



JUNE 2018 EXAMINATIONS

CHIE EXAMINERS REPORTS

CA ZAMBIA

SUBJECT: CA 1.1- FINANCIAL ACCOUNTING

QUESTION ONE

The general performance on this question was poor. Of the 68 candidates who attempted the question, only 24% achieved the pass mark. 76% of the candidates failed the question. Though the lowest score was only 10%, the highest score was 90% and the average score of 45%.

This question was composed of 10 multiple choice questions drawn from the entire syllabus.

The most common mistakes made by the candidates was failure to adequately cover the syllabus in their preparation.

QUESTION TWO

The general performance on this question was poor. Of the 68 candidates who attempted the question, 34% passed while 66% failed the question. The lowest and highest scores were 0% and 85% respectively.

The question required candidates to prepare accounts relating to a club (Not for profit organization).

The main mistakes included the following:

- (i) Failure to apply accruals and prepayments adjustments to items of income and expenditure.
- (ii) Lack of knowledge on Club Accounts.

QUESTION THREE

The general performance on this question was very poor. The question was least popular among the questions. Only 36 candidates who attempted the question, of which 11% passed while 89% failed the question. The lowest score was 5%, the highest score 70% and the average score was 25%.

The question required candidates to explain the purpose of providing for depreciation and to prepare various accounts relating to acquisition, depreciation and disposal of non-current assets.

The most common mistakes made by the candidates were:

Candidates had double entry accounting skills in relation to non-current assets.

QUESTION FOUR

The general performance on this question was poor. The question was popular with candidates. 51 candidates attempted the questions of which only 47% passed while 53% failed. The highest score was 100% while the lowest score was 0%.

The question required candidates to prepare a trial balance before correction of errors, journal entries to correct errors and a trial balance after correcting errors.

The most common mistakes made by the candidates were the following:

- (i) Lack of knowledge on entries to correct errors
- (ii) Opening and passing entries in actual accounts instead of merely showing the journal entries.

Question Five

The general performance on this question was excellent. Of the 66 candidates who attempted the question, 85% passed while 15% failed the question. The highest score was 100% while the lowest score was 10%.

The question required candidates to prepare a statement of profit or loss and a statement of financial position for a sole trader.

The most common mistakes made by the candidates was lack of understanding of how to make basic accruals and prepayments adjustments.

QUESTION SIX

The general performance on this question was excellent. Of the 42 candidates who attempted the question, 93% passed while 07% failed the question. The highest score was 90% while the lowest score was 25%.

The question required candidates to prepare a partnership statement of profit or loss and appropriation account, and a statement of financial position.

The most common mistakes made by the candidates' failure to perform basic accruals and prepayments adjustments and to properly appropriate the net profit.

Overall performance of candidates

| | |
|--------------------------------------|-------|
| Highest mark obtained in this paper: | 79% |
| Lowest mark obtained in this paper: | 10% |
| Average score in this paper: | 47.7% |

SUBJECT: CA 1.2 BUSINESS STATISTICS

QUESTION ONE

This was a multiple choice question with 10 questions having both calculation and application scenarios. The average performance was 12 marks out of 20. All candidates attempted this question.

QUESTION TWO

This question was attempted by more than 90% of the candidates. The average performance was 10 out of 20 marks. The question was divided into two parts.

Part (a): candidates were given ungrouped data and were required to find various stats such as the mean, median, mode, and quartiles. Most candidates managed to find the correct answers of the given questions. The candidates who failed to get full marks did not arrange the data in increasing order.

Part (b): candidates were required to find the mean and standard deviation of discrete probability data. The general performance in this section was good with most candidates managing to get the correct answer.

QUESTION THREE

This question required candidates to use given data in part (a) to form a pie chart, and find the mean and standard deviation of probability data in part (b). The general performance in this question was 10 out of 20 marks.

Part (a): candidates were required to find percentage of total sales of the data that was given. This was then used to construct pie chart. Most candidates managed to construct the pie chart.

Part (b) required candidates to find the mean and standard deviation of probability data. The general performance in this part was good with most candidates managing to use the correct formula for both the mean and standard deviation.

QUESTION FOUR

This question was attempted by 70% of candidates with the general performance of 11 out of 20 marks. The question was divided into two parts:

Part (a): candidates were required to use given grouped data to calculate the mean, standard deviation, median and the mode. The general performance in this part of the question was good. There were no major observation points on errors made except getting wrong middle values from classes of grouped data.

Part (b): candidates were required to use the normal distribution to find the required probabilities. The main challenge observed in this question was candidates' inability to use the z-tables correctly when calculating probabilities.

QUESTION FIVE

This question required candidates to formulate bar charts and also calculate four day moving average. The general performance in the question was 15 marks out of 20. 80% of candidates attempted this question.

Part (a): candidates were required to formulate bar chart using the given data. Correct bar chart was formulated with few candidates constructing histograms instead hence losing marks. It was observed that some candidates did not write the chart title attracting loss of marks.

Part (b): candidates were required to formulate a time series four day moving average. Most candidates managed to get full marks in this section.

QUESTION SIX

This question was divided into two parts, the first part on time series required candidates to find the season variation by a 5 day moving average. Though most candidates solved the question correctly, it was observed that they alternated on either use of the multiplicative or additive models.

The second part of the question required candidates to use the binomial probability distribution to find required probabilities. The main challenge observed in this part was candidates were having challenges with using the z-tables.

Overall performance of candidates

| | |
|--------------------------------------|-------|
| Highest mark obtained in this paper: | 85% |
| Lowest mark obtained in this paper: | 19% |
| Average score in this paper: | 62.5% |

SUBJECT: CA 1.3-BUSINESS ECONOMICS

QUESTION ONE

This was a compulsory multiple choice question. It was divided into 10 questions each carrying 2 marks. All candidates attempted this question. The question covered the entire CA 1.3 syllabus. The performance was fair though at extreme some candidates got 0. Such candidates overall performance even in the other questions was poor.

QUESTION TWO

This was a compulsory question which tested candidates' understanding of costs of production and revenue curves. It was divided into five parts (a), (b), (c), (d) and (e).

Part (a) required candidates to complete the columns for TR and TC. The answers were fair.

Part (b) tested candidates on profit maximization quantity. Candidates should have found it easy had they calculated MR and MC columns and pick the quantity where $MR = MC$. Fair performance.

Part (c) required candidate to calculate the profit value for each quantity and pick the profit where $MR = MC$

Part (d) required candidates to state the quantity where $TR = TC$

Part (e) required candidates to demonstrate the application of the fundamental economic concepts of 'scarcity, choice, and opportunity cost' with respect to the given scenario. Weak candidates could not relate their answers to the given scenario in the question. Overall performance was good.

QUESTION THREE

This question was divided into three parts:

Part (a) tested candidates' understanding of Rostow's five stages of economic development. These must be presented in the right order as Traditional society, Traditional stage, Take off stage, Drive to maturity, and High Mass consumption. Good candidates scored well here while weak candidates could not answer the question as required.

Part (b) tested candidates understanding of the distinction between negative externality and positive externality. The question was poorly answered. Many candidates seem not to know what an externality is!

Part (c) tested candidates' knowledge on the policies that government can use to deal with externalities. Performance was fair.

QUESTION FOUR

This question tested candidates on their understanding of monetary policy. It was divided into four parts:

Part (a) required candidates to explain any three causes of inflation in general. Students should have presented demand pull, cost push, increase in money supply among others. Performance was fair.

Part (b) required candidates to explain how commercial banks play a role in credit creation. The question simply required candidates to state the fact that when a bank gives out a loan, money supply increases by the amount of the loan granted. This may cause inflation. Majority of candidates did not understand what credit creation means.

Part (c) simply required candidates to explain any three measures that the central bank can use to control inflation. Students should have explained Discount Rate Policy, Required reserve policy and Open Market Operations policy. Answers were not very good.

Part (d) required candidate to explain any four limitations of monetary policy. Answers could have included among others; unorganized money market, time lags, money multiplier effects, institutional restrictions as well as the response of the banking system. Performance was poor on this part.

QUESTION FIVE

This question was divided into five parts:

Part (a) required candidates to describe any three advantages and any three disadvantages of free trade. Good candidates did very well here but weak candidates kept on repeating the same points and could not be awarded any further marks.

Part (b) Required candidates to state any two benefits of belonging to a regional grouping. It was fairly answered.

Part (c) required candidates to outline any five benefits of globalization. This was fairly answered.

Part (d) required candidates to list any three advantages of adopting a single currency.

Part (e) required candidates to outline the function of World Trade Organisation. It was fairly answered.

QUESTION SIX

This question required candidates to demonstrate understanding of Keynesian economics. It was divided into three parts:

Part (a) required candidates to define the terms aggregate demand and aggregate supply. Performance was fair.

Part (b) required candidates to describe any three macroeconomic goals. Answers were very good.

Part (c) required candidates to use aggregate demand and aggregate supply diagram to illustrate and explain the effect on equilibrium price level and real GDP when (i) consumers expect a recession, and (ii) workers expect high future inflation and negotiate higher wages now. Weak candidates could not draw the required curves let alone explain them. Generally, when consumers expect a recession the aggregate demand curve will shift leftwards while workers' expectation of high future inflation will shift the supply curve leftwards as the cost for hiring workers will have gone up and companies respond by hiring few workers.

CONCLUSION

Candidates are urged to seriously study the entire syllabus. Question spotting was implicitly assumed by the markers and indication that students fail to cover the syllabus in their preparation for the exam. The CA 1.3 Study Guide has all the materials that students have to use to pass the examination. Further, students are encouraged to read the past examination papers and the examiners' reports to improve their performance in future exams.

Overall performance of candidates

| | |
|--------------------------------------|-------|
| Highest mark obtained in this paper: | 84% |
| Lowest mark obtained in this paper: | 20% |
| Average score in this paper: | 56.6% |

SUBJECT: CA 1.4- COMMERCIAL AND CORPORATE LAW.

QUESTION ONE

The performance under this part was exceptionally good. 70% managed to get beyond a 50% pass mark in this question. Students are encouraged to practice often all the multiple choice questions in the module and other relevant material they may find.

Students must take time to study all topics in full, this section can only be dealt with by candidates who thoroughly go through topics and mastering the principles under each topic. The questions were balanced and very clear.

QUESTION TWO

The question was based on Management and Administration of Companies viz a viz Directors in relation to vacation of office of director. 87% of candidates answered it correctly, though some of them could only state without explaining as required by the question.

The question had two parts (a) and (b).

(a) Part A was on vacation of office of director and 87% of candidates answered it correctly, except that the majority of them (75%) could only state without explaining as required by the question. Future candidates must pay attention to the command words in question.

Most of the candidates were able to identify the ways through a director may vacate office in relation to the scenario given.

(b) Part B was on fiduciary duties of directors. 65% of students were not able to answer the question exhaustively as others were indicating the general duties of an employee or a director. In future, students must be able to distinguish between fiduciary duties and other duties.

Students answered this part of the question very well. The scenario provided a guide on how corporate management is imputed at company law and students were able to identify the fiduciary duties that exist the moment one becomes a director.

Those who did not do well were focusing on other rights that may emanate from other employees of a company like the auditors or secretary.

Prospective students must read corporate management thoroughly and be able to distinguish all the agents of a company.

QUESTION THREE

The question was divided into four parts (a), (b), (c) and (d):

- (a) 98% of the candidates attempted this question. With the majority answering this part of the question well giving the difference between unlimited companies and companies limited by guarantee.
- (b) The majority of the candidates managed to identify the characteristics of sole proprietorships and partnerships as they relate to business entities that one can incorporate.
- (c) Majority again here managed to give the difference between partner by estoppel and general partner. Those who were failing to answer concentrated on the creation of a partnership instead of looking at the types or the difference between the two terms that were given.
- (d) This part came under company law and or the existence of share and share capital in a company. Three quarters of the candidates managed to give the difference between nominal and issued share capital.

Prospective students are encouraged to study further on the various types of business entities and the purpose they serve.

QUESTION FOUR

This was a scenario question asking students whether there was an agency relationship in the scenario; and further asking whether property in the good passed to the buyer. To both sub-sections, the answer was, yes. There was no problem with this question and 90% of those who attempted it did very well.

Details:

The question comprised two parts (a) and (b).

(a) This part was based on the law of agency and was testing on whether students are able to understand how an agency relationship can be created.

This part was based on the sale of goods. The question was asking whether property in the good passed to the buyer or not. There was no problem with this question and 90% of those who attempted it did very well.

(b) In part (a) and (b), the majority of students had a fair understanding of what was asked.

Those who didn't do well might have confused the two theories of law which are discussed separately in the module.

Future candidates should understand the difference that exists in concepts like agency, partnership or and sale of goods.

QUESTION FIVE

This question was on formation of limited liability companies and sale of goods. Parts (a) and (d) (ii) were well answered. However, Parts (b) and (c) on conversion of Companies limited by guarantee to a public limited company did not fairly attempt the question. 75% of students failed to state the fact that a company limited by guarantee cannot convert to a public limited company. The students didn't understand the concept of company law in relation to the types of companies that exist in the Companies Act.

In future, students are encouraged that when studying topics like this one, candidates are encouraged to read on the difference that exist between companies limited by guarantee, unlimited company, public company etc.

QUESTION SIX

A majority of students attempted this part and got the answer correct. However, those who attempted it were failing to deal with professional negligence fully. This is an indication that the candidates are somehow not quite familiar with negligence.

Future students are encouraged to read to understand the topic bordering on professional negligence

- a) 90% of students attempted this part. Most of them got the answer correct. This is an indication that students understood the question and also understood the topic.

Future students are encouraged to read to understand the topic bordering on professional negligence.

- b) Most candidates who answered this part performed quite well though they failed to deal with professional negligence fully. This is an indication that the candidates are somehow not quite familiar with negligence. Future candidates are encouraged to study the topic on negligence in full and must desist from selective study.

Most candidates were able to deal with this question. They were also able to advise the parties accordingly. However, few students showed ignorance on the exception to the general rule on contracts by minors.

Prospective students are to take enough time to study this topic and be able to support their answer with legal authorities.

Overall performance of candidates

Highest mark obtained in this paper: 82%

Lowest mark obtained in this paper: 6%

Average score in this paper: 53.3%

SUBJECT: CA 1.5 –MANAGEMENT THEORY AND PRACTICE

QUESTION ONE- Section A (compulsory)

30 candidates attempted this question. The section had 10 multiple choice questions covering the syllabus and all the most candidates got more than an average mark of 70 % representing 100 % pass rate. The coverage was sufficient.

QUESTION TWO

30 candidates attempted this question and 24 passed representing a pass rate of 80%, while 6 failed representing a 20% fail rate. The question had two parts:

(a) The part required candidates to describe the elements in the macro-environment and state how a business like Bongo construction can be affected. Most candidates were able to understand the PESTEL model by defining the letters, however most of the candidates lost marks for failing to apply the PESTEL model in the given situation.

(b) This part required limitations of the PESTEL Framework
PESTEL analysis is a helpful framework for analyzing the external influences of the business. However, there are limitations to the value of this technique;

Most candidates were able to list a number of limitations of the PESTEL model which included,

- (i) It is a tool for analysis by management, but it does not provide any answers to problems.
- (ii) It is a method of qualitative analysis. It does not quantify the significance of environmental factors.
- (iii) It may even be more difficult to compare environmental factors and decide which is more significant than others.
- (iv) It is fairly easy to use PESTEL analysis to describe environmental influences that exist today and have existed in the past. Strategic planning however is futuristic and it may not be easy to identify key factors that affect the business environment in the future.

QUESTION THREE

22 candidates attempted this question. Out of which 21 passed, representing a pass rate of 95.5% and only 1 candidate failed to answer this question, representing 4.5% fail rate. The question was on management and leadership.

The question had two parts, and required candidates to:

- (a) (i) Distinguish between psychologically distant manager (PDMs) and Psychologically close managers (PCMs).
- (ii) Explain any five key leadership skills.

Most the candidates answered the first part of the question well and got all the marks. However some candidates failed to explain the five key leadership skills.

The following are some of the expected key skills of the leader:

- (a) (i) The distinction between psychologically distant managers (PDMs) and psychologically close managers (PCMs) is that:

Psychologically distant managers (PDMs) maintain distance from their subordinates; they formalize the roles and relationships between themselves and their superiors and subordinates.

Psychologically close managers (PCMs) are closer to their subordinates, they do not seek to formalize roles and relationships, they are more concerned to maintain good human relationships at work and they prefer informal contacts to regular formal staff meetings.

- (a) (ii) There is a range of business and managerial skills important to a good leader, including:

- (i) Entrepreneurship, the ability to spot business opportunities and mobilize resources to capitalize on them.
- (ii) Interpersonal skills, such as networking, rapport building, influencing, negotiating, conflict resolution, listening, counselling, coaching and communicating assertively.
- (iii) Decision-making and problem solving skills, including seeing the big picture.
- (iv) Time management and personal organization.
- (v) Self-development skills, the ability to learn continuously from experience, to grow in self-awareness and to exploit learning opportunities

- (b) Explain the meaning of Authority, Delegation Accountability and Power

The question was straightforward and most candidates gave the correct definitions to the management terms

QUESTION FOUR

The question was avoided by most candidates and only 11 candidates attempted the question. Out of which 3 passed, representing a pass rate of 27.3%, while 8 candidates failed to answer this question, representing 72.7% fail rate.

The question had two parts, and required candidates to:

- (a) Describing factors or driving forces of change according to Kurt Lewin's field analysis theory
- (b) As a manager, outline critical factors that would enable you to be successful and enable the career development programme to succeed

Both parts were very clear which demanded specific answers but most candidates lost marks because they were making general comments in answering the questions. The expected answers were;

- (a) Kurt Lewin argued that in managing change, it is necessary to be aware of forces that are driving the need for change, and forces that resist change. Any of the following factors could be either a driving force or a restraining force:
 - (i) The people involved in the change, and what they want for themselves.
 - (ii) Their habits and customs.
 - (iii) Their attitudes to the proposed change.
 - (iv) The relationships between the people involved.
 - (v) The resources available to make the change.
 - (vi) The organization structure.
 - (vii) The regulations
 - (viii) Events (happenings)
- (b) A career development programme should have the following characteristics for it to succeed:
 - (i) It must be clear and transparent to individuals in the sense that it must show how they might expect to develop their career with the organization, what path the progress of their career will take and how far they might expect their career to develop.
 - (ii) The career development programme should be realistic and believable as not everyone can reach the top of the management tree.
 - (iii) It should be acceptable to employee. They should see opportunities that they want to take, so that they can be motivated by the prospect of career development.

- (iv) There should be feedback to employees, providing evidence of how the career development programme is working.
- (v) There must be support for employees in planning their personal development and career development.

QUESTION FIVE

The question was on public sector organizations (PSOs) and candidates were to give five answers on the key objectives and characteristics of the parastatal organizations. 23 candidates attempted this question. Out of which 17 passed and 6 failed representing 73.9% pass and 26.1% fail.

Most candidates had problems to understand what parastatals are and lost marks. The expected answers include:

Parastatal organizations have the following main objectives and characteristics:

- (i) **Their prime objective** is to look after the interest of the public, although commercialization is an objective too.
- (ii) **Accountability:** The board of directors of public institutions should be accountable to their shareholders, the people of Zambia. In their annual report as part of full disclosure, these organizations should state their functions and report on the results of their operations.
- (iii) **Transparency:** Transparency goes side by side with accountability. When an organization is public, it should operate in the most transparent manner possible. Transparency is one of the key performance indicators for good corporate governance of public organizations.
- (iv) **Decentralization:** Decentralization tends to be easier to implement in private sector organizations than it is in public sector organizations, where there is greater demand for accountability of operations, regularity of procedure and uniformity of treatment.
- (v) **Funding:** Funding of public sector organizations is generally by the government. The government is the major shareholder in public corporations and always want to control these institutions, hence the appointment of the board of directors by government.
- (vi) **Commercialization:** Public corporations such as ZAMTEL, ZESCO and ZSIC now focus on commercialization of their operations, adopting strict commercial principles in the management of the organization. There are has been a shift in focus, instead of just providing a good or service without consideration for profit, as commercialized entities the focus on profitability is emphasized.

QUESTION SIX

The question was on corporate governance and on organization structure. 26 candidates attempted this question. Out of which 16 passed and 10 failed representing 61.5% pass and 38.5 % fail. The question had two parts, and required candidates to:

- (a) Give an explanation of at least five advantages that a non-executive director can bring to a board of directors.

80% of the candidates who attempted this question failed to understand the question and lost marks. The expected solutions include;

Non-executive directors can bring a number of advantages to a board of directors which include:

- (i) They may have **external knowledge and experience** which executive directors do not possess. The experience they bring can be in many fields i.e. they may be executive directors of other companies, they can also bring knowledge of markets within which the company operates.
 - (ii) Non-executive directors can provide a **wide perspective** than executive directors who may be more involved in detailed operations.
 - (iii) Good non-executive directors are often a **comfort factor** for third parties such as investors or creditors.
 - (iv) There are certain roles non-executive directors are well suited to play. These include; **father-confessor role** (being a confidant for the chairman and other directors), **oil-can role** (intervening to make the board run effectively), and **acting as high sheriff** (if necessary taking the steps to remove the chairman or chief executive)
 - (v) The other advantage lies in the dual nature of the non-executive director's role. They are full members who are expected to have the level of knowledge that full membership implies, at the same time they are expected to provide the so called strong independent element on the board.
- (b)
- (i) Describe the organization design that Luangwa Ltd has
 - (ii) Explain any two advantages of such a structure
 - (iii) Explain any two disadvantages of such a structure

The first part of this question was well answered by most candidates. However, most of lost marks because they could neither explain the advantages nor disadvantages of a matrix structure.

Expected answers include:

- (i) Advantages of a Matrix structure include:
- Managers can specialize in particular products, projects or customers.
 - The structure creates responsibilities for individual customers or projects, as well as responsibilities for functional activities, thus enhancing coordination.
 - There is improved efficiency and effectiveness in an organization where cooperation between functional departments is critically important.
- (ii) Disadvantages of a Matrix structure include:
- A matrix structure may create a dual chain of command, with some employees taking orders from two bosses (their functional manager and the project manager).
 - This may create confusion, because employees may not know who they should take orders from. Dual command is a potential source of conflict.
 - Project managers may rely on functional managers for support and co-operation, in order to get employees to do as they ask. They may also need to rely on persuasion to get employees to assist them willingly.

Overall performance of candidates

Highest mark obtained in this paper: 90%

Lowest mark obtained in this paper: 36%

Average score in this paper: 61.8%

SUBJECT: CA 1.6- BUSINESS COMMUNICATION

QUESTION ONE

This was a multiple choice question so only the best answer was required. Most candidates performed very well on this question. Some candidates indicated answers which were almost close to the best answer. This simply demonstrated that they did not thoroughly understand the topics on which multiple choice questions were asked.

QUESTION TWO

Question two was also compulsory with a given scenario. It mainly required candidates to (a) explain the differences between a spreadsheet and word processing software b (i) Write formulae that would to calculate the gross pay (ii) Write a formulae that would help to calculate the NAPSA and ZRA amount for each customer. (iii) Write a function that will compare the ZRA amount and calculate it where it was applicable for all the customers

In part (a) the main problem was lack of clarity on the answers provided
The other main mistake was failure by most candidates to enter correct formulae in the given question in part b (i) and (ii)

In some last part of the question the candidates also failed to write a function that would be compared to the ZRA amount and calculate it.

QUESTION THREE

Question three required candidates to explain any five qualities of good information. Part (b) required them to classify the (i) Cache and (ii) Micro SD types of memory into volatile or non-volatile. Part (c) required candidates to explain any four (4) advantages of using a database.

- (a) Explanation of the qualities of good information were not clear in most cases
- (b) Other candidates failed to classify the memory into volatile or nonvolatile
- (c) Some Candidates had problems with coming up with a clear explanation database

QUESTION FOUR

Candidates were required to (a) explain the term computer security. (b) Explain any four security risks associated with information systems and (c) Distinguish between files and folders. The last part (d) required candidates to explain (i) batch processing (ii) Online processing and (iii) Real time processing.

Common mistakes on this question were mainly on part (c) where candidates mixed the two terms files and folders. Candidates also mixed the two terms on batch processing and real-time processing. The terms were misunderstood.

QUESTION FIVE

Using the following statistics, Airline= 17, Financial institution = 40, training institutions= 10, other private organisations = 20 and other public organisations = 12

Candidates were required to draw a pie chart as a way of visually showing the 5 sector organisations that use automated technology in part (a) of the question. Part (b) required candidates to briefly interpret the information from a pie chart they draw and in part (c) to give the two characteristics of a pie chart. The last part (d) required them to briefly explain the five key principles of effective graphic communication.

The following were common mistakes were noted:

- no appropriate keys were presented on the pie chart presented
- Some candidates presented wrong charts such bar charts
- In some cases just wrong content was presented.
- Explanations on the key factors to be considered as one presented a report were not clearly explained in part (b) of the question

QUESTION SIX

Question six required candidates to (a) write a formal report outlining the causes of poor time keeping and other negative work behaviour among staff in a department from a given scenario. Part (b) required them to state any five key aspects that would be considered as one writes a report so that the receiver of the report can easily understand it.

In the first part (a) of the question the following mistakes were observed:

- Wrong content was mostly presented on this question
- No content was indicated on the findings of the reports. Candidates failed to come up with reasons for late coming in the finding sections
- Sections were not logically presented
- Wrong format was used in some cases. i.e. letter or memo format
- Generally failure to express ideas very clearly.

It was also observed from Part (b) that most candidates gave generic answers. Most of them wrote on qualities of information instead of concentrating on the key aspects to be would considered when writing a report. Others wrote on the 6 C's of effective communication.

Overall performance of candidates

Highest mark obtained in this paper: 70%

Lowest mark obtained in this paper: 34%
Average score in this paper: 52.6%

SUBJECT: CA 2.1 FINANCIAL REPORTING.

QUESTION ONE

The general performance on this question was good. Of the 84 candidates who attempted the question, 58% achieved the pass mark. 42% of the candidates failed the question. Though the lowest score was only 13%, the highest score was 93% and the average score of 50%.

The question was in two parts:

Part (a) required candidates to prepare a consolidated statement of financial position for a group with only one subsidiary. Part (b) of the question required candidates to discuss the circumstances in which a company can be held to be a subsidiary despite the investor owning a holding below 50%.

The most common mistakes made by the candidates included the following:

- (i) Simply showing consolidated figures for assets and without showing how they were arrived at. There are obvious marks for simply aggregating the given amounts from the parent and its subsidiaries before worrying about the adjustments.
- (ii) Failure to make basic consolidation adjustments for Group Reserves, Goodwill and NCI.
- (iii) Most candidates failed to articulate the discussion on investee who would be held to be subsidiaries despite the investor owning a holding below 50%.

QUESTION TWO

The general performance on this question was very poor with none of the 16 candidates who attempted it achieving more than 50% of the total marks. The lowest and highest scores were 0% and 45% respectively. The performance on this question was the worst in the paper.

The question had two requirements: part (a) required candidates to explain the purpose of accounting for deferred tax and the IAS 12 requirements on accounting for deferred tax whilst part (b) required an explanation of accounting for revaluation of PPE including the deferred tax amounts.

The most common mistakes made by the candidates included the following:

- (i) It was generally apparent that candidates are poor at explaining requirements of accounting standards.
- (ii) Few candidates correctly accounted for the revaluation of PPE. Even those that did so could not in most cases account for the deferred tax amounts.

QUESTION THREE

The general performance on this question was poor. Of the 67 candidates who attempted the question, 60% achieved the pass mark while 60% of the candidates failed the question. The lowest score was 0%, the highest 80% and the average score was 43%.

The question had four requirements which were on interpretation of financial statements.

The most common mistakes made by the candidates were:

- i) Candidates were not in a position to give a well presented answer.
- ii) Most answers lacked style and organisation.
- iii) A number of candidates could not explain the limitations of ratio analysis.

QUESTION FOUR

The general performance on this question was poor. 78 candidates attempted the question. Of these only 37% passed while 63% failed the question. The lowest score was 10%, the highest 95% and the average score was 41%.

The question had three parts with part (a) asking candidates to explain the weaknesses in the definition an assistant gave for non-current assets, part (b) asking for the recognition criteria for intangible assets and part (c) requiring accounting for investment properties.

The most common mistakes made by the candidates included the following:

- (i) Most candidates displayed shallow understanding of the conceptual definition of assets and specifically, non-current assets
- (ii) Most candidates do not appear to master accounting requirements of accounting standards.

QUESTION FIVE

The general performance on this question was excellent. Of the 80 candidates who attempted the question, 63% passed while 37% failed the question. The lowest score was 5%, the highest was 100% and the average score was 56%. The question recorded the best performance in the paper.

The question required candidates to prepare a statement of cash flows.

The most common mistakes made by the candidates on the question was lack of knowledge of the format of statements of cash flows and also failed to compute the cash flows.

Overall performance of candidates

| | |
|--------------------------------------|-----|
| Highest mark obtained in this paper: | 90% |
| Lowest mark obtained in this paper: | 13% |
| Average score in this paper: | 46% |

SUBJECT: CA 2.2 – MANAGEMENT ACCOUNTING

QUESTION ONE

This question was poorly answered by most candidates although a few managed to score very high marks. Of those who attempted the question, only 17.5% passed while 82.5% failed. Candidates are advised to read questions carefully and understand the question asked before answering.

It was observed that many candidates were not able to prepare in an appropriate format the required machine hours. Students are strongly advised to read questions carefully. Other common errors in part (a) included:

- Ignoring that the components and the products were using the same machine hours
- Using the production units as the total production for even the components
- Ignoring that the products used the components in different quantities

Part (b) Many candidates were not able to calculate the direct cost of production. Production fixed costs should not be included as they are going to be incurred anyway, unless if they are specific or avoidable fixed costs

Part (c) students were not able to calculate the full costs of a product and the treatment of overheads in the two costing systems. Also, many candidates did not appreciate the difference between; profit margin and mark up. Some common errors:

- Ignoring that the machine hours were given in the question, and there was no need for further calculations for machine hours
- Ignoring the component costs in the full cost
- Ignoring to convert the labour time to a common base with the rate
- Using the unit costs to calculate the cost driver rates. It was shocking that many candidates added the machine hours per unit for each product to get a total and used this as the basis of apportioning machine costs. Such errors must be avoided

Part (d) candidates failed to define budgetary control and distinguish between cash budget and cash flow statement.

QUESTION TWO

The performance on this question was below average. It was one of the least attempted questions. Out of 55 candidates who attempted this question, 14.5% passed and 85.5% failed.

The question tested candidates' ability to analyse short term decisions and make appropriate suggestions to management.

Common mistakes:

Part (a) some candidates were trying to prove that labour hours was the limiting factor, but this was not provided for. Many candidates did not appreciate the information provided in this question in that costs were in batches and prices in units (packets).

Part (b) Many students were not able to calculate the current contribution that was to be maintained.

Part (c) failure to use the findings in previous parts to answer this part.

Part (d) many candidates were providing discussions contrary to the analysis done hence little credit was given.

QUESTION THREE

The general performance on this question was good. A total of 63 candidates attempted the question with 24% passed it and 76% failed the question.

The most common mistakes made by candidates were:

- Preparing statements of equivalent units which were not required because the question clearly stated that there was no work-in-process at the beginning or end of the period.
- Errors in abnormal loss or gain calculation and misposting of entries to these accounts.
- Giving examples of by products and joint products instead of making a distinction. Future candidates should note that by-products emerge from the same process as joint products but have a LOWER SALES VALUE relative to the joint products. Joint products have HIGH SALES values RELATIVE to EACH other.

QUESTION FOUR

This was the most attempted questions in section B. A total of 86 candidates answered the question. However, the performance was very poor. 86% of the students failed while 14% passed the question.

This question examined multiple product breakeven point and advantages and disadvantages of full cost plus pricing.

Determining the contribution sales mix ratio to be used as denominator in the formula $BEP = \frac{FC}{\text{Contribution sales mix}}$ (not the common contribution sales ratio) was critical. Nearly all the candidates calculated this ratio. The sales mix was 4600:2300:1150 which was simplified to 4:2:1? Individual contributions per unit of Ram, Rap and Rag were to be multiplied by this ratio mix giving a contribution sales mix ratio of 54.143.

Common mistakes made were:

- Not calculating sales mix ratio of 4:2:1
- Simply adding up ordinary contribution per unit of Ram, Rap and Rag as denominator in $BEP = FC/Sales \text{ mix}$.
- In part (b) failing to apportion the overall BEP to the three products in the ratio 4:2:1.
- Using (in the formula $FC + Profit$) the post-tax profit of K153,400 instead of a pre-tax profit of K236,000 (i.e. $K153,400 \times \frac{100}{65}$)
- In part (d), giving assumptions of CVP as drawbacks of full cost plus pricing.
- In part (d), contradicting oneself, e.g. Drawback: complex and difficult to understand; benefit: simple and easy to understand.

QUESTION FIVE:

This question was unpopular to most students with only 53 candidates opting for it. The performance in this question was the best in entire paper. 28.3% passed while 71.7% failed the question.

Common mistakes:

- Poorer students failed to calculate the yield, and planning and operational variances.
- Calculating usage variance as total material cost variance.

Overall performance of candidates

| | |
|--------------------------------------|-------|
| Highest mark obtained in this paper: | 64% |
| Lowest mark obtained in this paper: | 5% |
| Average score in this paper: | 29.8% |

SUBJECT: CA 2.3- AUDITING PRINCIPLES AND PRACTICE

The following general observations were observed:

- There were still students who attempted less than the required number of questions and so reducing their chances of obtaining a pass from the questions attempted.
- It was further noted that even for those students who attempted the required number of questions, a good number did not attempt parts of questions with marks accumulating to more than attempting a full question. Students are reminded that time pressure will always be there in the examination and therefore should manage their time well end ensue that they attempt all questions as required.
- It was observed that a number of students scored high marks in question one and performed very poorly in the optional questions resulting in an overall fail. This is a poor examination strategy. It is more appropriate to score on average just above 50% in each question to increase the chances of getting an overall pass.
- Poor presentation of answers is still a challenge to many students. In some cases wrong question number references were observed.
- Going by the low marks generally in the optional questions, it is evident that students are poor in terms of knowledge of most topics in the syllabus. Selective study will not help students and they should aim at covering the entire syllabus because questions can be drawn from any part of the syllabus.

QUESTION ONE

The performance in this question was generally good with an average score of 19 out of the total 40 available marks. Of the 95 students who attempted this question 45 (47%) scored above 10 which is 50% of the available marks.

Observations for each section are as follows:

- a) This part of the question required students to identify and explain internal control weaknesses in Luxury Lodges Ltd. Presentation in this type of questions is important so that all parts of the question are covered.
The majority of the students had no problems identifying the weaknesses and scored high marks. The following observations were made:
 - Some students gave less than the expected number of weaknesses and so losing marks. Students are reminded to be guided by the number of marks

offered. In this case there were enough weaknesses in the question to enable students to give ten weaknesses without a problem.

- A few students gave general weaknesses which were not in the scenario while others identified the weaknesses without any explanations and so losing the marks for doing so.
- b) This part of the question required students to recommend suitable controls for the weaknesses in (a). Parts (a) and (b) could have been answered at the same time as long as they are properly labelled. A columnar method of presentation would make it easy for the students. A majority scored high marks but there were some who lost easy marks largely because of the following:
- Some students did not give recommendations for some of the weaknesses identified and explained in part (a) and lost marks as a result.
 - A few students simply gave wrong controls for the weaknesses explained. Students are reminded to be familiar with the basic controls and systems of the sales, purchases and payroll systems.
- c) This was a knowledge based question requiring students to discuss the responsibilities of management and the auditor of Luxury Lodges with regards going concern.

The performance in this part was not as expected and students scored less than half the available 4 marks. Students with the knowledge of the provisions of IAS 1 and ISA 570 should have had no problems answering this question.

The following were observed:

- Some students expressly stated that auditors do not have any responsibility for going concern in a client company. This is despite the fact that auditors have a responsibility to assess whether the use of the going concern assumption is appropriate or not.
 - Some students only explained the responsibility of management and did not attempt to explain the responsibilities of the auditor.
- d) This part of the question required students to show that they understand the importance of going concern of a client company and why auditors are concerned about the ability of a company as a going concern.

Most of the students scored low marks in this section. They did not know that the going concern ability of a company determine the basis upon which the

financial statements are prepared and the fact that this has an impact on the auditor's report.

- e) This was a knowledge and application question on one of the ethical principles for accountants namely confidentiality. Students were expected to answer the question taking into account the issue of not charging VAT by Luxury Lodges Ltd.

Most students gave general answers and did not relate their answers to the scenario. Other students discussed principles that were not asked for such as self-review despite the question being specific on confidentiality and no marks were awarded for doing this. Students are reminded to answer the question asked.

- f) This part of the question was on the important topic of ethics and students were required to discuss the ethical issues in Luxury Lodges and make recommendations to deal with those issues.

A majority of students scored high marks in this question. There was a noted minority of students who did not use the information in the question but instead gave general answers discussing the five general threats to the independence of the auditors.

QUESTION TWO

76 students attempted this question out of which 21 scored 10 or more out of the available 20 marks. The average score was 8 and this is a poor performance.

Observations for each section are as follows:

- a) This part of the question required students to state and explain any five elements of a standard audit report. Most of the students scored high marks. A sizeable minority of students who scored poorly did so because they simply stated the elements without giving any explanation despite the question requiring this.
- b) This question required students to explain the meaning and relevance of key audit matters. This is a paragraph of the audit report that was introduced when the ISAs on audit reports were revised. Going by the answers, it was evident that the majority of students did not know anything about the key audit matters paragraph and so lost the easy marks here.
- c) This part of the question was related to part (b) and required students to state the factors that will influence the auditor to determine that a matter is a key audit matter.

Arising from the fact that the majority did not have knowledge of KAMs the performance in this part was poor with many students simply not attempting to answer this part.

- d) This part of the question was on audit opinions and the expectation gap. Most students did not know when each of the three forms of opinion is appropriate and confused them hence losing marks. This is an important part of the syllabus which students should ensure that they are comfortable with.

Basically the issue here concerns the auditor having a matter of concern on the financial statements and the materiality and pervasiveness of the matter to the financial statements. It is important to note that there are two situations namely where sufficient appropriate audit evidence has been obtained and where there is a limitation of scope.

- i. A qualified opinion is one that states that except for the matter of concern, the financial statements show a true and fair view.

It is issued by the auditor in two situations as follows:

- Sufficient appropriate audit evidence has been obtained and the auditor considers the matter of concern to be both material and pervasive to the financial statements.
- There is a limitation of scope and the auditor has not obtained sufficient appropriate audit evidence and the matter is material but not pervasive to the financial statements.

- ii. An adverse opinion can be considered as the worst form of opinion where the auditor states that the financial statements do not show a true and fair view.

This opinion is issued when the auditor has obtained sufficient appropriate audit evidence and concludes that the matter of concern is both material and pervasive to the financial statements. Where there is a limitation of scope the auditor cannot issue an adverse opinion.

- iii. A disclaimer of opinion is issued when the auditor has not obtained sufficient appropriate audit evidence and concludes that the effect of this is material and pervasive to the financial statements. The auditor in this case states that he is unable to give an opinion on the financial statements.

- iv. Students were required to explain the expectation gap. The majority of students simply did not know this. This is the difference between the public perception and the reality of the responsibilities of the auditor with regards the audit and say for example with regards detection of fraud. The public expects the auditor to detect fraud during the audit and yet in reality it is not the responsibility of the auditor to detect fraud.

QUESTION THREE

This was the most popular optional question attempted with 84 out of the 95 students who sat for this paper attempting this question. The average score in this question was 9 out of the available 20 marks. 45 students representing 54% of those who attempted this question obtained 10 marks and above.

Observations for each section are as follows:

- a) The question required an explanation of sufficient appropriate evidence. Some students lost marks for simply explaining sufficient without explaining appropriate. Students must be knowledgeable of the audit terminology and should have noted that these are two terms with different meanings. Appropriate relates to the relevance and quality of the evidence while sufficiency relates to the quantity of the evidence obtained. Other students showed lack of knowledge of these two terms.
- b) This was an easy question requiring students to explain four generalities on the quality and reliability of audit evidence. This part could have been answered from knowledge obtained and not the scenario.

Students needed to briefly explain each of the following:

- Auditor evidence being more reliable than evidence obtained indirectly.
- Entity evidence is more reliable when the related control systems are operating effectively.
- Written evidence is more reliable than oral evidence.
- Third party evidence is more reliable because it is from independent sources and
- Originals are more reliable than photocopies.

It was disappointing to note that some students discussed methods used by auditors to gather evidence such as inspection, recalculation etc. and got no marks for this. Students should read the questions carefully before starting to write. The term 'generalization' used in the question should have guided students because this is the same term used in the study manual.

A few students explained financial statement assertions which were not required.

- c) This part of the question required students to explain the factors auditors should consider in deciding to use the work of a management expert as part of audit evidence. Those who did not know who a management expert is failed to give satisfactory answers to this part. A minority of students considered a

management expert as one with expertise in the management of the company. A management expert is one with expertise in a field other than auditing and finance and who management engages to perform work which will result in figures in the financial statements such as an actuary.

- d) This was a simple question requiring students to describe audit procedures in the audit of tangible non-current assets using any assertions of their choice.

The majority of students scored more than half the available marks. There was a minority of students who explained the meaning of financial statement assertion related to tangible non-current assets and so lost marks.

QUESTION FOUR

This was the least popular optional question with 60 students out of 95 attempting this question. The average score was 6 out of the maximum 20 marks available and 13 out of those who attempted the question scored 10 and above.

Generally the performance in this question was below expectation with most students scoring less than half the available marks.

Observations for each section are as follows:

- a) This part of the question required students to explain the audit responses to each of the five audit risks given in the question.

Students were expected to discuss how they would deal with each of the five issues so that the chance of the risk crystalizing without being detected is reduced. The majority of the students did not give satisfactory answers to this. Most students gave general answers instead of addressing the specific matter referred to in the question.

- b) This was knowledge based question requiring students to state the matters that should be documented during the risk assessment of a client company.

A majority of students could not give satisfactory answers to this clearly indicating that they do not understand the documentation requirements clearly indicating that they do not understand the documentation requirements given in ISA 315. Students are reminded that auditors require documenting the evidence that they gather and several ISAs guides the auditor on what to document. For example there are documentation requirements for areas covering fraud, materiality etc.

Students who understand risk assessment should not have had problems stating the documentation requirements because all it required was to state whatever work the auditor does during risk assessment.

- c) This part of the question required students to list and explain the work or audit procedures that auditors will undertake during the interim audit stage. Most students did not give satisfactory answers to this question. This shows that they do not understand what an interim audit is and the following were observed:
- A number of students defined interim audit instead of stating the work that is done during an interim audit.
 - Other students discussed work that is performed during audit planning some of which was not relevant in answering this question.
 - Some students gave less than the expected five matters that can be done during the interim audit stage.

QUESTION FIVE

64 out of the 95 students who sat for this paper attempted this optional question. The average score was 10 out of the available 20 marks and 36 of those who attempted this question scored 10 and above of the available marks.

Of the optional questions this is the question where on average students did well.

Observations for each section are as follows:

- a) This question required students to state some advantages and disadvantages of flowcharts as a method of recording an accounting system. The majority of students scored high marks in this section.
- b) The question required students to explain the criteria the auditors will consider in determining whether the work of internal audit can be used. This was satisfactorily answered and most students scored high marks.
- c) This part required students to discuss the use of the negative form of circularization as a sole method. Students lost marks for not explaining the drawbacks of the negative method which assumes that non responses are confirmation that the receivable agrees with the amount being confirmed. On the contrary non confirmation could be because the response is lost or the receivable simply has not bothered to respond to the request.
- d) The majority of the students scored less than half the available marks. The question required students to provide alternative ways of gathering evidence regarding balances where no responses from receivables have been received. Most students have less than the expected number of points and so losing marks. Students should have considered procedures such as the following which provide evidence of the balance at the period end:
 - Review of post year end receipts from the receivables help in confirming the balance at the year-end looking at invoices that are being paid post year.

- Review of correspondence with the receivables will highlight any disputed invoices.
- Review the documentation giving rise to the receivable including orders, dispatch documentation and proof of delivery signed by the customer.
- Movements in the balance on the account.

Overall performance of candidates

| | |
|--------------------------------------|-------|
| Highest mark obtained in this paper: | 66% |
| Lowest mark obtained in this paper: | 21% |
| Average score in this paper: | 43.8% |

SUBJECT: CA 2.4 -TAXATION

QUESTION ONE

The performance of candidates on this question was generally poor. The total number of candidates who attempted the question was 157. The percentage of candidates who passed the question was 28% and those who failed the question was 72%.

The question covered company income taxation and was divided into four parts.

Part (a) was sub -divided into parts requiring candidates to explain why the company in the scenario was treated as being resident in Zambia and to state what the difference would have been if the board of directors of the company were to be based abroad and were to hold their meetings abroad. This part of the question was fairly well answered even though very few students managed to define the residence of the company with reference to the place of effective management.

Part (b) was subdivided into three parts.

Part (b) (i) which required candidates to compute the capital allowances on buildings was poorly answered. Common weaknesses demonstrated by candidates who performed poorly on this part of the question included:

- Failing to compute the correct income tax values of both the industrial building and the commercial buildings to use in the computation of the balancing charges arising on the disposal of the buildings. Since the building was acquired in the year 2012, candidates should have first computed the total wear and tear allowances claimed on each building each from the year 2012 to 2017, which is a period of six years and then deducted the total allowances from the original cost of each building to derive the income tax value of each building at 1 January 2018.
- Forgetting to restrict the proceeds received for both the industrial building and commercial building to the original cost in computing the balancing charges given that the proceeds received for the buildings had exceeded the original costs.
- Computing wear tear allowances at 5% for the industrial building and initial and investment allowances at 10% in respect of the tax year 2018, which was wrong since these allowances were not available in the in the tax year 2018 being the year of the disposal of the building.

Part (b) (ii) which required candidates to compute capital allowances on implements, plant and machinery was fairly well answered by well-prepared candidates.

Common mistakes made by candidates who performed poorly on this part of the question included:

- Using the wrong rates in computing the wear and tear allowances available in the tax year 2018. Candidates are reminded to make use of the taxation table provided in the question paper to avoid unnecessary loss of marks.
- Using the Income tax values of the assets instead of the original costs when computing the wear and tear allowances available in the tax year 2018.
- Restricting the wear and tear allowance available on the Nissan Tilda motor car to the business use of the car, which was wrong as the allowance was claimable in full, since the tax payer in the question was a company and not an unincorporated business.
- Failing to compute the correct amount of the balancing charges and balancing allowances arising on the disposal of the Audi motor car and the old equipment respectively.

Part (b) (iii) required a computation of the taxable profits for the company after capital allowances and was generally answered well with the exception of a few candidates who faced challenges in identifying non-deductible expenditure in the computation of the taxable business profits.

Part (c) which required candidates to calculate the amount of company income tax payable and to explain how it must have been paid under the self-assessment system was generally well answered. Common mistakes made by the few candidates who scored poor marks on this part of the question included:

- Using the graduated personal income tax rates for individuals in computing the income tax payable which was wrong.
- Adding dividends received by the company during the year to the tax adjusted profit computed in part (b) (iii) to compute the total taxable profit which was wrong as dividends are subject to withholding tax which is final and must not be brought into the company income tax computation.
- Failing to explain how the company income tax should have been paid under the self-assessment system.

Part (d) required candidates to explain the Property Transfer Tax (PTT) implications of the disposals of assets that occurred during the year 2018. Most candidates' answers were limited to just explaining the PTT implications of the disposal of the buildings without explaining the implications of the each of the other assets sold during the year which included the Audi motor car and the old equipment. This resulted in loss of marks.

QUESTION TWO

This question was generally poorly answered by the majority of the candidates. The total number of candidates who attempted the question was 128. The percentage of candidates who passed the question was 39% and those who failed the question was 61%.

This question examined taxation of income from farming for individuals and was divided into four parts.

Part (a) required candidates to compute the amount of provisional income tax payable for the tax year 2018 and state the relevant due dates and the amount payable on each due date.

Common mistakes made by candidates who scored poor marks on this part of the question included:

- Using the wrong profit figure in computing the provisional income tax paid during the year. Most candidates used the original estimated taxable profits of K860, 000 to compute the provisional income tax payable which was wrong, whilst others used the actual net profit figure for the year of K680, 000 which was also wrong. The provisional income tax should instead have been computed using the revised estimated taxable profit figure of K550, 000.
- Using the wrong personal income tax rates to compute the provisional income tax. A good number of candidates subjected excess income above the first K39,600 to tax at 25%, 30% and 37.5% which was wrong as any farming income for individuals exceeding K39,600 is subject to income tax at the rate of 10% and is not taxed using the graduated tax bands.

Part (b) required candidates to compute the capital allowances claimable in the tax year 2018 and was generally well answered. However weaker candidates made the following mistakes and therefore lost marks:

- Calculated wear and tear allowances on revenue expenditure which included expenditure on repairing storage facilities for farm produce, expenditure on the repair and maintenance of dwellings for farm employees. Capital allowances are not available on such revenue expenditure; they are only available on capital expenditure incurred in relation to such items.
- Did not calculate farm work allowances on the expenditure incurred on the prevention of soil erosion and on stumping and clearing as well as the farm improvement allowance on stumping and clearing expenditure.

- Forgetting to restrict the capital allowance claimable on the motor van to the business use of the asset.

Part (c) required candidates to compute the actual taxable farming profits and was fairly well answered with the exception with a few candidates who failed to make appropriate adjustments in relation to disallowed expenditure in computing the taxable business profits. Most candidates specifically faced challenges in making the correct adjustment in relation to the goods taken for personal use. Since the question stated that the goods taken for personal use were recorded in the books as sales at cost, the required adjustment was to add the mark up on the goods of K3, 000 to net profit in the computation. However nearly all the candidates who attempted the question added back the market value of the goods of K18, 000 which was wrong. The market value is only added back in respect of goods drawn for personal use if no entries are made at all in the books.

Part (d) which required candidates to calculate the final amount of income tax payable for the tax year 2018, was reasonably answered well except for a few candidates who used the wrong tax rates in computing the actual amount of income tax payable as already explained in part (a) above.

QUESTION THREE

The performance of candidates on this question was below average. The total number of candidates who attempted the question was 118. The percentage of candidates who passed the question was 40% and those who failed the question was 60%.

The question examined taxation of partnerships and was divided in two parts.

Part (a) asked candidates to compute the tax adjusted business profits and was generally well answered. A good number of candidates however failed to make appropriate adjustments in computing the taxable business profits. Candidates specifically also made the mistake of deducting capital allowances on the motor cars personally owned by the partners in computing the taxable profit for the business when these should have been deducted; from each partner's shares of the tax adjusted profits in part (b) of the question.

Part (b) required candidates to compute the profits on which each partner was to be assessed for the tax year 2018 and was fairly well answered. However some candidates wasted time computing the income tax payable by each partner which was not required by the question.

QUESTION FOUR

This question was on average reasonably well answered by candidates and all attempted it. The total number of candidates who attempted the question was 113. The percentage of candidates who passed the question was 51% and those who failed the question was 49%.

The question examined taxation of employment income and was divided into three parts.

Part (a) required candidates to explain the receipts basis as it applies to employment income and was poorly answered as most candidates failed to provide the required explanations.

Part (b) required a computation of the income tax payable in the 2018 and was on average answered well. Weaker candidates however faced challenges in identifying which of the emoluments provided to the employee were taxable and which were exempt in computing the income tax payable by the employee.

Part (c) which required candidates to explain how payments that would have been made if the employee had been engaged on pensionable terms would have been taxed was reasonably well answered.

QUESTION FIVE

This question was fairly well answered by the candidates who attempted it. The total number of candidates who attempted the question was 92. The percentage of candidates who passed the question was 71% and those who failed the question was 21%

This question covered Property Transfer Tax (PTT) and Value added Tax (VAT) and was divided in three parts.

Part (a) required the property transfer tax implications of various transactions and was reasonably well answered. Common weaknesses by candidates who performed poorly on this part of the question included:

- Automatically calculating PTT on all the transactions in the question and failing to identify that some of the transfers were not chargeable transfers for the purposes of PTT. The transactions which did not give rise to PTT included the purchases of shares (PTT does not arise on the purchase property), donation of a plot to the Zambia Police Service, sale of the Toyota

Prado and the transfer of land to satisfy the value of the nominal value of capital to be contributed in the formation of a new company.

- Failing to determine the correct realised value of property for the purposes of calculating the PTT on the transfers which were chargeable to PTT.

Part (b) required candidates to compute the amount of turnover tax payable by the business on a month by month basis and in total and was reasonably well answered with the exception of a few candidates who failed to provide the necessary computations of the amount of the monthly turnover tax payable.

Part (c) asked candidates to calculate the amount of VAT payable assuming the business was registered for Vat and was also poorly answered as candidate failed to produce the relevant computations of the VAT payable for the four month period ended 31 December 2018.

Overall performance of candidates

Highest mark obtained in this paper: 81%

Lowest mark obtained in this paper: 7%

Average score in this paper: 41.6%%

SUBJECT: CA 2.5-FINANCIAL MANAGEMENT

QUESTION ONE

The performance was below average. A total of 256 students attempted the question and only 43.75% managed to pass and 56.25% failed.

Part (a) of the question required candidates to compute the current weighted average cost of capital. Most of the candidates failed to compute the equity beta.

Part (b) of the question required candidates to evaluate the proposed investment into the new manufacturing equipment using the NPV and IRR. Majority of the candidates failed to compute the relevant fixed costs by subtracting depreciation from the fixed cost. Surprising the majority of the students failed to compute IRR correctly. Interpolation method seems to be a challenge for most of the candidates.

Part (c) of the question required candidates to explain how the primary objective of the given company could be achieved. Majority of the students exhibited shallow knowledge of the primary objective of maximising shareholders wealth. In addition some candidates did not read the scenario in full to understand that the primary objective given in the question was to maximise shareholders wealth.

QUESTION TWO

The performance was below average. A total 183 students attempted the question and only 32.78% managed to pass and 67.21% failed.

Part (a) required candidates to calculate the value of the company based on the expected present value of earnings. Most of the students failed to compute the present value of cash flows beyond the fourth year. Surprisingly, some candidate did not subject the earnings to taxation since the figures in the question was before tax. The computation of equity beta was a problem.

Part (b) of the question required candidates to discuss the relative merits of business valuation methods (Asset based/E ratio and dividend based). The majority of the candidates failed to raise enough relevant points. They could only define the valuation methods instead of giving the advantages and disadvantages of each method.

QUESTION THREE

The performance was below average. A total 215 students attempted the question and only 35.34% managed to pass and 64.66% failed.

Part (a) of the question required candidates to evaluate whether the proposed changes in the credit policy will increase profitability. Majority of Candidates who attempted this question failed to calculate relevant costs and benefits regarding the change in the policy.

Part (b) of the question required the candidates to discuss the key factors to be considered when formulating a working capital funding policy. Surprising the candidate showed shallow knowledge of working capital funding. Some candidates did not even answer this part of the question.

QUESTION FOUR

The performance was below average. A total 157 students attempted the question and only 59.24% managed to pass and 40.76% failed.

Part (a) of the question required candidates to prepare the forecast statement of financial position and determine the change in the value of its cost of equity. Surprisingly most of the candidates were just listing the balances instead of putting them in the appropriate format. Some candidates had wrongly shown assets under liabilities and vice versa. Others wrongly calculated retained earnings.

Part (b) of the question required candidates to explain the two aspects of globalisation considered to be key drivers of change in the macro-environment i.e. Government and Global competition. The majority of the candidates did not attempt part of the question.

QUESTION FIVE

The performance was below average. A total 185 students attempted the question and only 28.12% managed to pass and 71.89% failed.

Part (a) of the question required candidates to distinguish between maximisation of shareholders wealth and maximisation of profits as financial objectives of a company. Candidates exhibited shallow knowledge and application of the two concepts. They did not know the difference between the two.

Part (b) of the question required candidates to calculate the gearing ratio. This part of the question was fairly attempted although some candidates failed to calculate prior charge capital correctly.

Part (c) required candidates to calculate the weighted average cost of capital using market values as weighting factors. Surprisingly some candidates did not include the cost of preference shares in the calculation of WACC and others failed to calculate the cost of equity correctly.

Overall performance of candidates

Highest mark obtained in this paper: 69

Lowest mark obtained in this paper: 2

Average score in this paper: 37.2%

SUBJECT: CA 3.1 ADVANCED FINANCIAL REPORTING.

QUESTION ONE

The general performance on this question was excellent. Of the 559 candidates who attempted the question, 78% passed while 22% failed the question. The lowest score was 0%, the highest was 98% and the average score was 62%.

The question was in three parts.

Part (a) required candidates to compute a gain or loss on disposal of an investment in a subsidiary to be reported in the parent's separate financial statements. Part (b) required candidates to prepare a consolidated statement of financial position for a multi-company structure incorporating effects a disposal that led to loss of control. Part (c) of the question required candidates to discuss the ethical issues arising from the group's adoption of a policy that did not make disclosures of information on operating segments in line with IFRS 8.

The most common mistakes made by the candidates were:

- i) Computing the gain or loss to report in group financial statements instead of the amount to be reported in the parent's separate financial statements.
- ii) Simply showing consolidated figures for assets and without showing how they were arrived at. There are obvious marks for simply aggregating the given amounts from the parent and its subsidiaries before worrying about the adjustments.
- iii) Failing to compute the effective mathematical holdings in the multi-company structure.
- iv) Failure to make basic consolidation adjustments for Group Reserves, Goodwill and NCI.
- v) Candidates did not spend sufficient time discussing the ethical and professional requirements of the question. In most cases, there was no reference to the requirements of IFRS 8.

QUESTION TWO

The general performance on this question was poor. 455 candidates attempted this question. 18% of these candidates passed while 82% failed. The lowest score was 0%, the highest was 100% and the average score was 31%.

The question was composed of two transactions for which the directors required accounting advice including deferred tax implications for the lease transaction.

Transaction one was in respect of a lease of property by the reporting entity with a component for cleaning services. Transaction two was a share payment transaction under which senior managers of the reporting entity had a choice between equity and cash on settlement

The most common mistakes made by the candidates were:

- (i) Candidates' failure to identify the cash flows to use in computing the initial lease liability and failure to identify components to aggregate in arriving at the initial amount for the Right of Use Asset. Almost all candidates who attempted the question were unable to correctly advise on the deferred tax implications of the lease transaction.
- (ii) Most candidates did not identify the need to split the share based payment into the equity and the liability components.

QUESTION THREE

The general performance on this question was poor. The question was famous with 522 candidates attempting the question. Of the 522 candidates who attempted this question, only 28% of the candidates passed it while 72% failed the question. The lowest score was 0%, the highest 90% and the average score was 36%.

The question was composed of two transactions for which the directors required accounting advice in respect consolidated financial statements.

Transaction one was in respect of a 16% holding in an entity which entitled the investor to board representation and influence on dividend policy

Transaction two was in respect of a decision to dispose of a 75% holding in a 100% subsidiary.

The most common mistakes made by the candidates were:

- (i) Candidates' failure to identify that associate status can arise from a holding of less than 20% if there is evidence of significant influence.
- (ii) Most candidates failed to apply requirements of IFRS 5 on whether the decision to dispose the 75% holding rendered the subsidiary a discontinued operation.

QUESTION FOUR

The general performance on this question was very poor. Of the 184 candidates who attempted this question, only 3% of the candidates passed it while 72% failed the question. Though the lowest score was 0%, the highest 85% and the average score was 17%.

The question was composed of two transactions for which the directors required accounting advice in respect consolidated financial statements.

Transaction one was in respect of an issue of loan notes which the entity correctly classified as a FVTPL liability. Transaction two was in respect of a loan asset that the entity made to a third party with information on the party's credit worthiness.

The most common mistake by candidates was that most candidates have big problems with financial instruments despite the topic being key in the syllabus. Most failed to apply the IFRS 9 requirements relating to liabilities designated as FVTPL and on the impairment of assets.

QUESTION FIVE

The general performance on this question was relatively good. Of the 455 candidates who attempted this question, only 42% of the candidates passed it while 58% failed the question. Though the lowest score was 0%, the highest 100% and the average score was 43%.

The question was on interpretation of financial statements with a scenario involving a retail entity whose financial performance and position was to be evaluated.

The most common mistakes made by the candidates were:

Most candidates failed to structure the evaluation report into analysing the financial performance (profitability and growth) and position (liquidity and gearing). Some candidates correctly computed the ratios but failed to adequately address the requirement to evaluate the financial performance and position.

Overall performance of candidates

| | |
|--------------------------------------|-------|
| Highest mark obtained in this paper: | 79% |
| Lowest mark obtained in this paper: | 9% |
| Average score in this paper: | 44.8% |

SUBJECT: CA 3.2-ADVANCED AUDIT AND ASSURANCE

General comments:

A total of 487 students sat for this paper out of which 88 passed the paper representing a pass rate of 18%. There is a marginal improvement in the performance from the last sitting and the standard of answers at this advanced level is still poor and below expectation.

The following general observation which could have led to the poor performance was observed:

- i. A significant number of students numbering slightly more than 50 attempted three or less questions than the required four questions. Out of this number only one student who attempted a less number of questions obtained a pass. This is poor examination technique and students should understand that there will always be time pressure in the examination and so should manage their time well and attempt all questions required.

It is difficult to attribute the fact that many students failed to attempt the required number of questions to the compulsory 40 mark question. This is because if this were the case, the students should have scored more than half the available marks in this question. This is not the case considering an average score of 16 marks out of the possible 40 marks in question 1.

Candidates are reminded to spend only a maximum of 72 minutes in answering question 1 and overrunning on this time could easily result in them failing to attempt the last question and risk failing to pass the examination.

- ii. There were still many instances of students not attempting parts of questions accumulating to full questions not attempted in some cases. This reduces the number of marks out of which students are expected to score the 50% required to obtain a pass.

Not attempting parts of questions can only be attributed to lack of knowledge on the topics examined.

- iii. It was observed that students indicate the wrong question numbers on the solutions submitted. This has been observed in previous examiner's reports. Although no marks are lost, the students risk being marked wrong as the markers may mistake the solution as being wrong and yet it is the numbering that is wrong. This is particularly the case where a part of a solution is put pages away from the rest of the solution.

- iv. Students have continued to start answering a new question on the same page as the end of a previous question. This is despite clear instructions on the answer sheet that a new question should be answered on a new page. Students risk being marked wrong and are encouraged to simply follow the instructions.
- v. There were noted instances of students writing in the margin that should be left blank. This margin is supposed to be used by the examiners and NOTHING should be written there. There is a risk that marks awarded may not be legible enough and so be missed if the markers overwrite what the student has written.

QUESTION ONE:

A total number of 487 students attempted this question. The performance in this question was generally poor with an average score of 16 out of the total 40 available marks. Of the 487 students who attempted this question, 19% passed it while 81% failed the question.

Observations for each section are as follows:

- a) This part of the question required students to discuss factors that the audit firm should consider when deciding whether or not to use the work of internal audit department of Sweet Sugar Ltd in the performance of the audit.

The following observations were made in the answers by students:

- A significant number of students gave general answers without giving specific issues relating to the facts given for Sweet Sugar Plc. For example simply stating that the competences of the internal audit department should be considered without specifically stating the fact that only two of the internal auditors have accounting skills did not attract maximum marks for this part. Answers such as considering whether the internal auditors are registered with ZiCA are not relevant as this is not expressly or impliedly stated in the question. In this type of question, students should use the information given in the question in answering.
- Some students gave advantages of an internal audit department which were not asked for and no marks were given for doing so. Students are reminded to answer the question asked because there are no marks given for answers which could be correct if the question had been phrased differently.

- b) This was a knowledge based question requiring students to state the work that the external auditors may require the internal auditors to perform on their behalf in accordance with the provisions of the relevant ISA.
For a maximum of 4 marks, students were expected to provide 4 relevant points to gain maximum marks.

The following were observed:

- A sizeable number of students simply did not attempt this part showing that they lacked knowledge of the topic and the provisions of the ISA.
- Most mistook the question as requiring the explanation of the functions of internal audit such as to carry out operational audits. Students should understand that the work requested for here is that which will help the external auditors in gathering evidence which they will use as a basis for forming an opinion such as performing some tests of control which will be the basis for the external auditor deciding whether or not to use the effectiveness of the internal controls in performing the audit.
There were answers such as safeguarding the assets of the company which were given which did not earn any marks. A minority of students described that internal auditors audit the financial statements and express an opinion on them which clearly show lack of understanding of the core areas of the syllabus.

- c) This part of the question required students to discuss the matters that the audit firm will consider at the planning stage of the audit of Sweet Sugar Plc. again students are reminded to use the specific information in the scenario to answer such questions. General answers not well explained did not attract maximum marks.

A sizeable number of students discussed at length matters that should be considered before accepting nomination as auditors such as communicating with the previous auditors. Issues such as the fact that this is the first audit in this industry and the competences to value the inventory of Sweet Sugar Plc. should have been among other issues discussed and these are expressly given in the facts in the scenario.

- d) Again this was a practical question requiring students to identify and discuss matters that the audit firm should gain an understanding of as part of the risk assessment in the audit of Sweet Sugar Plc.

General answers of the provisions of ISA 315 without relating the matters to Sweet Sugar Plc. did not attract maximum marks.

When a question states that **identify** and **discuss** the approach should be that the student should clearly state the matter as a heading and then discuss as required. There are marks available for each requirement in the question. It is poor examination technique not to do this and simply start explaining matters not clearly identified from the question.

The following were noted:

- A sizeable number of students misunderstood the clear question as requiring an explanation of the risks in Sweet Sugar Plc. Indeed risks are among the other matters that the firm should gain an understanding of and so a detailed explanation of the various risks did not attract the maximum marks. Issues such as the nature of the industry that Sweet Sugar Plc. is in and the accounting systems and internal controls were among the issues that students should have discussed.

- e) This question required students to identify, explain and recommend appropriate audit responses to risks of material misstatements in the audit of the financial statements of Sweet Sugar Plc.

Proper examination technique should be used in answering such a question. For each risk identified, the student should deal with all three requirements clearly the same time. The format of the answer should be such that the risk is clearly identified followed by an explanation and the response clearly labelled as such should follow.

The following observations were made:

- There was poor presentation of answers resulting in some requirements not being addressed and hence students losing the marks attributed to these. For example a majority of the students simply identified and discussed the risks without addressing the part that required an explanation of the audit response and so lost the easy marks that were available.
- A large number of students simply gave general answers without using the information in the scenario and gave general risks and so did not earn maximum marks. This is a practical question requiring use of information in the question and it is likely that future question on risk will take this approach.
- A number of students showed lack of knowledge on the differences between business risk and risk of material misstatements and so explained risks that do not result in the financial statements being misstated and so lost marks. Risks of material misstatements are any risks that could result in the financial statements being misstated for example any risk relating to inventory

valuation could result in the inventory figure being misstated and so the financial statements misstated. Students are expected to relate any risk of material misstatement to a financial statement assertion in the financial statements. They should ask the question as to what could go wrong in the financial statements.

- A sizeable number of students went to great length theoretically explaining the audit risk model and gave general answers concerning inherent, control and detection risks. Indeed risks could be classified in the three categories, the question required students to identify the actual risks as given in the question.
- f) This part of the question required students to distinguish between a management and auditor expert clearly stating the impact of the work of each of them to the audit opinion.

It was disappointing to see the level of lack of understanding of this topic for professional students. Presentation of the answers is important here and students were expected to explain each of the two types of experts and explain the impact their work will have on the auditor's opinion.

The following observations were made:

- Most students simply did not know who management and auditor experts are and did not address how their work impacts on the auditor's opinion and so lost these easy marks. Experts in this context are people with expertise in a field other than auditing and accounting. A management expert is engaged by management to assist management in determining figures contained in the financial statements. When appointed by the external auditor, the expert turns into an auditor expert who will aid the auditor in a particular area where the auditor has no expertise. In terms of the impact of the work of a management and auditor expert on the audit opinion, the auditor is solely responsible for his opinion and he will not specifically refer to the work of the experts in the audit opinion.
- Some students explained that a management expert is one with expertise in management and his work had a significant impact on the auditor's opinion. Other students stated that management experts are experts in management and auditor experts are experts in auditing. It should be noted that the auditors and accountants are the experts in auditing and accounting and so would not need the services of other experts in a similar field to determine or audit figures in the financial statements. More interesting but wrong answers to the question on management and auditor experts include the following:

- Management expert – this is a paragraph in the auditor’s report which outlines the responsibility of management
- Auditor expert – This is the paragraph in the auditor’s report which outlines the responsibilities of the auditors.

This question has been examined in this way in the past under the old syllabus. This shows lack of knowledge of the topic by students.

QUESTION TWO

347 students attempted this question out of which 87 scored 10 or more out of the available 20 marks. The average score was 7 and this is a poor performance.

Observations for each section are as follows:

- a) This was a question on audit liability requiring students to discuss and evaluate the resolution by the shareholders to use the auditors of Sweet Sugar Plc. using the information in the question.

This is one of the topics that are first covered and examined in the advanced audit and assurance paper and are not in the syllabus of the earlier auditing principles and practice paper. The topic is knowledge based with guidance supported by case law stating who can sue and succeed in suing the auditors.

Students should have noted that the shareholders as a whole can sue and succeed and that in so doing there is implied that the auditors owe a duty of care to the shareholders and that the shareholders will need to prove to a court that there was a breach of this duty and that the shareholders suffered loss as a result of the breach of the duty of care.

Using the above information students should have applied this theory to the facts given in the question and advised as appropriate.

The following were noted in the answers:

- Most of the students did not know the basics on this topic as the majority could not even state the basic rules.
- Some students simply listed the basic rules without applying them to the given scenario and yet the question was very specific that they deal with the legal action against Sweet Sugar Plc.

- b) The first part of this question required students to explain the meaning of the expectation gap. The second part of the question required students to explain the responsibilities of management and the auditors with regards fraud in the audit of financial statements.

It was disappointing to note that a majority of students at the advisory level did not know the meaning of the expectation gap and could not explain the responsibilities of management and the auditors with regards fraud.

The expectation gap is the public perception regarding the duties of the auditors and the reality which is to form an opinion on the financial statements. For example the public perceives that the auditors are responsible for detecting fraud and error in the financial statements. This explanation with one example could have earned students the maximum marks.

With regards fraud, ISA 240 *the Auditor's responsibilities relating to fraud in an audit of financial statements gives guidance*. Basically the standard states that management is responsible for putting in place suitable controls in order to prevent and detect fraud. Auditors are not responsible for the prevention and detection of fraud but should be aware of the fact that the financial statements may be misstated due to fraud and error and so should use professional skepticism throughout the performance of the audit.

Some students expressly stated that the auditors have a duty to detect fraud contrary to the guidance.

- c) This question required students to discuss the responsibilities of the group auditors on the consolidated financial statements and the impact of the work of a management expert on these responsibilities.

To score marks on this question students needed to have knowledge of who a management expert is and also the group auditors.

Most students showed lack of knowledge of the subject matter. A majority misunderstood the question and instead discussed matters that the group auditors will consider with regards the work of component auditors which was not asked for.

Basically to score marks students should have discussed matters including the fact that the component auditors may be different and that even though the group auditors will not have audited the components, they are responsible for the opinion on the consolidated financial statements which include figures not audited by them.

The work of the management expert will not have any impact on the responsibilities of the group auditors. Zimba & Associates are responsible for their opinion on consolidated financial statements notwithstanding the fact that a management expert would have been used.

QUESTION THREE

This was the most popular optional question attempted with 445 out of the 487 students who sat for this paper attempting this question. The average score in this question was 8 out of the available 20 marks. 141 students representing 32% of those who attempted this question obtained a score of 10 and above.

Observations for each section are as follows:

- a) This part of the question required students to identify and explain ethical and professional issues in three cases given in the question.
 - i. This related to the provision of a reference to the bank of Mansa Ltd by the auditors. Guidance is given by ISAE 3000 and generally this is not entirely prohibited as long as consideration has been taken for specific factors. Students lost marks by specifically stating and concluding that this is unethical which is not the case.
 - ii. Most students scored the maximum marks on this question on long association with an audit client and the familiarity threat it poses.
 - iii. This was a question on the integrity of management and the fact that the management of Bulawayo Ltd lacks integrity.

The majority of the students scored well in this part of the question.

- b) This question was on going concern and required students to discuss the impact the situations for two companies would have on the audit report.

This is a knowledge based question for students who understand the topic on going concern and the impact on the audit report of different situations. Students needed to have an understanding on matters relating to material uncertainty and disclosure in the financial statements as these are the factors that will determine the impact on the audit report.

Trywell Ltd:

Some students did not conclude and advise the form of opinion that should be given in view of the fact that there was full disclosure in the financial statements by management and so lost the marks related to this.

Bulawayo Ltd:

There were no going concern issues in Bulawayo Ltd. There was an error in the question in that it should have referred to Giraffe Ltd which had going concern

issues. It was gratifying to note that a few students noted this error and gave correct answers with reference to Giraffe Ltd.

In view of the error in the question full marks (3) were given for this part to **all students** who attempted this question including those who left it blank possibly because of the error.

- c) This was a straight forward question requiring students to show understanding of the insurance required to be taken by audit firms. Most students did not know the two form of insurance that firms require to take and gave answers that were not related to the question such as discussing the ethical principle of professional competence and due care.

Briefly, audit firms are required to take professional indemnity insurance and they have employees to take fidelity guarantee insurance. Students needed to discuss the need for firms to take the two forms of insurance.

QUESTION FOUR

This was the least popular optional question with 253 students out of 487 attempting this question. The average score was 6 out of the maximum 20 marks available and only 29 out of those who attempted the question scored 10 and above.

This was the most poorly performed of the optional questions. The question covered a mixture of topics ranging from materiality, social and environmental issues and audit procedures for non-current assets. In deciding to attempt this type of question, students should consider the marks for the topics they are most comfortable with. It is important that the worst perceived question is avoided when choosing optional questions to attempt.

Observations for each section are as follows:

- a) This question required to show knowledge of the concept of materiality in an audit and stating why this is considered important in an audit of financial statements.

A majority of students showed lack of understanding of what materiality is and more so performance materiality. There were answers such as that performance materiality is used to determine performance of the company clearly showing lack of understanding of this important area of the syllabus.

Auditors are concerned with material figures in the financial statements and so they determine materiality levels at the planning stage of the audit. Performance materiality is the level that the firm will apply above which errors will be

considered as material. The performance materiality level is set at an amount below the materiality set for the financial statements as a whole or for particular assertions. This was the auditor is playing it safe to avoid cumulative errors exceeding the materiality level set for the financial statements as a whole.

- b) This part of the question required students to compute an appropriate performance materiality level using given figures for inventory. Students were expected to have knowledge of the guidance given in determining materiality. This is fully covered in the study manual and a % of the inventory figure should have been computed say any % between 1 and 2 of the inventory figure of K170million. The figure so computed would be the materiality figure and the performance materiality figure would be any amount below the figure earlier computed.

For example:

$$2\% \text{ of K170million} = \text{K3.4 million}$$

Performance materiality could be determined at K1.8million or any other lower figure. The aim is to have students demonstrate that they understand the principle.

A majority of the students who attempted this question simply computed performance materiality using the inventory figure of K69 as a percentage of the total assets. Marks were awarded for doing this but a majority of students did not make any comment as required and so lost the marks attributed to this.

- c) This question required students to identify and explain four environmental and social risks faced by Mwela Plc. Most students gave general answers instead of identifying risks in the scenario.
- d) This question required students to suggest procedures that should be undertaken by the firm to establish whether or not an impairment review of non-current assets should be required by a client company. Many students lost marks because they explained procedures to audit impairment reviews that have taken place instead of addressing the matters that should be considered in determining whether or not a client company should have conducted an impairment review.

QUESTION FIVE

362 out of the 487 students who sat for this paper attempted this optional question. The average score was 8 out of the available 20 marks and 117 of those who attempted this question scored 10 and above of the available marks.

Observations for each section are as follows:

- a) This part of the question required students to identify and explain six fraud risk factors in Impala Manufacturing. To be able to answer this question students should be aware of the difference between risks and fraud risk factors. Fraud risk factors relate to the issues that would motivate one to commit fraud. For example a weakness in internal controls could motivate an employ to commit fraud.

The performance in this part was below expectations. Students should have used the information in the scenario in their answer and three sufficient factors which could have been discussed.

The following were observed:

- A sizeable number of students discussed risks that exist in Impala Manufacturing Plc. rather than fraud risk factors. The explanations needed to explain how each of the identified factors could lead to fraud being committed. For example, pressure to meet set targets could motivate management to falsify financial statements in order to show that the targets have been met.
 - Some students gave less than the expected number of fraud risk factors.
- b) For three marks this question required students to explain the role of management as stewards and the relevance of external auditors. Many students could not explain this principle adequately to show that management should act in the best interest of the shareholders and that external auditors provide assurance to the owners of the company who are the shareholders.
- c) This was probably the easiest question in the whole paper and students should have used prior knowledge gained in the auditing principles and practice paper. The question required students to explain the elements of an assurance engagement and the mnemonic CREST should have assisted the students in answering the question. Use of the information in the scenario only meant mentioning Impala Manufacturing Plc. where relevant.

It was disappointing to note that only a few students obtained maximum marks. Students should have mentioned and explained:

- The criteria
- Report
- Evidence
- Subject matter and
- The three party relationship.

Interesting answers such as the following were observed:

- An assurance engagement is one that is more detailed and involves a certain level of reasonable assurance and will normally include three elements namely the auditor, the audit client and the use of the accurate report.
- The assurance engagement is an opinion found based on the findings of the information under review.

A similar question was asked in a previous ZiCA professional examination and again it was observed that students could not adequately explain the elements to an assurance engagement.

- d) For 3 marks students were expected to advise the CEO of the objective of a review engagement and contrast the level of assurance provided in a review engagement with than given in an audit of financial statements.

Most students showed lack of knowledge of what review engagements are and did not address the second part which required a comparison of the level of assurance with an audit and so lost the marks available for this.

Overall performance of candidates

| | |
|--------------------------------------|-------|
| Highest mark obtained in this paper: | 57% |
| Lowest mark obtained in this paper: | 08% |
| Average score in this paper: | 37.3% |

SUBJECT: CA 3.3 -STRATEGIC BUSINESS ANALYSIS

QUESTION ONE

A scenario case study based on the ENGLISH PREMIER LEAGUE. All the 184 candidates attempted this question out of which 77 passed and 104 failed representing a 41.8% pass and 56.5% fail respectively. Candidates were required to analyze the business environment strategically using required models and make recommendations and had three parts;

- (a) Drawing a Porters Five Force Model, Use the model to determine whether the English Premier League is profitable

This question was a compulsory and commanded a lot of marks (40). However most candidates seemed oblivious to this fact and hence the amount of thought and effort put into answering it seemed to be too little. Most candidates did not know draw the Porters Five forces models which lead them to put wrong explanations.

- (b) Explain a SWOT analysis of this industry and advice potential investors accordingly.

Using the SWOT analysis model and required candidates to determine the appropriate strategies in the given scenarios: The SWOT Analysis was correctly done by most candidates but the advice to the potential investors was missing and hence lost marks.

- (c) Describe the Corporate governance issues which could help the English league to become sustainable.

The majority of candidates did not seem to know how to bring out the corporate governance issues and consequently how to they were to be addressed. Thus, this part of the question was poorly answered.

QUESTION TWO

83 candidates attempted this question and 53 passed while 30 failed representing a 64% pass and 36% fail. The question was scenario based and had two parts, and required candidates to:

- (a) Using the Ashridge College Model of Mission, advise management on how this model can be used to expand the mission of the company

The question was clear but most candidates avoided this question. The solutions included the four elements in the mission statement (Purpose, Values, Strategy and Policies and standards of behaviour). However, those who attempted majority failed to give advice and lost marks.

(b) Outline the contents of the strategic marketing plan

Most candidates failed to answer this part of the question correctly. Almost half of those who attempted could not answer appropriately. The needed answers included (Executive summary, Situation analysis, Objectives and goals, Marketing strategy, tactical marketing, action plan, Budgeting and controls)

QUESTION THREE

The question was on the scenario on Codes of Ethics. 141 candidates attempted the question and 87 passed (62%) and 54 (38%) failed. The question had two parts and candidates were required to:

(a) Advise management on the significance of Code of ethics as a way of addressing this ethical situation.

This was a direct question and almost all candidates answered it but lost marks on the application to the given situation

(b) Evaluate ethical threats to compliance as prescribed by the IESBA working in practice.

Most candidates got this part correctly.

QUESTION FOUR

This was a case scenario on Leadership. 149 candidates attempted this question and 118 (79%) passed and 31(21%) failed.

The candidates were required to evaluate in detail any five characteristics in a strategic leader.

The question was straightforward and most candidates got this part correct and got full marks. Those who failed to get full missed the full understanding of the question.

QUESTION FIVE

This was a case scenario on Globalization and international strategy. 149 candidates attempted this question and 118 (79%) passed and 31(21%) failed. The question had two parts and required candidates to:

- (a) Recommend four main drivers of globalisation in international business strategy.
- (b) Recommend four factors that influence strategic risks in the case of Zambian Airways

Most candidates responded well to this part of the question and got good marks.

Overall performance of candidates

Highest mark obtained in this paper: 82%

Lowest mark obtained in this paper: 9%

Average score in this paper: 48.7%

SUBJECT CA 3.4 ADVANCED TAXATION

QUESTION ONE

This question was generally poorly answered. The total number of candidates who attempted the question was 129. The percentage of candidates who passed the question was 8% and those who failed the question was 92%.

The question was divided into three parts examining aspects of the taxation of a group of companies which covered the taxation implications of the disposal of and acquisition of subsidiary companies during the financial year. The question also examined financial planning and aspects of taxation and investment policy. Candidates generally demonstrated poor writing skills and failed to address the command verbs used in parts (a) and (b).

Part (a) was subdivided in three parts requiring a discussion of how the Chaisa group of companies was to be assessed to income tax in the tax year 2018, and specifically asked candidates to address the taxation issues arising from the sale of Twaisa Plc and the acquisition of Mwaisa Plc together with a discussion of the tax implications arising from the intra group transactions occurring during the tax year. Candidates were further required to supported their answers with appropriate computations of all relevant taxes that will arise and be payable in the tax year 2018, as far as the information provided permitted.

Common mistakes made by candidates in answering this part of the question included:

- Producing explanations of the financial reporting implications of the sale of the subsidiary and of the acquisition of the subsidiary as opposed to discussing those taxation implications. Such explanations did not score any marks.
- Providing long lists of financial and legal issues arising from the sale of subsidiaries and from acquisitions of subsidiaries instead of discussing tax related issues.
- Merely producing computations of taxes payable without including a discussion of the relevant taxation implications as required by the question. This resulted in loss of marks.
- Failing to explain the taxation implications of the intra-group transactions. Whilst a good number of candidates were able to deal with the transfer pricing adjustment in respect of the goods imported by Chasia Plc from Baisa Plc, most candidates failed to make the relevant adjustments in relation to the intragroup, interest free loan, made to Baisa plc by Chaisa Plc. Most

candidates instead provided explanations relating to thin capitalization which was not the relevant to the question as information regarding the Debt to equity ratio and benchmark ratio in the country of residence of Baisa Plc were not provided in the question.

- Failure to include the withholding tax on the foreign dividend received from Baisa Plc in computing the taxable profit of that company. Most answers for this part of the question were limited to explaining that double taxation would arise, without providing a computation of the amount of double taxation relief available. Candidates however managed to explain the property transfer implications of the transfer of title to land between the companies during the year.

Part (b) required candidates to discuss the taxation implications for both Chaisa Plc and potential investors of issuing ordinary share and debentures to finance future expansion of the company and was well answered by well-prepared candidates. However, weaker candidates merely produced lists of the legal differences between ordinary shares and debentures and therefore lost an opportunity to score easy marks.

Part (c) required candidates to explain any four (4) tax incentives available to companies like Chaisa Plc engaged in manufacturing. This part of the question was surprisingly poorly answered by nearly all the candidates. Candidates misunderstood the question and thought the question asked them to explain the abolished tax incentives which used to be provided to entities investing in priority sectors and therefore explained those incentives instead of explaining the taxation incentives available to companies engaged in manufacturing as required by the question. They therefore lost another opportunity to score the four easy marks which were available on this part of the question.

QUESTION TWO

This question was fairly straightforward and covered ethics and taxation of financial institutions and was on average well answered. The total number of candidates who attempted the question was 114. The percentage of candidates who passed the question was 59% and those who failed the question was 41%

Candidates scored good marks in part (a) which required an explanation of the ethical threat arising from provision of tax services to various clients and to provide advice on how each threat should be managed. A few candidates however restricted their answers to simply explaining the ethical threats without discussing how each threat should be managed resulting in loss of marks.

Part (b) which required a computation of the company income tax payable by a bank was equally well answered with the exception of a few candidates who faced challenges in distinguishing expenditure that is allowable from that which is not in computing the taxable business profit of the bank.

QUESTION THREE

This question was fairly well answered by the candidates who attempt it. The total number of candidates who attempted the question was 107. The percentage of candidates who passed the question was 64% and those who failed the question was 36%.

The question covered taxation of employment income and estates of the deceased as well as international aspects of income taxation for individuals and was divided into three parts.

Part (a) required candidates to explain the taxation implications of the exercise of options over shares from a share option scheme that is not approved for tax purposes and the tax implications of the subsequent sale of the shares acquired. The question was poorly answered as very few candidates managed to explain that on the exercise of the options the difference between the market price of the shares and the exercise price of the options was taxable as part of the income earned during the tax year 2018 and also failed to compute the amount taxable as income arising on the exercise of the options. Candidates further failed to explain that on the sale of the shares property transfer tax will arise on the realized value of the shares as the company was not listed on the LuSE.

Part (b) required a computation of the income tax payable by the individual in the question. Candidates were further asked to state which benefits received from employment were exempt from income tax. The question was reasonably well answered although a few candidates demonstrated the following weakness in answering the question:

- Failing to identify which benefits received from employment were taxable and which were exempt when computing the amount of income tax payable resulting in the wrong amount of income tax being computed.
- Failing to include dividends received from foreign sources in the computation of the income tax payable.
- Including rental income from foreign sources which is exempt from Zambian income tax in the computation of the income tax payable.
- Failing to compute the amount of double taxation relief available on the dividend income received from foreign sources.

Part (c) asked candidates to compute the income tax payable on the estate of the deceased person and was fairly well answered by nearly all the candidates.

QUESTION FOUR

The performance of candidates on this question which was subdivided into two parts examining various aspects covering the interaction of taxes was poor. The total number of candidates who attempted the question was 85. The percentage of candidates who passed the question was 35% and those who failed the question was 65%.

Part (a) which required candidates to explain the procedure that should be followed when making an objection to an audit assessment was poorly answered as candidates demonstrated a total lack of knowledge of the appeals process.

Similarly in part (b) candidates faced challenges in providing relevant explanations of the taxation implications of the five different transactions in the question which included the payment of rentals by a company on behalf of a director, acquisition of truck under an operating lease, the installation of elevators at a newly built building by a foreign based company, provision of an interest free loan to one of the company's shareholder and the purchase of motor vehicle spare parts.

QUESTION FIVE

The performance of candidates on this question covered tax planning involving the disposal of the business was below average. The total number of candidates who attempted the question was 81. The percentage of candidates who passed the question was 41% and those who failed the question was 59%

Part (a) asked candidates to compute the capital allowances for the tax years 2018 and 2019. Common weaknesses by candidates who performed poorly on this part of the question included:

- Using the wrongs rates in computing the wear and tear allowances available in the tax year 2018.
- Using the Income tax values of the assets instead of the original cost when computing the wear and tear allowances available in the tax year 2018.
- Computing wear and tear allowances in respect of the tax year 2019, when these were not available since the tax year 2019 was the year of disposal of the business and as such only balancing allowance or charges should have

been computed instead. The few candidates who did compute balancing charges and allowances arising computed these incorrectly in most cases as such candidates used the wrong income tax values for the assets and also forgot to restrict the market values of the assets to the original cost of the assets in computing the allowances and charges as the market values of the assets exceeded their original costs.

Part (b) required candidates to compute income tax payable and was fairly well answered by most of the candidates.

In part (c) very few candidates managed to explain the VAT implications of the sale of the business as going concern and to compare them with the VAT implications of selling the individual assets instead.

Similarly in part (d) candidates faced challenges in explaining the Property Transfer Tax implications of selling the business as going concern and to compare them with the taxation implications of selling the individual assets.

Consequently in part (e) very few candidates managed to give reasonable advice as to whether it was more beneficial to sell the whole business or to sell the individual assets.

Overall performance of candidates

Highest mark obtained in this paper: 68%

Lowest mark obtained in this paper: 6%

Average score in this paper: 37.7%

SUBJECT: CA 3.5 -ADVANCED MANAGEMENT ACCOUNTING

QUESTION ONE

This is a 40 marks compulsory question. The performance was average. 42.5% candidates passed the question with 57.5% failing. Generally this question was well attempted by over 99% of the candidates.

Common mistakes made by poorer candidates:

- In part (a), describing the perspectives in a general manner without referring to new strategies mentioned in the scenario.
- In part (b), evaluation of accuracy of EVA without re-calculating the correct one.
- In part(c), just making assessments without making calculation
- Also evaluating performance metrics but without mentioning how they affected management behaviour.
- In part (d), just describing the new executive information system without evaluating how it would impact on performance management

QUESTION TWO

The performance was good with a record 73.5% pass and 26.5% fail.

Although this question was not a compulsory one, nearly all candidates attempted this question and it was generally very well answered.

Common mistakes committed by poor candidates:

- Discussing conformance and non-conformance costs
- Describing the steps in the decision-making cycle as steps to improve quality.
- Giving only one attribute under operational and strategic planning. Thereby, losing easy marks.
- In part (d), explaining the MIS instead of the benefits of MIS which includes operational and strategic information.

QUESTION THREE

It was the least attempted question. The performance was above average with 52.3% pass and 47.7% fail.

This was the least attempted question in the whole paper. Investment appraisal methods are some of the key tools used to describe the various performance measures that are used by different types of entity to monitor the success of the strategies that they are following. Net present value and internal rate of return can also help to give a longer-term perspective on strategic success and are especially important in evaluating new strategic initiatives. Relevant costing underpins both of these calculations.

Common mistakes:

- Part (a), failure to identify the cash flows to be used in the evaluation. Some students could not rightly compute the investment cost as literally used the price of a single price. The use of cash inflows for a single flat.
- Evaluation of only a single contractor instead of both.
- Part (b), many candidates were providing comments contrary to the analysis done hence no credit was given.
- Part (c), repeating factors already highlighted the analysis.
- Part (d), some candidates failed to address the key verb, instead they were listing the factors.

QUESTION FOUR

Though moderately attempted, the performance in this question was below average. Only 22.8% passed the question with 77.2% failing.

It is well balanced question 50% computational and the other half theoretical. One would have expected that an average student would have passed the question.

Common mistakes:

- Part (a), failing to reconcile the given residual income.
- Part (b), candidates could not link the explanation to the objectives of transfer pricing.
- Parts (c), instead of using the contribution some were trying to compute profits.
- Part (d), treating the divisions as independent from any control by the group.
- Part (e), (i) failure to explain hence getting little or no credit.
- Part (e), (ii) failure of correct currency conversion.

QUESTION FIVE

This was the most attempted optional question. The performance was good. Out 84 candidates who answered 60.7% passed and 39.3% failed.

This was the most attempted question. Most students were well above average. The question was mostly on brought forward knowledge.

Common mistakes:

- Part (a), most candidates were repeating the points hence reducing their chances of gaining full credit.
- Part (b), incremental budgeting being viewed as continuous with zero based as being impractical.
- Part (c), steps were being listed instead of explanation.

- Part (d), failures to address the stated view, some candidates were repeating the answer in part (b).

Overall performance of candidates

Highest mark obtained in this paper: **64%**

Lowest mark obtained in this paper: **30%**

Average score in this paper: **47.3%**

SUBJECT: CA 3.6- ADVANCED FINANCIAL MANAGEMENT

QUESTION ONE

The performance was below average. A total of 114 students attempted the question and only 7% managed to pass and 93% failed.

Part (a) of the question required candidates to evaluate the impact of three financing proposals on the forecast statement of financial position, the earnings & earnings per share and gearing level of the company. Candidates had challenges in computing retained earnings and earnings per share correctly because they didn't understand the impact of the financing options on the earnings. Some candidates did not understand the meaning of gearing and hence even failed to compute it correctly.

Part (b) of the question required candidates to explain the securitization process and the key barriers to the company (Zawi Co) undertaking the process. The challenge was the shallow knowledge of securitization.

Part(c) required the candidates to discuss Islamic financing concepts with particular focus on Musharaka contract and Mudaraba. Candidates exhibited shallow knowledge of Islamic finance despite being in the syllabus. They failed to make a clear distinction between Musharaka and Mudaraba contracts.

QUESTION TWO

The performance was above average. A total of 94 students attempted the question and 60.64% managed to pass and 39.36% failed.

Part (a) required candidates to estimate the adjusted present value (APV) of the proposed project and the justification for the use of this method. The taxation aspects were not correctly done. The tax shield was wrongly calculated under financing side effects. The base NPV was generally wrong and majority of the candidates failed to realise that net contribution of K148million was an opportunity cost.

Part (b) required candidates to discuss the potential benefits and hazards of interest rate swaps as a tool for managing interest rate risk. As always there was a lot of waffling instead of providing direct answers and save time.

QUESTION THREE

The performance was above average. A total of 58 students attempted the question and only 62.1% managed to pass and 37.9% failed.

Part (a) of the question required candidates to evaluate the whether it is necessary to manage currency risk by a company. Some candidates showed shallow knowledge of currency risk which made them to fail to provide relevant answers related to the scenario.

Part (b) of the question required candidates to show how the company (Gum-gum ltd) can hedge the foreign exchange rate risk using the currency options. Generally this part of the question was well answered although a few candidates failed to provide adequate answers.

QUESTION FOUR

The performance was below average. A total of 102 students attempted the question and only 83.3% managed to pass and 16.7% failed.

Part (a) of the question required candidates to discuss strategies of managing political risk by a multinational company. Some candidates completely failed to explain the actions to circumvent the political and litigation risk and to relate the answers to the scenario given.

Part (b) of the question required candidates to basically discuss the merits and demerits of a centralised treasury department. The question was fairly attempted.

QUESTION FIVE

The performance was above average. A total 90 students attempted the question and only 73.3% managed to pass and 26.7% failed.

Part (a) of the question required candidates to discuss the reasons small and medium-sized entities (SMEs) might experience less conflict between the objectives of shareholders and directors than large listed companies. Some candidates failed to recognise that the shareholders of small companies could be directors themselves compared to large companies hence less conflicts.

Part(b) required candidates to discuss the factors to consider before choosing a source of debt finance and factors lenders consider in deciding how much to lend a company. This part of the question was fairly attempted.

Overall performance of candidates

Highest mark obtained in this paper: 61%

Lowest mark obtained in this paper: 11%

Average score in this paper: 40.9%

SUBJECT: CA 3.7-PUBLIC SECTOR AUDITS AND ASSURANCE

General Observations

The following general observations were made:

- a) There were noted instances of students starting to answer a new question on the same page that the previous question ended. This is contrary to clear instructions that a new answer should be on a new page and students risk losing marks if markers cannot relate an answer to the correct question.
- b) Instances of wrong question references on the answer sheet have continued. This makes it difficult for the markers to relate the solutions to specific questions. Again students risk being marked wrong for a correct solution to a different question. Students are reminded to ensure that they indicate the correct question being answered. In a few cases answers are written without clear indication of the part of the question being answered.

QUESTION ONE

This is a compulsory question. A total of 248 students attempted this question and out of whom 133 scored at least half or more of the available marks. The performance on this question was generally very good with some high marks being scored by some students.

The question was scenario based question covering a range of topics across the syllabus and the following observations were made:

- a) This part of the question required students to identify and explain the parties to the audit of cabinet office. While most student scored well on this question the following were observed:
 - A few simply did not know the parties as requested and did not attempt this part and so lost the available marks.
 - Some students did not use the information in the scenario and gave general answers which earned them half the available marks.
 - There were students who mistook the Office of the Auditor General for the responsible party instead of the Disaster Management and Mitigation Unit.
- b) This was a knowledge based question requiring students to describe any five guidelines to effective public sector auditing in the context of the Lima Declaration.

The majority of the students scored well in this part of the question. There were some who discussed the professional ethics of integrity, professional behavior,

and professional competence and due care, objectivity and confidentiality for which no marks were earned.

- c) This part of the question required students to discuss the role of the Secretary to the Treasury in the public sector audit cycle. Most students scored maximum marks in this part of the question. A few did not know the role of the Secretary to the Treasury and stated that he reports to parliament on how public funds have been abused or misappropriated.
- d) Most students scored maximum marks in this question which required an explanation of follow up audits.
- e) This part of the question related to IT audits and overall the students scored well and the following were observed:
 - i. This part of the question required students to describe the role of IT audits in Financial, Compliance and Performance audits. Most students scored high marks although a number of them gave general answers on IT audits without relating them to Financial, Compliance and Performance audits. Students should endeavor to address the requirements of questions asked.
 - ii. This was a knowledge based question requiring students to state the planning of IT audits at the strategic, annual and team levels. The majority of the students were able to work that should be carried out at each of those levels.
 - iii. The question required students to explain the risk of not paying attention to cyber security in the Ministry Of national Development Planning. Most of the students scored well in this part of the question.

QUESTION TWO:

A total of 236 students out of the 248 who sat for this paper attempted this optional question. Out of those who attempted the question 92 representing 39% of those who attempted the question scored half or more of the available marks. The average score was 9 out of the maximum 20 marks available.

The following observations were made:

- a) This was an easy question requiring students to explain the meaning and relevance of professional judgment and professional skepticism. Some students could not explain professional judgment and described it as having a questioning mind which is applicable to professional skepticism. There were also students who simply explained the meaning of the two terms without

commenting on their relevance as required by the question and so losing the marks available for doing so.

- b) Most students lost marks as they did not address the requirement of the question which was to describe using the information in the scenario the matters that the public sector auditors should gain an understanding of as part of risk assessment and as guided by ISSAI 1315. One of the questions that the standard wishes to answer is what should be gained an understanding of as part of risk assessment and these are the matters that should have been addressed in answering this question.
- c) This part of the question required an explanation of performance auditing stating two principles of performance auditing. This was generally well answered with students scoring well. The few who did not score well are those who did not address the second part of the question requiring statement of two principles.
- d) This part of the question required an explanation of performance auditing stating two principles of compliance auditing. This was generally well answered with students scoring well. The few who did not score well are those who did not address the second part of the question requiring statement of two principles.

QUESTION THREE

A total of 238 students out of 248 who sat for this paper attempted this question. It was the most popular optional question attempted. A total of 185 students scored a mark of 10 and above and the average score was 11 indicating that on average the performance here was good.

The following were observed:

- a) This was a basic question requiring showing of an understanding of the link between ISAs and ISSAIs. Most of the students failed to link the two and instead just gave the meaning of each of them.
Students should have observed that the INTOSAI recognizes the ISAs and have adopted them for use by public sector auditors. The numbering of the ISSAIs has just included a digit of 1 before the ISA number for example ISA 315 is ISSAI 1315 giving basically the same guidance.
- b) This was a knowledge based question requiring a discussion of the responsibilities of management and the OAG with regards fraud as guided by ISSAI 1240. The students who knew the provisions of the standard scored well while other simply did not and in some cases indicated that the OAG are

supposed to ensure that fraud is stopped which is the duty of the responsible party.

- c) This part of the question required students to identify and explain fraud risk factors in the given scenario. Most students explain risks in general instead of factors that could motivate one to commit fraud and so lost easy marks.
- d) This part of the question required students to explain any four methods that public sector auditors could use to gather evidence. Most students were able to explain these and scored high marks.

QUESTION FOUR

A total of 48 students out of 248 attempted this question and it was the least popular question. Out of those who attempted the question only 14 representing 30% scored a mark of 10 and above. The average score was 8 out of a maximum 20 marks available.

The following observations were made on specific questions:

- a) It was disappointing to note that many students showed lack of understating of this basic topic on receivables circularization whose principles are the same as those in the audit of the private sector.
Most students simply could not explain these two methods and discussed the need to obtain authority from the responsible party before carrying out a circularization.
In a positive circularization, the receivable is required to respond whether or not they agree with the balance being confirmed. In the case of negative circularization, the receivable is only required to respond if they do not agree with the balance being confirmed.
- b) Those who could not answer part (a) correctly failed to answer this part correctly. Students were required to justify the method they would recommend to use in the audit of the receivables of Safe Water Ltd.
- c) This part of the question required students to state the type of balances that should be circularized from a list of receivables. This is same as for private sector audits. Most students seemed not to know the balances to include. Basically the students should have included nil balances, receivables with negative balances, those owing huge amounts etc.
- d) This required students to explain risks given in four situations given. Most students were able to explain these and scored well.
- e) This part of the question was related to part (d) and required students to explain the audit responses to the risks given. Most students were not able to do this and so lost the marks available.
- f) The question required students to describe the audit work that should be undertaken as part of the performance audit of Safe Water Ltd. Those that did

not know what performance audits are were not able to give relevant audit procedures that should be performed. Many simply did not attempt this part of the question.

QUESTION FIVE

A total of 222 students out of 248 who sat for this paper attempted question 5. Out of those who attempted the question 72 representing 32% scored a mark of 10 and above. The average score was 8 out of the possible 20 marks.

The following were observed in answering individual parts:

- a) This part of the question required students to describe any four stages in a forensic investigation assignment using the information in the scenario. Students lost marks because:
 - Some described less than the four matters required in the question.
 - Use of the information in the scenario should have been made. Those who gave general answers without using the information lost some marks.
- b) This part of the question required students to evaluate the extent to which the three e's (efficiency, economy and effectiveness) have been achieved using information in the scenario. Most students scored well in this question. Those who did not use the information in the scenario lost some marks for not doing so.
- c) The question required students to explain any three quality control elements in accordance with ISSAI 40. Some students simply did not attempt this part which is indicative of lack of knowledge of the provisions of the standard.
- d) Others only gave one element against the three required and so lost the marks for the other two.

Overall performance of candidates

| | |
|--------------------------------------|-----|
| Highest mark obtained in this paper: | 70% |
| Lowest mark obtained in this paper: | 25% |
| Average score in this paper: | 48% |

SUBJECT: CA 3.8-PUBLIC SECTOR FINANCIAL MANAGEMENT

QUESTION ONE

The performance was above average. A total of 3 students attempted the question and 66.7% managed to pass and 33.3% failed.

Part (a) of the question required candidates to evaluate the proposed investment in the rehabilitation of a guest house using NPV. Candidates showed lack of basic knowledge on annuity and relevant costs. The treatment of the reduction in the grant was another common challenge.

Part (b) required candidates to discuss the nature of leasing arrangement. The candidates had a fair knowledge of the same.

Part (c) required candidates to distinguish concession arrangement and a leasing agreement. Candidates had fair knowledge of leasing but not concession arrangement.

Part (d) required candidates distinguish public and private sector financial risk. Candidates had shallow knowledge of public sector financial risk.

QUESTION TWO

The performance was above average. A total of 3 students attempted the question and 100% managed to pass.

Part (a) required candidates to explain the difference between activity based budgeting and output based budgeting as well their advantages and disadvantages.

Part (b) required candidates to recommend revenue management control measures. The performance was fairly good.

QUESTION THREE

The performance was below average. A total 3 students attempted the question and only 33.3% managed to pass and 66.7% failed.

The question required candidates to advise senior management on the best combination of projects taking into account the sensitivity analysis of costs and the limited funds available for investment. Sensitivity analysis was not correctly calculated for both the running costs and initial investment.

QUESTION FOUR

The performance was above average. A total 3 students attempted the question and only 66.7% managed to pass and 33.3% failed.

Part (a) and (b) asked candidates to explain the importance of good performance measurement framework and to discuss the reasons PETS may be useful. This was a straight forward question although candidates could not refer to the scenario.

Part (c) of the question required candidates to identify the three (3) aspects of general education in Zambia evaluated by the World Bank in 2015 in its PETS assessment and highlight the conclusions. Candidates exhibited shallow knowledge.

QUESTION FIVE

The performance was above average. No students attempted the question.

Part (a) of the question required candidates discuss the different types of risks facing the National Airline Corporation (NAC) as provided in the scenario.

Part (b) required candidates to advise the NAC management on the risk management strategies that they can use in order to counter the risks identified in (a).

Overall performance of candidates

Highest mark obtained in this paper: 61

Lowest mark obtained in this paper: 42

Average score in this paper: 51.0%