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 2007. 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 2007
- Background information on the setting, marking and adjudication of SAICA examinations
- General comments on Part I of the Qualifying Examination 2007
- Professional paper 1 – detailed comments by question
- Professional paper 2 – detailed comments by question
### Statistics for Part I of the Qualifying Examination 2007

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<th>Failed</th>
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<td>66%</td>
<td>1 315</td>
<td>670</td>
<td>1 985</td>
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<tr>
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<td>1 600</td>
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<td>46%</td>
<td>1 899</td>
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#### Average marks per question:

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<td>31.39</td>
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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 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 commitments for the year have been completed. Four 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 an examination sitter, who is independent to the exam setting process, is appointed to review the entire set of questions after the review from the academics has taken place. The examination sitter provides independent comment on the examination paper, suggestion solution or mark plan and reports back to the Examinations Committee.

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 2006

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 an appropriate standard and both questions were answered reasonably well. High marks were scored by a few candidates in both the financial accounting questions.

- 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 not answered terribly well by most candidates. Candidates failed to perform basic calculations.

- The standard of the audit question was moderate and considered appropriate by the majority of universities, although two universities commenting that the standard could be considered to be too difficult. 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.
3 Specific comments

From a review of candidates’ answers to the seven examination questions for the March 2007 examination the following specific deficiencies were identified.

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.

In addition, examiners expressed concern about the poor application of knowledge in ethical issues. This is an increasingly important area in practice and the scenario in the question was not complicated. Candidates need know the SAICA’s Code of Professional Conduct and how to apply this.

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.

Examiners were also concerned about candidate’s lack of knowledge of at-acquisition journal entries for consolidation journals.

4 **General Comments**

From a review of candidates’ answers to the seven examination questions for the March 2006 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.

4.1 **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, 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 were used to answer each question for the first time in 2007. Each book was clearly marked and colour coded. Candidates were also given explicit instructions to write the correct answer in the correct book. Despite this many candidates did not write the correct answer in the correct book which resulted in significant 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.

4.2 **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.
4.3 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 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.

4.4 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.

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

4.6 Open-book examination

A particular 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!!*
Paper 1 consisted of three questions that dealt with:

**Question 1:**
The question contained 70 marks focussed on Accounting related matters, with 10 marks focussed on Auditing. The question dealt with the identification, recognition and measurement of leases, the journalising of pro forma consolidation entries, the recognition and measurement of revenue, the classification and the journalising of financial assets, the effect of post balance sheet events, the impairment of financial assets and the identification of inherent audit risks.

**Question 2:**
The question covered valuations, financial analysis, working capital and ethics.

**Question 3:**
Candidates were required to:
- Demonstrate an understanding of how internal controls provide audit evidence to support an assertion (existence of inventory) and what factors would contribute to design of the controls.
- Discuss audit responses to a fraud identified by internal audit.
- Describe audit responses to control weaknesses.
- Identify business risks arising from an outsourcing contract (inventory delivery) and develop safeguards to include in an SLA.
- Discuss the effect of a scope limitation on the audit report.
Question 1

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<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>38.94</td>
<td>48 % of candidates</td>
<td>52 % of candidates</td>
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Level of difficulty:

University comments supported the assessment of this question as an appropriate level question for the examination, with a good level of topic coverage and integration. Some Universities found aspects of the question to be on the easy side, while others found some aspects were on the difficult side.

Main subjects /topics examined in the question:

The question contained 70 marks focussed on accounting related matters, with 10 marks focussed on Auditing. The question dealt with the identification, recognition and measurement of leases, the journalising of pro forma consolidation entries, the recognition and measurement of revenue, the classification and the journalising of financial assets, the effect of post balance sheet events, the impairment of financial assets and the identification of inherent audit risks.

General comments:

- The question contained a lot of information, but each part of the question made reference to the work paper in which the information were given, making it easier for candidates to manage.
- Although the mark plan was very generous (more marks than required) the candidates still struggled with certain sub-sections in the paper.
- Parts a,b,c and d were generally well answered.
- Part e was answered poorly; very few candidates used the correct interest rate and few apportioned the interest charge for the half a year period.
- Part f was in general answered poorly, a number of candidates identified an impairment issue in terms of IAS 36 (not IAS 39), but failed to identify the post balance sheet event issue. Very few candidates did a calculation for the impairment.

Areas the candidates handled well:

- In general, candidates were able to identify the accounting issues concerned.
- Part a was answered well if the candidate identified the IFRIC 4 issue. If this aspect to the question was missed, candidates obtained no or very low marks.
- Part c was answered well; the majority of candidates appear to have a reasonable knowledge and understanding of revenue recognition. Where candidates failed to obtain marks it was due to lack of application.

Areas the candidates handled poorly:

- Time management: candidates generally answered the first portion of the question well (generally part (a) to (c)), but answered the latter portion of the question (part (d) to (g)) less thoroughly, indicating that some candidates struggled with time management.
- Calculations were not always shown clearly or referenced to the answer.
- Consolidated journal entries were weak. Candidates do not appear to understand the at-acquisition journal entry as many candidates failed to even provide this journal.
Journal entries were also weak in that account descriptions were poor and abbreviations were used when identifying the accounts to debit or credit.

Specific comments on sections of the question:

**Part (a)**

In this section, candidates were required to discuss the recognition and measurement of a supply agreement (an arrangement that contains a lease). [IFRIC 4 and IAS 17]

- Many candidates were not able to identify that the supply agreement is an arrangement that contains a lease, and rather discussed the principles of the Framework, Intangible Assets, Inventories or Provisions.
- Candidates who identified that the arrangement contained a potential lease generally answered the question well, but candidates who failed to identify the lease generally received very poor marks.
- Some candidates also failed to discuss everything that was required, e.g. they discuss recognition only but not measurement.
- Some candidates who did discuss that it was a lease did not understand the relationship between IFRIC 4 and IAS 17, and neglected to discuss the classification and measurement principles in IAS 17.

Those who have identified the issue correctly did well overall.

**Part (b)**

In this section, candidates were required to process pro-forma journal entries to eliminate an operating lease, to transfer Investment property to owner occupied property on the cost model and to pass initial pro-forma consolidation entries.

- The section was generally answered well and candidates achieved high marks. There were however a number of instances where candidates neglected to provide the journal entries for the following:
  - Smoothing of the inter-company operating lease and eliminating the amounts on consolidation; and/or
  - Reversing the fair value adjustment on investment properties and reclassifying the investment properties from investment properties to owner occupied property (the intention of the group is different to the intention of the company).

- Candidates were not clear in describing the journal entries – i.e. the account description was unclear and it was not clear whether a balance sheet or income statement or equity account were affected.

Those who knew their work did very well in this section. However, there were still many students who struggled with consolidation journals as evidenced by the fact that many candidates left the journals to be answered at the end of the question.

**Part (c)**

In this section, candidates were required to discuss the recognition and measurement of the different components of revenue.
Most candidates were able to identify the different categories of revenue and applied the given information to the recognition and measurement criteria. However, candidates did not always answer the question thoroughly, by listing and applying only some of the criteria that are mentioned in the standard.

Many candidates did not apply IAS 18.13 and identify the significant components in the transaction i.e. three types of revenue stream being the sale of goods, service and interest revenue.

General application of the theory of IAS 18.14 and IAS 18.20 (the recognition criteria) was poor. Many candidates merely just stated the theory. Others stated the theory and applied it without reasoning the answer (for example “Revenue can be measured reliability? Yes it can.”)

Once again some candidates did extremely well in this section as their approach to the solution was correct.

However, there was a wide range of solutions on this section with some candidates who did not do too well. Too many of the candidates only listed the requirements of IAS 18 and did not make them applicable to the information provided.

**Part (d)**

In this section, candidates were required to discuss whether bonds were classified correctly in terms of IAS 39.

The section was generally well-answered.

- A large number of candidates however concluded that the investment may be classified in the held to maturity category because of the directors’ intention to retain the bonds permanently, whereas it can actually not be classified as such because they are non-redeemable and hence do not have a fixed maturity date. A large number of candidates also failed to identify loans and receivables as the correct alternative category.
- Many candidates failed to realize that the Nyati bonds were an asset in the accounting records of Phoenix. Hence, they discussed liability versus equity.

**Part (e)**

In this section, candidates were required to journalise the Nyati bonds in the accounting records of Phoenix.

The acquisition of the investment was generally correctly answered, but the recognition of the interest income was not always calculated correctly. Many candidates neglected to provide journal narrations.

**Part (f)**

In this section, candidates were required to discuss the implications of the information that appeared in an article after year-end. Two issues needed to be identified, namely that the article is a post balance sheet event, and secondly that the event is an impairment indicator.

- Candidates were generally able to identify these two issues (or at least one of them), but did not always calculate the impairment loss, which counted a significant portion of the total possible marks. The question specifically required a calculation.
Candidates do not know how to do impairments on the amortised cost model. Most exam scripts discounted the future cash flows at the marked related interest rate, and not the original effective interest rate.

Many candidates did not discuss the IAS 10 Events after Balance Sheet implications.

**Part (g)**

In this section, candidates were required to discuss the inherent risks evident in the situation described.

- The following general issues prevented the candidates from earning high marks:
  - Candidates only discussed inherent risks relating to specific account balances like revenue and leases, whereas the question specifically asks for risks at the overall financial statement level.
  - Candidates listed the issues but did not explain why they see them as risks (risks not properly explained).

- Many candidates do not identify and describe the risk. Most risks are just identified and ‘dumped’ on the solution.
- Many candidates did not reflect an understanding of what an inherent risk is, and its relationship to the fair presentation of financial statements.
Question 2

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<th>Maximum mark</th>
<th>Average mark</th>
<th>Marks &gt; 50%</th>
<th>Marks &lt; 50%</th>
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<tr>
<td>55</td>
<td>23.13</td>
<td>28 % of candidates</td>
<td>72 % of candidates</td>
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Level of difficulty:

Basic to medium level of difficulty.

Main subjects examined in question:

The question covered valuations, financial analysis, working capital and ethics.

General comments:

- Candidates’ use of “sms style” language is becoming increasingly prevalent. This is unacceptable for a professional examination and provides many interpretation challenges for markers. For example, “b4”, “CF”, and “tt” are not words in the English or Afrikaans dictionaries and challenge markers to interpret what these mean. We strongly discourage the use of sms style words in future exams, and candidates will not be awarded marks unless written language is clear.
- Many candidates failed to refer to correct details of companies and individuals listed in the question. For example, Zomat (Pty) Ltd was referred to as “Phoenix”, “Zoomat” and “Zombat” by certain candidates in answering the question. We expect candidates to accurately refer to parties listed in the question.
- Spelling in candidates’ attempts was generally poor.
- Candidates who failed this question either had a very limited knowledge of earnings based valuations, ethics and financial analysis; or displayed poor exam technique by failing to comprehend what was required in answering the question. The mark plan was generous with a total of 99 marks available subject to section maximum marks.

Areas candidates’ handled well:

- Calculations of ratios in part (b) and (c) were generally accurate

Areas candidates’ handled poorly:

- Attempts at valuing Zomat (Pty) Ltd in part (a) were generally poor. It would appear that candidates focus on free cash flow valuations and are not able to value businesses using a price-earnings (“PE”) multiple approach
- The majority of candidates were not able to identify the potential impact on cash flows and profits of the proposed introduction of settlement discounts in part (d)
- Application of knowledge was generally poor. Candidates are able to perform calculations and regurgitate facts but struggle to apply their knowledge to specific scenarios. In part (e), most candidates struggled to apply the code of conduct and general ethical principles to the scenario in the question.
Specific comments on candidates’ performance in sections:

Part (a)

- Certain candidates confused the PE multiple and earnings yield approaches to valuing Zomat (Pty) Ltd. For example, some candidates increased the PE multiple for specific risks associated with Zomat as compared to similar listed companies or decreased the earnings yield for aforementioned risks. Also, many candidates referred to PE multiples as percentages.
- Many candidates attempted to perform a free cash flow valuation when there was insufficient information in the question to do so. Others used an earnings yield to discount free cash flow.
- Many candidates failed to notice that the annual revenue of listed companies set out in the question were expressed in R000s and hence, were significantly larger businesses than Zomat. This was particularly surprising given that Zomat’s revenue was also stated in R000s.
- Candidates were generally confused regarding sustainable earnings to be used in valuing Zomat. The company’s earnings increased by 16.8% in 2006 and forecast to increase by 75.4% in 2007. Assuming that candidates used the 2006 profit as sustainable we would assume that the PE ratio needs to reflect the higher forecast growth – candidates failed to understand the impact of high growth in earnings on valuations.
- Many candidates used EBIT as “maintainable earnings” and then incorrectly applied a PE multiple to that. We acknowledge that EBIT multiple valuations are becoming more popular in practice but EBIT multiples are generally lower than PE multiples (most certainly in the case of Zomat).
- Certain candidates indicated that a fair value for Zomat ranged between R60 million and R200 million – this range is certainly too wide to be of any assistance to shareholders.

Part (b)

- Few candidates were able to meaningfully comment on the results of their ratio analysis. We noted too many meaningless comments such as “…gross profit % remained constant therefore revenue increase of 35% is reasonable…” when it should have been apparent from the information in the question that the revenue growth was an industry wide phenomenon and driven by significant infrastructure spend.
- Many candidates calculated the gross profit % and cost of sales as a percentage of revenue when one of these would have sufficed to illustrate the limited change in mark up from year to year.
- Certain candidates stated that the projected 75% increase in profit after tax (“PAT”) is attributable to the increase in investment income – from the information in the question, PAT was forecast to increase by R5.3 million and investment income by R0.07 million, hence such a statement is clearly incorrect.

Part (c)

- It was disturbing to note the number of candidates who calculated the debtors days ratios as percentages.
- Many candidates listed possible ways to decrease the debtors days ratio when this was clearly beyond the scope of the question.
- Candidates generally misinterpreted what was required. The question asked candidates to indicate what “…further enquiries and analyses were required to identify the key reasons for the deterioration in collection periods…” By implication, candidates should have listed questions to be asked and analyses to be performed as opposed to stating the reasons for deterioration.
**Part (d)**

This section was generally very poorly answered.

- Candidates were unable to apply their minds to the impact on cash flows and profitability of the introduction of a settlement discount.
- The word “estimate” in the required section implied that an attempt to calculate and illustrate the monetary impact of the proposed settlement discount was necessary to answer the question. Most candidates did not attempt any calculations.

**Part (e)**

- Many candidates stated that Ms Tshabalala should “…discuss the matter with the next level of management…” This illustrates a lack of application on their part as Mr Roots is CEO of the business and her immediate superior.
- Certain candidates identified that the actions of Mr Roots may be a reportable irregularity and then proceeded to list the actions that Ms Tshabalala should take as auditor of Zomat – this was clearly not appropriate as Ms Tshabalala is the financial director of Zomat.
- We are concerned by the general poor application of knowledge by candidates in ethical issues. This is an increasingly important area in practice and the scenario tested was not complicated. The CEO had claimed personal expenditure from the company and when the financial director refused to pay such claim, he threatened her. Candidates should at least recognise the potential misappropriation of funds by the CEO, the breach of his fiduciary duty to the company and that it is unacceptable to threaten subordinates. Candidates who simply stated these obvious issues and then listed the financial director’s basic responsibilities as a CA(SA) would have achieved more than the available marks.

Unfortunately few candidates passed this section of the question.
Question 3

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<tr>
<td>65</td>
<td>27.68</td>
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**Level of difficulty:**

Most universities commented that the question was set at an appropriate level, although “fair to challenging”.

However, one University felt that the question was more appropriate for the PPE. In particular, they commented that candidates may have needed more time to answer Part (a) as they would not have had experience in considering the issues addressed.

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

The question examined the following auditing standards:
- ISA 240 (The auditor’s responsibility to consider fraud)
- ISA 300 (Planning an audit of financial statements)
- ISA 315 (Understanding the entity and its environment and assessing the risks of material misstatement)
- ISA 330 (The auditor’s procedures in response to assessed risks)
- ISA 500 (Audit evidence)
- ISA 610 (Considering the work of internal audit)
- ISA 700 (Audit reporting)

The question required candidates to:
- Demonstrate an understanding of how internal controls provide audit evidence to support an assertion (existence of inventory) and what factors would contribute to design of the controls.
- Discuss audit responses to a fraud identified by internal audit.
- Describe audit responses to control weaknesses.
- Identify business risks arising from an outsourcing contract (inventory delivery) and develop safeguards to include in an SLA.
- Discuss the effect of a scope limitation on the audit report.

**General comments:**

In general, the performance of candidates was disappointing across all aspects of the question. The markers were disappointed at the apparent lack of knowledge and/or understanding of the candidates and considered that they should have done better, particularly in parts (d) and (e) which were relatively straightforward theory questions.

**Areas the candidates handled well:**

Most candidates applied the tabular format required in part (a) and scored presentation marks.
Areas the candidates handled poorly:

- Exam technique was a key factor in candidates not scoring marks in part (a) because:
  - Many candidates wrote one-word answers which were not awarded marks. Unless the candidates used full sentences, it was not possible to determine whether they really understood how each identified control supported the “existence” assertion;
  - Instead of identifying “additional information” required to “assess whether the control has been appropriately designed”, many candidates described audit procedures; and
  - A number of candidates wrote too much detail about stock count procedures rather than thinking more broadly about other controls which support the “existence” assertion.

- Similarly, in part (c) many candidates lost marks because they described management responses to the identified control weaknesses, rather than the audit responses required by the question.
- Some candidates forfeited presentation marks by not structuring their answers in the format required in the question.
- Candidates’ knowledge of ISA 700 appeared particularly poor and, consequently, they were unable to discuss the nature of the appropriate audit report modification in the context of the question.
Paper 2 consisted of three questions, and dealt with:

**Question 1:**
*Query 1* related to the different Value-Added Tax implications on the possible purchase of two buildings. One acquired from a non-vendor and the other from a vendor.
*Query 2* dealt with a delivery truck and stock (client products) that were lost in a hijacking and the subsequent insurance indemnity payment receipt. The question addressed Value-Added Tax and Income Tax consequences.
*Query 3* dealt with the Value-Added Tax implications of the use of a luxury company car and costs related to a two-day business trip for a company’s salesman.

**Question 2:**
The question covered valuations, financial analysis, working capital and ethics.

**Question 3:**
This was a management accounting question based on a manufacturing operation producing two product ranges and included 9 marks of financial accounting based on SAICA circular 9/2006. Candidates were required to calculate the total fixed and variable manufacturing cost per container of each product (high low method) and to make recommendations for the appropriate allocation of manufacturing overheads to finished products (Activity Based Costing). The question further dealt with the qualitative and quantitative considerations relating to a special order under consideration.

**Question 4:**
This question examined the calculation of taxable income of a natural person, a trust and trust beneficiaries and counted 50 marks in total. The taxable income calculation for the natural person included remuneration, lump sums, fringe benefits and the medical deduction. The relevant taxpayer also emigrated during the year and the capital gain issues of the sale of assets leading up the emigration as well as the deemed disposal at emigration was examined. The second part of the question dealt with the income earned in a trust in respect of assets inherited by the trust and assets acquired by the trust in terms of an arms length transaction as well as in terms of an interest free loan. It required reasons as well as basic calculations to be given. The question finally dealt with the tax consequences for the beneficiaries, one being a resident and the other not a resident of the RSA.
Question 1

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<td>40</td>
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Level of difficulty:

The question was fairly easy and was set at an appropriate level for Part 1 of the Qualifying Examination. The question adequately addressed practical issues that entry level chartered accountants should handle with confidence. The question included appropriate integration between Value-Added Tax and Income Tax aspects.

Main subjects/topics examined in the question:

The question posed three queries to candidates. In respect of all three queries, discussion was required.

**Query 1** related to the different Value-Added Tax implications on the possible purchase of two buildings. One acquired from a non-vendor and the other from a vendor. The maximum number of marks allocated to this query was 12.

**Query 2** dealt with a delivery truck and stock (client products) that were lost in a hijacking and the subsequent insurance indemnity payment receipt. The question addressed Value-Added Tax and Income Tax consequences. The maximum number of marks allocated to this query was 10.

**Query 3** dealt with the Value-Added Tax implications of the use of a luxury company car and costs related to a two-day business trip for a company's salesman. The maximum number of marks allocated to this query was 18.

Two marks were allocated to presentation, language and layout.

General comments:

The question was fairly easy and candidates handled the question well in many respects.

The mark plan was very generous and catered for many complementary and alternative marks.

It was however evident that a question could be raised regarding the ability of candidates to discuss the effect of different taxes on one transaction. Too many candidates used Income Tax principles whilst discussing Value-Added Tax issues.

Some candidates’ handwriting was very poor and it was difficult to decipher SMS style writing used by too many candidates.

Some Afrikaans candidates incorrectly refer to transfer duties as “oordragskostes”. The reference should be to “hereregte”.
General comments:

Many candidates used the correct terminology in answering the questions. E.g. many candidates used “output VAT” and “input tax credits” to make a distinction between different aspects of a transaction. “Deemed” or “notional” input tax credits” terminology was correctly applied. This must be encouraged in taxation, not only in discussion questions, but also in calculation type questions.

The presentation, language and layout used by most candidates were of a good standard.

Specific comments in respect of Query 1:

In respect of Query 1, candidates handled the following well:

- The formulation of answers was systematic and well worded.
- A clear distinction was drawn between the two buildings and the fact that one was to be acquired from a non-vendor and one from a vendor.
- The calculation of the notional input tax credits in respect of the first building was handled well.

In respect of Query 1, candidates did not handle the following well:

- Too few candidates recognised the possibility that the building acquired from the vendor could have been structured as a going concern sale at a zero rate of Value-Added Tax.
- Some candidates calculated their own transfer duty based on percentages that differed to the clear instruction in the question.
- The fact that all of the input tax credits were available immediately on the acquisition of building 2 was handled poorly as many candidates did not consider that an immediate conversion would take place. This matter was very clear in the question.

Specific comments in respect of Query 2:

In respect of Query 2, candidates handled the following well:

- The basic implications of the receipt of an indemnity payment from a Value-Added Tax perspective.

In respect of Query 2, candidates did not handle the following well:

- The distinction between the treatment of the truck and the client products was not handled well from an Income Tax perspective.
- The disposal of the truck from the perspective of the Eight Schedule was not handled well.

Specific comments in respect of Query 3:

In respect of Query 3, candidates handled the following well:

- The basic implications of the use of a company car were discussed well and some parts of the calculation shown accurately and clearly.
In respect of Query 3, candidates did not handle the following well:

- The fact that the company car had been used for more than two years prior to it being given for the exclusive use of the managing director and that a “depreciation” allowance of 15% on the reducing balance method was available for each full year that the vehicle was previously used by the company was not considered by many candidates.
- The subsistence allowance was incorrectly seen by many candidates as “entertainment” in the context of the Value-Added Tax Act.
- In general, the subsistence allowance was handled poorly by most candidates.
- In general, the business trip expenses were handled poorly by many candidates.
- The percentages relating to the Income Tax implications of the use of a company car was incorrectly applied in the Value-Added Tax realm.
- Some candidates deemed petrol to be an exempt supply, as opposed to the correct position that it is a zero rated supply.
Question 2

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<td>65</td>
<td>31.39</td>
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<td>51 % of candidates</td>
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**Level of difficulty:**

The question was very integrated and indirectly tested candidates' knowledge on various topics of Generally Accepted Accounting Practice (GAAP). Due to the level of integration the question is relatively difficult but is set at an appropriate level of difficulty for Part 1 of the Qualifying Examination. Candidates were challenged by the fact that the question supplied a great volume of information. Candidates therefore had to separate relevant and irrelevant information and understand journal entries posted by the client in the financial statements in order to identify cash flow information.

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

The question was solely a financial accounting question counting 65 marks in total. The question required candidates to draw up a consolidated cash flow statement for a group of companies. In adhering to the requirements of the question, candidates had to take cognisance of the following issues:

- Translation of foreign exchange balances and amounts and the effects of foreign exchange and translation differences on the cash flow statement.
- The classification of transactions’ cash flow under operating, investing and financing activities.
- The calculation of cash received from customers and cash paid to suppliers and employees in very integrated circumstances where foreign amounts and balances were present.
- The calculation of the deferred taxation component of the income tax expense by recreating the deferred taxation account and incorporating knowledge regarding the deferred taxation on revaluations, fair value adjustments, debt/equity splits etc. into the calculation.
- Debt/equity classification of financial assets/liabilities raised/redeemed.
- The effects of deferring certain amounts in equity (e.g. deferred profit, translation gains and losses etc.) and the effect thereof on the deferred tax balance.
- The calculation of amounts actually paid in cash where various amounts have been accrued – i.e. a thorough understanding of the difference between the accrual basis of accounting versus the cash basis used for the cash flow statement. This understanding was especially important in the calculation of interest paid.
- The effect of hedging a firm commitment by means of a fair value hedge and the consequential effect of the ‘basis adjustment’ on the movement in inventory balances for the year.
General comments:

The question was both challenging and interesting and tested candidates’ ability to integrate a large volume of information into one document at consolidated level. By testing the consolidated cash flow statement, candidates’ knowledge and understanding of individual topics within International Financial Reporting Standards (IFRS) was also indirectly tested.

Areas the candidates handled well:

- The question was generally well-answered by candidates and they appeared to have a good general knowledge of the topics examined.
- Candidates across the board had a sound knowledge of the presentation of the cash flow statement and the classification of operating, investing and financing activities.
- The use of T-accounts was prevalent in the calculations and this indicated that candidates were considering debits and credits and drilling down to the basic principles supporting certain types of transactions – this is a very positive aspect.
- Candidates generally understood which supporting calculations were required for the preparation of a consolidated cash flow statement.

Areas the candidates handled poorly:

A few areas should however be highlighted which may be of use to candidates for future examination purposes.

- Many candidates overlooked the fact that they had been given CONSOLIDATED information and therefore erroneously added the numbers of the subsidiary to the consolidated numbers.
- Candidates struggled with the calculation of the cash paid to suppliers and employees. This was not only due to the fact that foreign balances were included herein, but there seemed to be a general lack of understanding as to the relevance of certain amounts when calculating cash flows.
- Candidates also experienced great difficulty in understanding the direction of cash flows and whether these amounts should have been added to or subtracted from a certain item of cash flow.
- Various candidates struggled to perform the correct classification of transactions for cash flow statement purposes, despite the question stating specifically where for example interest and dividends should be classified. Misclassifications led to various candidates losing up to a maximum of three presentation marks on the cash flow statement in part (b) of the question. This is unnecessary.
- General layout of calculations and cross-referencing to these calculations was in many cases very poor. Candidates should realise that the onus rests on them to provide answers that are logical, concise, precise, well-referenced and clearly legible. This was often not the case and for certain candidates, poor handwriting remains a very big problem that should be addressed adequately.

Specific comments on sections of the question:

Part (a)(i) – Cash received from customers

- This section required candidates to calculate the cash amounts received from customers for the current year.
- This section was generally easy to calculate and not many problems were identified in the section. Most candidates realised that the movement in the receivables had to be taken into
account (i.e. added to or deducted from revenue for the year) when calculating the ‘cash received from customers’.

- One area that seemed to be problematic was that of incorporating a foreign company into the group statements. Many candidates did not take into account that the acquisition of a subsidiary is a cash injection into the group that should be taken into account at the date of acquisition. This amount had a direct impact on the calculation of the movement in receivables and was unfortunately ignored by a large number of candidates.

- Another problem that was experienced by candidates was whether to add or subtract amounts from the revenue figure. This indicated that some candidates did not understand WHY the movement in the receivables has an impact on the calculation of cash received from customers for the year.

Part (a)(ii) – Cash paid to suppliers and employees

- This section required candidates to calculate the cash amounts paid to suppliers and employees.

- The biggest problem experienced here was the direction of cash flows. Candidates added or deducted certain amounts in error and lost marks for this.

- Many candidates dealt in detail with the foreign exchange movements, interest received and paid and other income amounts in this section. This was not necessary as the question provided detailed amounts for direct absorption in the amount for ‘cash paid to suppliers and employees’.

- Many candidates still do not understand the effect of non-cash flow items on the cash flow statement and included items like profit on sale of assets, depreciation and revaluations/fair value adjustments in the calculation of ‘cash paid to suppliers and employees’.

- Many candidates were confused by the inclusion of a certain part of depreciation under cost of sales and therefore double-counted the reversal thereof in the calculation required for this part of the question. This led to the excessive reversal of depreciation for the year and the total amount of depreciation reversed did not add up to the information supplied in respect of depreciable assets.

- The majority of candidates completely missed the effect of the basis adjustment required by the reversal of the firm commitment liability against inventory on the cash flow statement. This is disturbing as the concept is not that advanced and impacts directly on the calculation of the movement in inventory balances for the year.

- Calculations were especially messy and poorly cross-referenced in this section of the question. Many candidates reconstructed all the T-accounts fairly well but never even referenced any of the amounts to a certain section number of the question. It was therefore left to the marker to decide which amounts should be marked in which T-accounts. This is unacceptable.

Part (a)(iii) – Taxation paid

- This section proved to be a major challenge to many candidates and required candidates to calculate the amount of taxation paid in cash during the current year.

- Many candidates assumed that the full movement on the deferred taxation balance sheet account arose through the income statement and deducted this movement against the taxation expense in the income statement. Candidates should have taken into account that deferred tax also arose through equity (e.g. revaluation of PP&E, revaluation of available-for-sale financial instruments and also actuarial losses deferred in equity).

- Almost all candidates missed the deferred taxation on the equity component of the convertible debentures. This is somewhat challenging but may indicate the need to focus slightly more on the deferred tax effects of financial instruments.
The direction of cash flows also appeared to be a problem in this section of the question. Once candidates calculated the movement on deferred taxation, they did not know whether to deduct or add the movement to the taxation expense in the income statement.

Candidates were very uncertain as to the rates that were to be used to provide deferred taxation in respect of fair value adjustments. Fair value adjustments on available-for-sale financial instruments were taxed at 29% and the revaluation of PP&E (which was stated by the question to be held until end of useful life and then sold) was taxed at a hybrid rate (i.e. 14.5% on the residual and 29% on the rest of the revaluation). These errors were quite common across the board.

Many candidates did not consider deferred taxation at all in their calculation of the tax paid to the SARS for the current year.

Part (b) – The cash flow statement

This section required candidates to draw up a consolidated cash flow statement from the given summarised consolidated information. This section was generally well-answered and most candidates did relatively well in the section. The common errors were however the following:

- Once again direction of cash flow was a major problem. This led to candidates losing a maximum of three presentation marks when directions of cash flows were incorrect.
- Misclassification of line-items by candidates occurred often. ‘Dividends paid’ was presented in the financing activities section and ‘interest received’ and ‘dividends received’ were presented in the investing activities section despite the question stating that these activities were operating activities.
- Many candidates lost consequential marks by using different amounts in the cash flow statement than those calculated in part (a) (i) to (iii). This was unnecessary.
- Often candidates did not fully understand the effect of the net purchase price of the subsidiary and either did not convert the foreign purchase price at the correct exchange rate or did not deduct the cash obtained by the acquisition of the subsidiary from the purchase price to arrive at a NET cash consideration.
- Quite a few candidates did not convert the interest on the foreign loan to South African Rand and purely included the Dollar amount together with the South African Rand amounts in the cash flow statement.
- Most candidates did not realise that the hedge was that of a net investment in a foreign operation, the fair value movements of which are deferred in equity.
- Cross-referencing to supporting calculations was generally poor in this section and markers had to search for these calculations. This wasted time during the marking process and should not occur. Onus rests on candidates to provide an ‘audit trail’ of their approach.
- Many candidates did not realise that their cash flow statements should balance back to the amounts mentioned in the consolidated balance sheet. Therefore cash flow statements were left unbalanced. It would have been easy marks to earn should the cash flow statement have contained the correct closing balances.
- Most candidates ignored the effect of the translation difference relating to the cash balances in the cash flow statement. This indicates that candidates are struggling with understanding the effect that translation has on balance sheet accounts and how this translation affects the cash flow statement.
- Many candidates viewed the share buy-back as a cash inflow for the company and even narrated the amount as ‘cash received from share buy-back’. This is concerning as the basic principle of a share buy-back is completely misunderstood.
- Quite a few candidates entered the full lease installment under financing activities and therefore unknowingly double-counted the interest included in the installment in two sections of the cash flow statement.
- Candidates often converted the proceeds from the foreign loan at the incorrect exchange rate resulting in them losing half the marks awarded to that line-item.
- The sale-and-leaseback transactions also caused some problems for certain candidates. Many candidates entered only the profit (or recognised portion of deferred profit) arising on the sale-and-leaseback transaction as a cash flow while others left it out completely.
- Most candidates could not reconstruct the ‘other income’ account in such a way that they could calculate the ‘dividends received’ amount. This is disappointing as the concept is not that involved and purely required candidates to rethink the journal entries supporting the sale-and-leaseback transaction.
- The calculation of interest paid was chaotic. Most candidates calculated the amount incorrectly, got their directions of cash flows completely wrong and did not consider the appropriate items that played a role. Most candidates overlooked the fact that the interest on the finance lease had already been included in the interest expense in the income statement and therefore double-counted this amount of interest by adding it to the given interest expense again.
- The calculation of dividends paid was generally well-performed.
Question 3

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<td>50 % of candidates</td>
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Level of difficulty:

Most universities regarded the question as fair to easy. Generally it was regarded as an appropriate level for Part I of the Qualifying Examination as it included practical application of theoretical concepts.

Main Subjects/Topics examined in the Question:

This was a management accounting question based on a manufacturing operation producing two product ranges and included 9 marks of financial accounting based on SAICA circular 9/2006. Candidates were required to calculate the total fixed and variable manufacturing cost per container of each product (high low method) and to make recommendations for the appropriate allocation of manufacturing overheads to finished products (Activity Based Costing). The question further dealt with the qualitative and quantitative considerations relating to a special order under consideration.

General comments:

The feedback from the universities was that this was fair question and examined the syllabus.

Despite the fact that a number of additional marks were allocated to the mark plan (based on comments received from universities) it was disappointing that the candidates did not manage to score well.

Areas the candidates handled well:

- Generally candidates managed part (c) well, where the marks were easy to identify.
- They also managed part (d) which asked for qualitative comments on factors influencing the special order.

Areas the candidates handled poorly:

- Candidates did not manage the ABC costing well, and did not in most cases pick up the structure of answering the question in parts (a) and (b).
- Also disappointing was their lack of interpretation of the circular provided for answering part (e). The candidates tended to focus on restating the definitions and not explaining/interpreting the circular to the question.

Specific comments on sections of the questions:

Part (a)

In this section candidates were required to calculate the total fixed manufacturing overhead costs and the variable manufacturing overhead cost per container of ProTouch and BestGuard paint. This could be achieved by applying the high low method to the information supplied. Generally this section was not handled well by candidates.
A number of candidates correctly calculated the variable cost for ProTouch, but did not know how to use it to get the variable cost of BestGuard. There was a technique to identifying the allocation of the costs, which many candidates did not pick up and many candidates assumed that the variable costs were the same for both products.

The number of candidates who could not identify this as a calculation to use the high low method was disappointing. It also seemed as if many candidates were vaguely aware of the principles of high low calculations but did not know how to do the calculation (maybe indicating that it was not studied for this examination as it is generally covered at undergraduate level at university).

Part (b)

Part (b) required candidates to identify and describe with reasons a more appropriate basis of allocating fixed manufacturing overheads (than the allocation based on number units that was used in the budgeted information provided).

It appeared that candidates answered the question without thinking about what they are concluding, e.g. they would identify that ProTouch has more containers in a batch but could not make the conclusion that it therefore has less set-ups. It would also appear that they do not have a good understanding of ABC costing.

Many candidates did not explain their answers; they may have identified relevant allocation basis but did not explain their recommendations. They therefore failed to answer the required.

The rather significant number of candidates who stated that these items were fixed cost and can therefore not be allocated to manufactured units is a serious cause for concern. These statements do not only prove a lack of knowledge of basic costing principles but also of financial accounting where the accounting standard describes the allocation of overhead costs to determine the cost of inventories.

Many candidates apparently also do not understand the difference between wages (paid for direct labour) and salaries as they stated that “salaries” is not a fixed cost and should be based on the time spent by the specific employees and their rate per hour.

Part (c)

Here candidates had to analyse and calculate what impact the acceptance and fulfillment of a special order of paint may have on the profitability of Perfect Paints. This was the best answered part of the question with many candidates scoring well.

A number of candidates identified that there might be an opportunity cost due to the limiting number of machine hours, but did not calculate whether machine hours were indeed a limiting factor. Therefore, the application of their academic knowledge appeared to be a problem for some candidates.

Unfortunately a number of candidates appeared to have passed over Part (c) after having attempted parts (a) and (b). They then missed the opportunity for some of the easier marks.
**Part (d)**

In this section candidates had to list key factors to be considered by Perfect Paints in determining whether to accept the special order. Candidates generally handled this section quite well.

- It appeared that a number of candidates started with parts (d) and (e) with the hope that they will at least “score” some marks for the writing without realising that these sections actually build on the previous sections (a) to (c) (which they answered subsequently).
- The requirement in this part screened out the potential for candidates to list all the possible answers, hoping or a few marks. This was regarded as a good expectation by the mark team. As a result candidates did struggle to get full marks.

**Part (e)**

In part (e) candidates were required to discuss the accounting treatment of volume rebates granted by Perfect Paints. This section was very badly answered by most candidates.

- It appeared that candidates had the academic knowledge, but battled to apply it to the scenario provided to them. Some candidates discussed the treatment of rebates as it relates to the valuation of inventory!
- The candidates did not read the required and went off on a tangent in a number of cases, despite having the circular available to them. They mentioned the circular but did not interpret it.
- Even more concerning though are the number of candidates who did not refer the circular or the principles contained therein at all and explained how the “Discount allowed” should be reflected as a separate line item on the face of the income statement. This clearly indicates a lack of knowledge of the latest developments in accounting.
Question 4

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**Level of difficulty:**

The question was adequately integrated and set at an appropriate level of difficulty for Part I of the Qualifying Examination.

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

This question examined the calculation of taxable income of a natural person, a trust and trust beneficiaries and counted 50 marks in total. The taxable income calculation for the natural person included remuneration, lump sums, fringe benefits and the medical deduction. The relevant taxpayer also emigrated during the year and the capital gain issues of the sale of assets leading up the emigration as well as the deemed disposal at emigration was examined. The second part of the question dealt with the income earned in a trust in respect of assets inherited by the trust and assets acquired by the trust in terms of an arms length transaction as well as in terms of an interest free loan. It required reasons as well as basic calculations to be given. The question finally dealt with the tax consequences for the beneficiaries, one being a resident and the other not a resident of the RSA.

**Areas the candidates handled well:**

The question was generally well-answered by candidates and they appeared to have a good general knowledge of the topics examined.

**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 general exam technique:

- Please refer to the specific comments below.

**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 taxable income of a natural person. This section was generally well-answered, but the following common errors were made:

- The taxable capital gain was often calculated incorrectly. Candidates often applied the inclusion rate to the each asset disposed of individually and some used the wrong rate. The annual exclusion was used incorrectly and often the amount thereof related to a previous tax year. As the Eighth Schedule requires a specific order to arrive at the “taxable capital gain” students lost marks when this was not applied.
- A number of candidates did not include income deemed to be that of the taxpayer (in terms of section 7) in the calculation.
- The medical deduction was frequently calculated incorrectly and many candidates did not
include the fringe benefit.

- Quite a number of the candidates used both the R2,500 (for foreign dividends and foreign interest) and R16,500 for other interest as exemptions, whilst the Act requires the R16,500 to be reduced by the amount utilised for the foreign income. The split should, however, not have been done as the taxpayer earned interest from South Africa only.

**Part (b)**

In this section, candidates were required to calculate the taxable income of a trust and to support the calculation with reasons. This section was generally also well-answered, but the following common mistakes were made:

- It was clear that candidates did not read the required part well enough, as many did not provide the required reasons for their answers.
- The question provided the calculation of the income retained in the trust, but many candidates still went and duplicated the calculation in their answer.

**Part (c)**

In this section, candidates were required to calculate the taxable income of the beneficiaries of the trust and to support the calculation with reasons. This section was generally also well-answered, but the following common mistakes were made:

- Many candidates left out the rental from the flat.