring fixed costs in costing the special order.

Variable costing was often referred to by candidates as a possible improvement to the costing system. Many candidates wasted valuable time describing variable costing, often devoting a full
page to this endeavour. The question asked for areas of improvement rather than a theoretical
description of costing systems.

ABC costing was often mentioned as a possible improvement for the company to adopt. No marks
were awarded for this commentary as the company in question produced a single product and
ABC costing analyses would not add much value in this scenario.

**Part (d)**
Part (d) required an identification and description of four key business risks. This section was
generally very well answered by candidates. However, some candidates failed to describe the risks
identified and missed out on easy marks. For example, “…there is a risk of adverse foreign
currency movements which could affect the company…”. Here a valid risk has been identified
however, the potential impact on the company has not been adequately explained. Any reasonable
attempt at this would suffice such as “…which may result in increasing costs of imported diesel
engines…”.
Question 4

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Level of difficulty:

This was an integrated question. Ignoring, the complexity of the discount on the bond, this was a relatively straight forward question and it is expected that the candidates would do well in this question.

Part (a) was basic theory and was easy for a QE exam.
Part (b) dealt with various journal entries supported by calculations. There were some areas of difficulty; overall the question was on par with QE level.

Main subjects/topics examined in the question

The question tested the definition of financial instruments as well as the calculations relating to a foreign held-to-maturity investment that was impaired, requiring candidates to apply definitions and produce journal entries.

General comments:

Areas the candidates handled well:

Part (a) was handled well. The layout of the theory answer was specifically prescribed by means of an example in the question paper, which made the answer layout consistent and easy to mark. Overall, part (a) was answered well with a high average mark (7/8 out of 10).

However, a number of candidates were unfamiliar with the initial designation of an instrument as an available for sale instrument. Some students did not apply the theory to the practical example.

Areas the candidates handled poorly:

The calculations in part (b) were handled poorly.
Candidates did not always provide what was required, i.e. journal entries for 2008. Many provided 2006 and 2007 as well. Although the question clearly stated that tax and deferred tax must be ignored, some candidates still provided journal entries regarding tax implications. This is evidence of the common complaint that students do not read the question carefully.

A number of candidates’ referencing and transfer of calculations were poorly done. Some candidates did not clearly indicate, either by spacing or by writing, which accounts were to be debited and which to be credited. Some candidates also provided journal entries without any amounts. This made marking difficult, but overall the journals marked fairly easier than initially anticipated.

Specific comments on sections of the question (where questions are subdivided into different parts):

Part (a)
This section tested the definition of financial instruments and the candidates had to apply the theory to the information in the question. This part was generally answered well.
However, a number of candidates were unfamiliar with the initial designation of an instrument as an available for sale instrument. Some students did not apply the theory to the practical example. Some candidates wrote down all the requirements for classification but did not really apply the theory to the information given in the question.

Part (b)
In this section, candidates were required to provide journals entries for the financial year with supporting calculations. This section was poorly answered given the level of complexity of the question.

Only a few candidates calculated the effective interest rate correctly. Candidates appeared to understand the principle that this had to be calculated, but did not know how.

The majority of candidates calculated the impairment calculation incorrectly due to errors in the NPV calculation.