EXAMINERS’ COMMENTS

Part II of the Qualifying Examination - Financial Management

November 2008
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 2008. 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 PART II QUALIFYING EXAMINATION (FINANCIAL MANAGEMENT)

Analysis of first time and repeat candidates over the period 2004 – 2008:

<table>
<thead>
<tr>
<th>Year</th>
<th>FAIL</th>
<th>PASS</th>
<th>TOTAL</th>
<th>% PASS</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>First timers</td>
<td>32</td>
<td>140</td>
<td>172</td>
<td>81.4%</td>
</tr>
<tr>
<td>Repeats</td>
<td>10</td>
<td>18</td>
<td>28</td>
<td>64.3%</td>
</tr>
<tr>
<td>Overall 2008</td>
<td>42</td>
<td>158</td>
<td>200</td>
<td>79.0%</td>
</tr>
<tr>
<td>2007</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>First timers</td>
<td>28</td>
<td>48</td>
<td>76</td>
<td>63.2%</td>
</tr>
<tr>
<td>Repeats</td>
<td>41</td>
<td>29</td>
<td>70</td>
<td>41.4%</td>
</tr>
<tr>
<td>Overall 2007</td>
<td>69</td>
<td>77</td>
<td>146</td>
<td>52.7%</td>
</tr>
<tr>
<td>2006</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>First timers</td>
<td>38</td>
<td>39</td>
<td>77</td>
<td>50.6%</td>
</tr>
<tr>
<td>Repeats</td>
<td>35</td>
<td>12</td>
<td>47</td>
<td>25.5%</td>
</tr>
<tr>
<td>Overall 2006</td>
<td>73</td>
<td>51</td>
<td>124</td>
<td>41.1%</td>
</tr>
<tr>
<td>2005</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>First timers</td>
<td>39</td>
<td>60</td>
<td>99</td>
<td>60.6%</td>
</tr>
<tr>
<td>Repeats</td>
<td>16</td>
<td>8</td>
<td>24</td>
<td>33.3%</td>
</tr>
<tr>
<td>Overall 2005</td>
<td>55</td>
<td>68</td>
<td>123</td>
<td>55.3%</td>
</tr>
<tr>
<td>2004</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>First timers</td>
<td>25</td>
<td>51</td>
<td>76</td>
<td>67.1%</td>
</tr>
<tr>
<td>Repeats</td>
<td>4</td>
<td>7</td>
<td>11</td>
<td>63.6%</td>
</tr>
<tr>
<td>Overall 2004</td>
<td>29</td>
<td>58</td>
<td>87</td>
<td>66.7%</td>
</tr>
</tbody>
</table>

Average marks per question:

<table>
<thead>
<tr>
<th></th>
<th>Question 1</th>
<th>Question 2</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total marks</td>
<td>100</td>
<td>100</td>
<td>200</td>
</tr>
<tr>
<td>Average marks</td>
<td>59.7</td>
<td>49.4</td>
<td>109.1</td>
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</tbody>
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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 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 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.

**GENERAL COMMENTS ON RESPONSES**

### 1 Objective

In view of the primary objective of Part II of the Qualifying Examination (Financial Management), 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 two examination questions for the November 2008 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’ layout and presentation has improved since prior years. 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 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.

2.4 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.
2.5 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.

2.6 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 format of the examination changed in 2007. Previously, candidates wrote the entire paper in one sitting. The exam was divided into two separate questions with each question allowing an additional 20 minutes reading time over and above the normal 2 and ½ hours writing allocated. This should have allowed candidates to read and absorb the facts of the question before committing their answers to paper. In addition, it should have prevented the overrunning of time between the two questions.

The paper was challenging overall and dealt with practical issues. It is clear from the analysis of the results that candidates found question 1 to be easier than question 2. However, the standard of Question 1 was found to be appropriate and in line with prior years.

Generally the exam technique displayed by most candidates was disappointing. This would include:

- not reading the required carefully;
- dumping information in the hope that the examiner will award marks for something (this only irritates markers and the candidate wastes valuable time);
- time management;
- a legible handwriting and setting out answers in a manner that is easy to read; and
- Clarity of expression.

Overall, the standard of the examination was in line with that of prior years.
Detailed analyses of the questions are set out for each question later in this report. But in general it is clear that candidates struggled with sections that required application of knowledge and/or original thought.

The paper covered a broad range of issues and was a fair test of candidates’ ability to apply knowledge to specific scenarios. However, it was clear that most candidates are still not comfortable attempting “case study” type questions.

University comments

We received commentary from the Universities. In general, universities stated that the questions were of an acceptable standard and commented favourably on the coverage of topics achieved. Some concerns were raised about some issues in Question 2. In particular, the question had technical flaws in the manner in which costs and liabilities arising from an acquisition were accounted for. With hindsight, few, if any, candidates raised any issues regarding these blatant errors in accounting for the acquisition in the question. Our view is that financial managers in practice will encounter situations where transactions are inappropriately accounted for and they need to be able to provide solutions to these issues. The aforementioned flaws had no impact on the ability of candidates to answer any of the “required” sections. We allocated bonus marks for those candidates that were able to identify and highlight the accounting errors.

The mark team reviewed the detailed university comments and amended the mark plan where appropriate.

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!!

Mandi Olivier
Project Director: Education
Question 1

Number of scripts marked: 200

<table>
<thead>
<tr>
<th>Maximum mark</th>
<th>Average mark</th>
<th>Marks &gt; 50%</th>
</tr>
</thead>
<tbody>
<tr>
<td>100</td>
<td>59.7</td>
<td>88%</td>
</tr>
<tr>
<td>Highest mark</td>
<td>Lowest mark</td>
<td>Marks &lt; 50%</td>
</tr>
<tr>
<td>95</td>
<td>35</td>
<td>12%</td>
</tr>
</tbody>
</table>

Level of difficulty: Average

The scenario was a distributor of cleaning equipment which was considering starting its own chemical manufacturing operation.

Specific comments made by the examiners:

- Parts (a) and (b) were generally well answered. Part (c) required candidates to identify and explain any errors and omissions from a capital budget and highlight any underlying assumptions that may need further clarification. Many candidates did not address the latter part of the required and missed out on scoring higher marks.
- Part (d) required candidates to determine which cash flows to discount for capital budgeting purposes in 2009 and 2010. This section was well answered however, it was disturbing to note the number of candidates who failed to add back non-cash flow items such as depreciation in deriving net cash flow to be discounted.
- Parts (e) and (f) tested the identification of business risks. It was pleasing to note that candidates performed well in these sections, which is consistent with prior years.
- Part (g) was generally poorly attempted by candidates. Most could not articulate and explain the NPV and IRR techniques and whether these would be useful in analyzing the proposed project. Also, many candidates failed to identify factors that may impact on the strategic evaluation of the alternatives. Perhaps this was due to poor exam technique in addressing all aspects of the required section.
- Many candidates failed to apply their minds to the scenario in the question and made comments applicable to listed entities. For example, Super Cleaning is a private company and hence, the “signaling” effect of changing their dividend policy would be irrelevant.
- The results for part (i) were very good.
Question 2

Number of scripts marked: 200

<table>
<thead>
<tr>
<th>Maximum mark</th>
<th>Average mark</th>
<th>Marks &gt; 50%</th>
</tr>
</thead>
<tbody>
<tr>
<td>100</td>
<td>49.4</td>
<td>49%</td>
</tr>
</tbody>
</table>

Highest mark 72
Lowest mark 27
Marks < 50% 51%

Level of difficulty: Difficult

The scenario was a labour broking group that acquired a guarding business.

Specific comments made by the mark team:

- It was pleasing to note that candidates performed well in part (a), as in prior years candidates had struggled with financial analysis questions.
- Very few candidates managed to correctly calculate the inventory turnover ratio in part (b), which was concerning.
- Marks in part (c) were awarded for identifying a remedial action (1 mark), describing this action (1 mark) and explaining how this could possibly improve future cash flows (a further mark). Candidates often failed to score more marks by not adequately explaining the remedial action.
- Part (e) was poorly answered by most candidates. Many failed to identify the taxation implications of the BEE financing structure. Also, candidates were unable to think laterally and consider the impact of the BEE funding deal on the company.
- Part (f) was well answered.
- Part (g) dealt with ethical considerations regarding the CEO’s behaviour. This results for this section for very poor. Most candidates made general statements as opposed to considering the implications and issues associated with the CEO’s actions and behaviour. We remain concerned about candidates’ knowledge of ethics and their ability to practically consider the implications of executive and corporate behaviour.