EXAMINERS’ COMMENTS

Part II of the Qualifying Examination

Financial Management

November 2005
This report has been compiled from the analysis of examiners on candidates’ performance in Part II of the Qualifying Examination (Financial Management), which was written in November 2005. 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;
- tutors in preparing candidates for the Qualifying Examination; and
- future 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 examination paper.

The purpose of Part II of the Qualifying Examination is to test the integrated application of practical knowledge gained in commerce and industry.

**STATISTICS FOR THE PART II FINANCIAL MANAGEMENT EXAMINATION**

In 2005 68 candidates passed Part II of the Qualifying Examination, compared to 58 in 2004.

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<thead>
<tr>
<th></th>
<th>% Pass</th>
<th>Passed</th>
<th>Failed</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>First attempt</td>
<td>61%</td>
<td>60</td>
<td>39</td>
<td>99</td>
</tr>
<tr>
<td>All candidates</td>
<td>55%</td>
<td>68</td>
<td>55</td>
<td>123</td>
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Average marks per question:

<table>
<thead>
<tr>
<th></th>
<th>Question 1</th>
<th>Question 2</th>
<th>Question 3</th>
<th>Total</th>
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<tbody>
<tr>
<td>Total marks</td>
<td>80</td>
<td>60</td>
<td>60</td>
<td>200</td>
</tr>
<tr>
<td>Average marks</td>
<td>40</td>
<td>31</td>
<td>30</td>
<td>101</td>
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BACKGROUND

The Examinations Committee constantly strives to improve its ability to determine whether candidates demonstrate the educational ability to qualify as Chartered Accountants. This is done by means of an ongoing process of evaluation and improvement in the way in which it selects questions for inclusion in the examination and decides on the final mark plans.

1 Source of the questions

The examination questions are drawn from three sources:

- Questions (the majority) are set specifically for a particular examination by the members of the Examinations Committee (a subcommittee of the Education Committee), who are all specialists in a particular subject area;
- Questions on a particular subject may be commissioned from persons in commerce and industry as well as in public practice by the Project Director: Education; and
- Questions submitted by practitioners, accountants in commerce and industry, and academics are added to a question pool that has been built up over the years and are also used in the examination papers.

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 are 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 at least two 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 by independently by two different persons who record their marks on separate mark sheets that they retain. Once marking has been completed the both markers marks are entered on the front cover and where there are more than two marks different the markers confer and jointly decide on the final mark to be awarded. The final mark is then noted 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 Education Committee as soon as possible after the Project Director: Education has received the mark list from the umpire.

The members of the Committee receive lists of candidates – who are identified only by a ranking number based on marks obtained for the examination – together with the marks awarded to every candidate for every question. The members of the Education Committee base their decisions of which candidates passed with honours, which candidates passed, and which did not pass, on the marks as set out in these lists.

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

- The Education Committee’s expectations for each question;
- The level of difficulty for each question;
- Comments from universities, markers and umpires with regard to any marking difficulties which were encountered or candidate time constraints which were noticed;
- 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 academy 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.

GENERAL COMMENTS ON RESPONSES

1 Objective

In view of the primary objective of Part II of the Qualifying Examination, namely to test the integrated application of practical 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 Comments

From a review of candidates’ answers to the three examination questions for the November 2005 examination the following basic 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.

2.1 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, such as a letter, memorandum or 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.

2.2 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.

2.3 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 answer 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.

2.4 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.

2.5 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.

2.6 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 answers in the form of statements while calculations were required or presented financial statements where a discussion of the appropriate disclosure was required.

2.7 Basic numeracy skills

It was disappointing to note that many candidates did not display basic numeracy skills. We expect at this level that candidates are able to apply basic numeracy skills, particularly as they have already successfully completed Part I of the Qualifying Examination. Basic numeracy skills are important both in this exam and in practice and it is important that candidates have a good grasp of these basic skills.
3 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. This is a major concern, because by the time candidates qualify for entrance 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. After all, in a work situation no accountant can expect to deal with textbook type clients and situations, neatly set out in logical format!

4 General comments by the Umpires

The paper was challenging overall and dealt with practical issues. Generally the exam technique displayed by most candidates was disappointing. This would include:

- Reading the required carefully;
- Never dumping information in the hope that the examiner will give marks. This only irritates markers and wastes the candidate valuable time;
- Manage your time;
- Attempt to write legibly and set out your answers in a way that is easy to read; and
- Express yourself clearly.

In addition candidates did not apply themselves properly in this exam.

It is concerning that candidates did not do better in this exam both with regard to application as well as exam technique. 7% of the available marks were for presentation and candidates should easily have scored full marks for this but did not take the opportunity to do so.

Overall, the standard of the examination was in line with prior years. Several topics, contained in the syllabus, were examined for the first time in the examination. This may have unnerved candidates however, it is expected that Part II candidates should be able to deal with this.

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

**Please start preparing for next years’ examination in good time.**

Opera singer Beverly Sills once observed: “There are no shortcuts to any place worth going” and John C. Maxwell said: “A person who has a dream knows what he is willing to give up in order to go up.”

Best of luck!!
This paper consisted of three questions, that dealt with financial analysis, working capital ratio’s, return on total asset ratio’s, strategic and financial issues, ethical issues, evaluation of a surplus cash position, evaluation of a business intelligence proposal, treasury risks and the management thereof, BEE, ABC and other costing issues.

Question 1

Number of scripts marked: 123

<table>
<thead>
<tr>
<th>Maximum mark</th>
<th>Average mark</th>
<th>Marks &gt; 50%</th>
<th>Marks &lt; 50%</th>
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<tbody>
<tr>
<td>80</td>
<td>41</td>
<td>57 (46%)</td>
<td>66 (54%)</td>
</tr>
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</table>

Level of difficulty: Average

Question 1 was a mini case study dealing with a Health products group listed on the JSE. Issues examined included financial analysis, working capital ratio’s, return on total asset ratio’s, strategic and financial issues, ethical issues, evaluation of a surplus cash position, evaluation of a business intelligence proposal.

Specific comments made by the examiners:

- Part (a) dealt with financial analysis. Candidates performance was very disappointing in this section, particularly given than this area has been examined consistently in the past. Perhaps, the wording of the required section confused candidates? Part (a)(i) required analysis and commentary on the “…actual versus budgeted financial results…” This terminology is consistent with prior years and it should have been clear to candidates that an analysis of the income statements was required. Many candidates wasted valuable time calculating balance sheet ratios when this was clearly beyond the scope of the question.
- Part (a)(ii) required candidates to analyse and comment on working capital ratios. It was disappointing to note that most candidates did not calculate inventory turnover, debtors days and creditors days ratios. Instead, the focus was on acid test and liquidity ratios. The question only required candidates to comment on divisional ratios and hence, those who calculated company ratios wasted valuable time.
- Part (a)(iii) was generally well answered.
- Marks achieved in part (b) were the highest of all sections.
- Part (c) proved difficult for candidates. The ethical issues arising were not straightforward. The CEO had acted in accordance with known regulations and yet shareholders had suffered as a result of his actions. This raises interesting ethical issues. Candidates who took time to understand and outline the issues arising scored well in this section. Others wasted time and effort dumping their recollections of the Code of Professional Conduct despite the fact that the question was silent on whether the CEO was a CA(SA).
- Part (d) and (e) tested issues not previously examined in Part 2. Answers were generally disappointing.
**Question 2**

**Number of scripts marked:** 123

<table>
<thead>
<tr>
<th>Maximum mark</th>
<th>Average mark</th>
<th>Marks &gt; 50%</th>
<th>Marks &lt; 50%</th>
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</thead>
<tbody>
<tr>
<td>60</td>
<td>31</td>
<td>50 (41%)</td>
<td>73 (59%)</td>
</tr>
</tbody>
</table>

**Level of difficulty:** Average

Question 2 dealt with treasury risks and management thereof, the attributes of FEC’s and currency swaps. In addition, BEE transactions and related accounting issues were examined.

**Specific comments made by the examiners:**

- Most candidates had a good appreciation of the treasury risks per the question, and parts (a) and (c) were answered reasonably well.
- Few candidates displayed a thorough understanding of the characteristics of FEC’s and currency swaps. Overall marks were disappointing in this section.
- Answers to part (d) were disappointing and failed to consider the wider issues surrounding the proposed deal.
- Few candidates considered AC 412 when answering the question. The accounting for BEE transactions is challenging however, candidates should have been able to discuss whether to consolidate the SPV.
Question 3

Number of scripts marked: 123

<table>
<thead>
<tr>
<th>Maximum mark</th>
<th>Average mark</th>
<th>Marks &gt; 50%</th>
<th>Marks &lt; 50%</th>
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</thead>
<tbody>
<tr>
<td>60</td>
<td>30</td>
<td>53 (43%)</td>
<td>70 (57%)</td>
</tr>
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</table>

Level of difficulty:  Average

Question 3 dealt with ABC and other costing issues. This question related to Brown Bank Ltd and its strategy regarding automatic teller machines. The question examined the costing process for withdrawal and deposit transactions on two types of ATMs. It also required the calculation of the correct break-even levels for each type of machine. Using this information the candidates had to highlight issues relating to the roll-out strategy for ATMs. The candidates then had to provide benefits and pitfalls for ABC Costing. The last two parts required the candidates to evaluate the consequences of increasing transaction costs and the options of terminating the deposit functionality or charging for this service.

Specific comments made by the examiners:

Candidates’ performance in Question 3 was dismal.

- Very few candidates managed to correctly allocate the costs to the right service offering as required in Part (a)
- In part (b), several candidates managed to calculate the correct breakeven transaction volumes, but many lost their way in this calculation.
- Part (c) had many available marks, yet very few candidates managed to score well here. This was disappointing.
- The candidates, overall, did well in Part (d) – understanding the benefits of ABC Costing.
- In Part (e), candidates performed poorly due to an inability to understand the approach to the calculations required. Easy marks were awarded for stating the withdrawal revenue per transaction, the increase, and the increased revenue from deposit transactions.