2004 QUALIFYING EXAMINATION

Part II – Financial Management

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 2004. 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 2004 58 candidates passed Part I of the Qualifying Examination, compared to 55 in 2003.

<table>
<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>68%</td>
<td>51</td>
<td>24</td>
<td>75</td>
</tr>
<tr>
<td>All candidates</td>
<td>67%</td>
<td>58</td>
<td>29</td>
<td>87</td>
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Average marks per question:

<table>
<thead>
<tr>
<th></th>
<th>Question 1</th>
<th>Question 2</th>
<th>Total</th>
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<tbody>
<tr>
<td>Total marks</td>
<td>100</td>
<td>100</td>
<td>200</td>
</tr>
<tr>
<td>Average marks</td>
<td>52</td>
<td>54</td>
<td>108</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 two different persons who record their marks on a mark list that they retain. 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 Project Director: Education has received the mark list.

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, 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 seven examination questions for the November 2004 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 1 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. Candidates who prepared well should have passed easily. It was most pleasing to see certain candidates achieving over 70% for individual questions.

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 two questions, that dealt with financial statement analysis, break even analysis, budgeting, foreign exchange, performance measurement, evaluation of financial performance, earning based valuation, black economic empowerment, business risks, bonus scheme, ethical issues, and tax consequences.

Question 1

Number of scripts marked: 87

<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>100</td>
<td>52</td>
<td>52 (60%)</td>
<td>35 (40%)</td>
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Level of difficulty: Average

Question 1 was a mini case study dealing with a musical theatre group. Issues examined included financial analysis, breakeven, financing decision, treasury issues and Balanced Scorecard.

Specific comments made by the examiners:

- Answers to part (b) were generally disappointing given the relative simplicity of the topic examined. Many candidates failed to distinguish between fixed and variable costs and often did not review their answers for reasonableness (it should have been apparent that over 1,2 million tickets in order to breakeven may be incorrect)

- There was inappropriate focus by many candidates in parts (a) and (c) on balance sheet analysis. These sections clearly required candidates to evaluate and comment Razzmatazz (Pty) Ltd’s income statement performance and ratio’s.

- Failure to grasp the context of question and nature of business of Razzmatazz was generally problematic. Many candidates failed to assimilate information in the question and apply this in answering the “required” section.
Question 2

Number of scripts marked: 87

<table>
<thead>
<tr>
<th>Maximum mark</th>
<th>Average mark</th>
<th>Marks &gt; 50%</th>
<th>Marks &lt; 50%</th>
</tr>
</thead>
<tbody>
<tr>
<td>100</td>
<td>54</td>
<td>62 (71%)</td>
<td>25 (29%)</td>
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Level of difficulty: Average

Question 2 dealt with a BEE deal and tested candidates knowledge and application of valuations, bonus schemes, ethics, tax and Companies Act issues.

Specific comments made by the examiners:

- Calculations in answering part (c) were generally poor. Mathematical abilities of most candidates have to be questioned.

- Overall, part (d) was poorly answered. Many candidates may not have encountered structuring of BEE deals, however, there was sufficient information in the question to enable candidates to earn marks by regurgitating facts and “stating the obvious”.

- Generally candidates failed to identify the ethical issues arising in part (i)