



JUNE 2019 EXAMINATIONS

CHIEF EXAMINERS REPORTS

CA ZAMBIA

## **SUBJECT: CA 1.1- FINANCIAL ACCOUNTING**

### **QUESTION ONE**

The general performance on this question was good with 51 out of the 84 candidates who attempted the question achieving a pass (that is a score of at least 10 out of 20 marks), representing a pass rate on the question of 61%. The lowest score was 20%, whilst the highest and average scores were 100% and 52% respectively.

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

### **QUESTION TWO**

The general performance on this question was excellent with 79 out of the 84 candidates who attempted the question achieving a pass (that is a score of at least 10 out of 20 marks), representing a pass rate on the question of 94%. The lowest score was 15%, whilst the highest and average scores were 100% and 96% respectively.

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

The main mistakes included the following:

- (i) Swapping the discount received and discount allowed.
- (ii) Swapping sales returns and purchases returns. Candidates must know that sales returns and purchases returns have debit and credit balances respectively.
- (iii) Showing bank overdraft under current assets.
- (iv) Closing inventory of stationery was credited to cost of sales, instead of crediting printing and stationery expense as a prepayment
- (v) Adding (debited) drawings in kind to cost of sales instead of subtracting (crediting).
- (vi) Showing carriage inwards under operating expenses, instead of adding to purchases.

### **QUESTION THREE**

The general performance on this question was very poor with only 9 out of the 72 candidates who attempted the question scoring at least 10 out of 20 marks, representing a pass rate on the question of 13%. The lowest score was 5%, whilst the highest and average scores were 95% and 30% respectively.

The question tested candidates' on understanding of double entry accounting as applied to correction of errors and adjusting the draft net profit by the corrections and omitted accruals. Attempts were mostly poor as most candidates were just guessing what accounts were affected by the errors. In two errors, their correction involved doubling the amounts. Most candidates did not double the amounts. Most entries in the suspense account were swapped. A number of candidates did not attempt part (c) of the question, which required them to adjust the draft net profit arising from correction of the errors and yearend adjustments (accruals and prepayments).

#### **QUESTION FOUR**

The general performance on this question was very poor with only 7 out of the 47 candidates who attempted the question achieving a pass (that is a score of at least 10 out of 20 marks), representing a pass rate on the question of 15%. The lowest score was 3%, whilst the highest and average scores were 80% and 27% respectively.

This question had three parts testing knowledge of the IAS 16, property, plant and equipment requirements relating to recognition and, initial and subsequent measurement of PPE.

Common mistakes included the following:

- (i) Failure to prorate (time apportion) the depreciation.
- (ii) Failure to deduct residual value in computing the depreciation expense.
- (iii) Failure to show workings.
- (iv) Poor presentation. Some candidates answered the same question on several non-consecutive pages without cross-referencing the pages.

#### **QUESTION FIVE**

The general performance on this question was good with 32 out of the 64 candidates who attempted the question achieving a pass (that is a score of at least 10 out of 20 marks), representing a pass rate on the question of 50%. The lowest score was 5%, whilst the highest and average scores were 100% and 50% respectively.

The question required candidate to prepare a set of financial statements for a non-profit making organization (club accounts).

Candidates performed reasonably well on this question as there were some easy marks from amounts of receipts simply reported as income and amounts of payment reported as expenses in the Income and Expenditure Account.

Common mistakes included the following:

- (i) Failure to adjust for accruals and prepayments for both income and expenses
- (ii) Treating subscriptions in arrears as liabilities and subscriptions in advance as assets, instead of the other way round.
- (iii) Interest on the special deposit was treated as an expense instead of an income by most candidates.
- (iv) Some candidates did not calculate the opening accumulated fund and reported opening balances or assets and liabilities on the closing statement of financial position.

## **QUESTION SIX**

The general performance on this question was extremely poor with none of the 23 candidates who attempted the question achieving a pass (that is a score of at least 10 out of 20 marks), representing a pass rate on the question of 0%. The lowest score was 5%, whilst the highest and average scores were 45% and 26% respectively.

This question was based on incomplete records.

The question was generally not well answered.

Common mistakes included:

- (i) Failure to use relevant accounts and updating them with known amounts to get the unknown as balancing figures. It seems most candidates have a challenge with double entry.
- (ii) Most candidates failed to determine the opening capital.

For future examinations candidates are strongly advised to revise incomplete records as it is the highly examined topic.

## **Overall performance of candidates**

- i. Highest mark obtained in this paper: 90%
- ii. Lowest mark obtained in this paper: 12%
- iii. Overall pass rate in this paper: 46.4%

## **SUBJECT: CA 1.2 BUSINESS STATISTICS**

### **QUESTION ONE**

This was a multiple choice question which was attempted by all candidates. The average performance on this question was 10 marks out of a total of 20 marks.

The question covered the entire syllabus hence candidates had a fair choice of questions they could possibly answer correctly.

### **QUESTION TWO**

This was a compulsory question and was attempted by all candidates. The average performance in this question was 7 marks out of a total of 20 marks.

The question was divided into two parts. Part (a) required candidates to use basic probability rules to answer four questions derived from a scenario of picking different colored balls from a box. It was observed that majority of candidates failed to get the question correctly due to mis-application of basic probability rules.

The second part involved construction of a pie chart from a given scenario. This was the part where most candidates obtained most of the marks. The few candidates who failed to get the question correct were attempting to use percentage rather than degrees to construct the pie chart resulting in wrong segments drawn.

### **QUESTION THREE**

This question had one section on grouped data requiring candidates to use the data to find the mean, standard deviation, mode, median and coefficient of variation and interpret their results. The average performance of this question was 13 marks out of 20 marks with 95% of candidates attempting the question.

The major challenge observed was on construction of the frequency table in which some candidates were using wrong mid-point values for each class of given set of numbers in the data set. This resulted in wrong values of mean and standard deviation. Few candidates also had challenges in calculating the median and they were attempting to write the grouped data as if it were a list of ungrouped data. Others wrote the class where the mode fall as is it was actually the mode hence losing some marks in the process.

### **QUESTION FOUR**

This question was split in two parts and the average performance was 7 out of a possible 20 marks. Part (a) of the question was on probability calculation from tabular data hence application of basic probability rules. The performance in this part was bad contributing significantly to the low results recorded in this section.

Part (b) required candidates to apply a scenario to find seasonal variations on time series analysis. There were no observed critical challenges on this part as candidates demonstrated good knowledge of the subject.

### **QUESTION FIVE**

On this question, 70% of the candidates that wrote this paper attempted this question. The average performance was 12 marks out of 20.

The question was on regression and correlation analysis and the major challenge observed on candidates was inability to get correct summation of values listed in the two variables (dependent and independent) resulting in wrong calculation of the regression equation and correlation.

### **QUESTION SIX**

This was among the most avoided question as much of the tasks required candidates to use given tabular data to find various probabilities. The average performance in this question was 5 marks out of a total of 20 marks with 60% of candidates attempting the question. The observed challenge was that candidates do not have sufficient knowledge on application of probability rules. Most candidates were able to get some marks on part (b) which was on normal distribution though few challenges were observed on ability to use the z-distribution tables correctly.

### **Overall performance of candidates**

- i. Highest mark obtained in this paper: 81%
- ii. Lowest mark obtained in this paper: 15%
- iii. Overall pass rate in this paper: 51.6%

## **SUBJECT: CA 1.3-BUSINESS ECONOMICS**

### **QUESTION ONE**

This was a compulsory question made up of 10 multiple choice questions covering the entire syllabus. As a compulsory question all 40 candidates attempted it. The general performance was very good. 27 candidates passed and 13 failed the question representing a pass rate of 68%. The highest score was 16 out of 20 and the lowest of 6. The scores were evenly distributed among all 10 questions without a particular question that could be said to have been problematic to candidates. However, majority of candidates got questions 1 and 10 wrong.

### **QUESTION TWO**

The general performance for this question was good. A total of 40 students attempted the question. 30 of these passed, representing a 75% pass rate. The highest score was 19 while the lowest was 2.

The question was divided into three parts (a), (b), (c) and (d). Part (a) required candidates to define equilibrium in economics. Performance was excellent

Part (b) (i) required candidates to calculate the equilibrium price and quantity. All that candidates were required to do is to equate the two function, then solve for P and Q. However, some candidates seemed not to remember anything.

Part (b) (ii) asked candidates to calculate the new equilibrium when a price ceiling of K40 is imposed by the government. All what candidates were required to do was to substitute K40 where there was P in both functions. Once this was done, it would have been clear that quantity demanded was 16 400 while quantity supplied was 14 400 creating a shortage of 2 000 units. Many candidates did not know what to do here.

Part (c) asked candidates to explain any four (4) factors that affect demand for a good.

Part (d) required candidates to distinguish between 'Change in Demand' and 'change in quantity demanded'. A change in demand is a shift in a demand curve caused by changes in any factors other than own price of a good while change in quantity demanded is a movement along a demand curve. It is caused by a change in own price of a good. Answers were very disappointing on this part of the question.

The following common mistakes were noted:

- i. Limited coverage of syllabus by students when studying.
- ii. Most candidates appeared unprepared.

### **QUESTION THREE**

The general performance for this question was very poor. A total of 33 students attempted the question. 6 of these passed while 27 failed, representing a 18% pass rate and failure rate of 82%. The highest score was 17 out of 20 available marks while the lowest was 0 out of 20.

The question was based on Market Structures divided into four parts namely (a), (b), (c), and (d).

Part (a) required candidates to state the market structure that exemplifies the telecommunication sector in Zambia. Part (b) required candidates to outline any five (5) features or characteristics of oligopoly; Part (c) asked candidates to explain price determination under oligopoly. Part (d) asked candidates to explain the tax incidence on consumers of this excise tax. Part (e) asked candidates to describe the three fundamental economic problems as applied to the telecommunication sector and how these are solved.

The following common mistakes were noted:

- i. Some candidates confused oligopoly with perfect competition. They provided characteristics of perfect competition rather than oligopoly as required.
- ii. Some candidates seemed lost on fundamental economic questions of What to produce, How to produce and For whom to produce?.

### **QUESTION FOUR**

This was the least attempted question. The general performance for this question was very poor. A total of 15 students attempted the question. 2 of these passed while 13 failed, representing a 13% pass rate and failure rate of 87%. The highest score was 19 out of 20 available marks while the lowest was 1 out of 20.

The question was divided into three parts namely (a), (b) and (c). Part (a) required candidates to calculate the gross value added at basic prices. It simply required the appreciation of the structure to get the full allocated marks. Performance was poor.

Part (b) required candidates to explain the three approaches used to measure national income using the data in (a). Students were required to explain the Expenditure, Income and Output methods.

Part (c) required candidates to explain why poverty levels in a country may be increasing amidst an increase in national income. The key is that income is not equally distributed.



## **QUESTION FIVE**

The general performance for this question was very good. A total of 31 students attempted the question. 28 of these passed while only 3 failed, representing a 90% pass rate and failure rate of 10%. The highest scored 20 out of 20 available marks while the lowest was 4 out of 20.

This question was divided into two parts (a) and (b). Part (a) required candidates to describe any five functions of financial intermediaries.

Part (b) required candidates to explain why the functions given in (a) are important to the business sector in Zambia.

The following common mistakes were noted:

- i. Some candidates could not come up with the standard functions of financial intermediaries as given in the Study Guide. Future candidates are therefore advised to read and understand fully the questions so that they address the specific requirements.
- ii. Some candidates merely repeated the answers given in (a)

## **QUESTION SIX**

The general performance for this question was excellent. A total of 189 candidates attempted the question. 165 of these passed while 24 failed, representing a 87.3% pass rate and failure rate of 12.7%. The highest scored 20 out of 20 while the lowest was 6 out of 20.

### **Overall performance of candidates**

- i. Highest mark obtained in this paper: 83%
- ii. Lowest mark obtained in this paper: 22%
- iii. Overall pass rate in this paper: 80%

## **SUBJECT: CA 1.4- COMMERCIAL AND CORPORATE LAW**

### **QUESTION ONE**

This was a compulsory question which 210 candidates attempted. The performance was very good with about 168 scored 20 out of 20. As multiple choice consists of different topics, candidates were required to identify the best answer from the various answers given.

The common mistake was that of picking wrong answers. Candidates should study all topics in detail and be familiar with them and be careful when answering to ensure they pick the most appropriate answer. Candidates must always try to use the elimination theory in order to arrive at the correct answer.

### **QUESTION TWO**

The performance on this question was good. The question was divided into two parts and the following were observed:

- i. Part (a) - The performance under this part was exceptionally good. 70% managed to get beyond 50% (10 marks out of 20) pass mark in this question. Students were able to appreciate fully the principles in Carllil and Carbolic Smoke ball.
- ii. Part (b) - Most candidates who answered this question performed quite well though others struggled with winding up concepts. This was an indication that candidates are not quite familiar with winding up concept.

### **QUESTION THREE**

The general performance on the question was very good. The question parts a, b, and c. Many candidates scored full twenty (20) marks because the question required recall with hardly any analysis or argument.

Part (a) required that candidates explain duties of directors and 98% of the candidates scored above 10 marks out of 15 available marks.

Part (b) required candidates to draw a distinction between contract of service and contract for services, and 100% of the candidates got the right answer scoring 2 out of 3 marks.

Part (c) required candidates to distinguish between civil and criminal law and 95% of the candidates got the right answer, scoring 2 out of 2 marks.

#### **QUESTION FOUR**

The general performance on the question was very good. Majority of the candidates scored above 15 out of 20 marks because the question required recall of facts.

In part (a), the candidates had to explain how companies conduct their businesses through meetings and 94% scored above 3 of the available 4 marks.

In part (b) candidates were required to describe types of meetings in companies, and these were: Ordinary, extraordinary and class meetings: 89% scored 2 out of the available 3 marks.

In part (c) candidates were required to state types of decisions made by the company by way of resolutions, and 90% of the candidates got the answer right.

In Part (d) candidates were required to discuss briefly on dismissal and redundancy. They had to explain that both were loss of employment caused by indiscipline and reduced need of the employee's services. 93% scored 6 out of the available 6 marks.

Part (e) required students to know rules developed by judges to interpret statutes uniformly, and this was ably answered by all 90% of the candidates. However, there are some candidates who thought that this question was related to companies and tried to link question (d) and (e) to the rest of company issues. Going forward, candidates are reminded that this was not the case unless the question stated so and each question should therefore be independent and answered independently.

## QUESTION FIVE

The general performance under this question was very good. 43 out of the 61 candidates that attempted this question got at least 10 out of the available 20 marks (representing a 70.5% pass rate). The highest got 17 out of 20 marks while the lowest got 5.

The question was divided into parts and the following were the observations:

- i. Part (a) - The performance here was very poor with only half of the candidates, 21 who attempted answering the question correctly. The question required the candidates to refer to dissolution of a company and state whether one of the types of winding up would apply to this situation. The most common mistake that was made was that candidates did not appreciate the facts at hand and thus, did not manage to identify the type of winding up. Going forward candidates must read this topic thoroughly, i.e. Voluntary (Creditors' and Members' Voluntary) Winding Up and Compulsory Winding Up in order to adequately answer questions on the topic, with particular reference to types of winding up.
- ii. Part (b) - The performance here was equally not very good. Only 21 of the candidates who answered this question managed to define receiver. The question required candidates to state who a receiver was. The common mistake that was made was that it seems the candidates here used guess work to define a receiver. In future candidates must study the topic on receivership, know the definition of a receiver; powers of a receiver, appointment of a receiver and endeavor to grasp the key definitions on each topic.
- iii. Part (c) - The performance under this part of the question was quite impressive with the majority of the candidates about 189, scoring high marks. The question only required candidates to identify the powers of a receiver. The common mistake that the remaining 21 made was to give the powers of a liquidator and not a receiver. In future candidates should read properly on this topic and learn to differentiate between a liquidator and a receiver.

- iv. Part (d) - The performance here was equally very good, with about 200 scoring high marks. The question required candidates to explain whether or not a liquidator can sell property. Candidates should have knowledge on the different types of liquidation in order to answer the question correctly. The common mistake made by the 10 candidates whose performance was poor was that they did not show any knowledge on the subject. In future they should study corporate insolvency adequately with reference to liquidation, who is a liquidator; types of liquidation, duties and powers of a liquidator and appointment of a liquidator.

### **QUESTION SIX**

The 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 was an indication that the candidates were 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 was an indication that students understood the question and also understood the topic.
- b) Most candidates who answered this part performed quite well though they failed to deal with professional negligence fully.

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**

- i. Highest mark obtained in this paper: 86%
- ii. Lowest mark obtained in this paper: 24%
- iii. Overall pass rate in this paper: 88.2%

## **SUBJECT: CA 1.5 –MANAGEMENT THEORY AND PRACTICE**

### **QUESTION ONE**

51 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 65 % representing 66.7 % pass rate. The coverage was sufficient.

### **QUESTION TWO**

51 candidates attempted this question and 27 passed representing a pass rate of 53%, while 24 failed representing a 47% fail rate.

The question had two parts covering job design and performance appraisal. This was a compulsory question and candidates were required to answer all sections of the question. Part (a) required the students to discuss the three major methods that can be used to make the job attractive to the incumbent.

Most candidates were able to give the three correct methods but lost marks in the application of the methods. The question needed the candidates to discuss not only to identify the methods.

Part (b) required students to state five (5) uses of performance evaluation or appraisal that management may consider for general human resource management decisions. A good number of them were able to identify the uses of performance evaluation.

### **QUESTION THREE**

19 candidates attempted this question. Out of which 16 passed, representing a pass rate of 84.2% and 3 candidates failed to answer this question, representing 15.8% fail rate.

The question was on organization structure and group dynamics. It had four parts, and required candidates to explain the stages in group formation identified by Tuckman in Part (a). Most the candidates got the full marks. However some failed to get full marks because they skipped some stages that make up the model.

Part (b) of the question required students to explain fully what they understand by the term 'group norm' and 'group cohesiveness' in relation to workgroups. The question was requesting candidates to define the two terms given and most candidates got the answers correct and got full marks.

Part (c) required the students to explain what a formal organization is. The objective of this question was to see if the candidates do understand what a formal organization is. Most candidates were able to get this question correct.

The last part of the question (Part (d) required the students to explain two (2) advantages of Virtual Teams. The question sought students' understanding of advantages of Virtual teams. Most the candidates lost marks because they showed lack of understanding of the word "Virtual".

#### **QUESTION FOUR**

The question was attempted by 39 candidates, out of which 31 passed, representing a pass rate of 79.5%, while 8 candidates failed to answer this question, representing 20.5% failure rate.

The question comprised a scenario based on Human resources management and business environment. Through its three parts, the question required students to explain the meaning of the work "best Fit" in human resources, the external change triggers as well as illustrate the three ethical issues that management needs to consider when implementing change.

Most candidates lost marks because they could not explain as required on the section for explaining "best fit". The components on external change triggers and ethical issues were on the other hand well attempted.

#### **QUESTION FIVE**

The question was backed by a clear organizational scenario. This was a well attempted question (49 candidates attempted it, of which 47 passed while 2 failed representing a 95.9% and 4.1% pass and failure rate respectively).

The question had two parts as indicated below;

- a) Required candidates to describe five (5) types of business organizations.
- b) Required candidates to describe any five (5) stakeholders of an organization.



Most candidates got this part of the question correctly and got good marks.

### **QUESTION SIX**

This was a scenario based question. It was well attempted. 42 candidates attempted it. 36 of these passed and 6 failed representing a 85.7% pass and 14.3% fail. Candidates that attempted this question were able to demonstrate excellent skills in the presentation in all the three sections and high scores were obtained.

#### **Overall performance of candidates**

- |      |                                      |       |
|------|--------------------------------------|-------|
| i.   | Highest mark obtained in this paper: | 83%   |
| ii.  | Lowest mark obtained in this paper:  | 29%   |
| iii. | Overall pass rate in this paper:     | 84.3% |

## **SUBJECT: CA 1.6- BUSINESS COMMUNICATION**

### **QUESTION ONE**

Question one comprised multiple choice where ten questions were given and candidates were required to select the best answer. Most candidates performed very well on this question. 40 candidates scored 50% and above, while only 1 candidate got below 50%. Highest mark was 90% while lowest was 40%.

Some students were merely guessing the answers without understanding the answer being selected.

### **QUESTION TWO**

This question was compulsory. The general performance was very bad. Of the 38 students that attempted it, 8 scored 50% and above, while the other 30 scored below 50%.

Candidates were expected to express their concerns over data communications, control and security, to enhance the communication and e-commerce aspects of the business.

The following were noted in this question;

- i. Some students were writing about disadvantages which are not technical
- ii. Some students were giving operational limitations of e-commerce instead of technical limitations
- iii. Some students managed to explain Windows Explorer well, but others were explaining the Internet Explorer
- iv. Most students stated the correct types of microcomputers

### **QUESTION THREE**

This question was attempted by 38 candidates. The general performance was very good. 30 candidates scored 50% and above while 8 candidates scored below 50%.

The question was asking the candidates to (i) list the steps involved in the process of turning data into useful information, (ii) explain any five qualities of good information and (iii) explain clearly five characteristics of an EIS.

The following were noted in this question:

- i. Most of the students managed to list the steps involved in turning data into useful information well
- ii. The qualities of good information was well answered
- iii. Explaining the characteristics of an EIS were not well answered because candidates were writing uses or advantages of EIS instead of disadvantages

#### **QUESTION FOUR**

This was not a popularly answered question. Only 16 candidates attempted. 9 candidates scored 50% and above, while 7 candidates scored below 50%.

The question was asking the candidates to (i) distinguish between a soft computer lockup and a hard computer lockup and stating how these would be resolved when they happen, (ii) explain any two types of Decision Support Systems and (iii) list and explain any five dangers of using emails.

The following were noted in this question:

- i. Most students could not answer the computer lockups correctly and were relating it to computer security
- ii. Most students described the two Decision Support Systems well without problems
- iii. Most students explained the dangers of using the email very well

#### **QUESTION FIVE**

The first part of this question required candidates to write a notice about the postponement of a meeting from a given scenario in the question. Candidates were also required to include the rescheduled date of the meeting and other necessary information. The second part of the question required candidates to explain some meeting terminologies such as minutes, agenda seconder, committee member and resolution

The following common mistakes were noted from question five:

- i. Failure by candidates to bring out the following in the message of the notice
  - Statement of postponement of the meeting
  - Reasons of postpone and
  - Indicating the rescheduled date, time and venue for the meeting
- ii. Wrong format was used in some cases presenting the notice as though it was a business letter with letter features such as the salutation
- iii. In some cases, just wrong content was presented.

In the second part of the question meeting terminologies were not clear (i.e. minutes were defined as secretary's notes, not as a record of a meeting solutions. details

#### **QUESTION SIX**

Question six (a) required candidates to write a memorandum outlining any five (5) advantages of using social media at middle management level from a given scenario while the last part of the question required them to briefly explain some features of a memorandum such as To and from, subject line and opening and closing paragraphs.

The following mistakes were observed on this question:

- i. Wrong content was mostly presented on this question
- ii. Poor ,very long and unsuitable subject lines were presented
- iii. wrong format or layout was applied (i.e. letters were presented instead of memo's)
- iv. information was not logically presented
- v. Generally failure to express ideas very clearly

**Overall performance of candidates**

- |   |       |
|---|-------|
| i. Highest mark obtained in this paper: | 74%   |
| ii. Lowest mark obtained in this paper: | 44%   |
| iii. Overall pass rate in this paper:   | 95.1% |

## **SUBJECT: CA 2.1 FINANCIAL REPORTING.**

### **QUESTION ONE**

The general performance on this question was excellent with 70 out of the 12 candidates who attempted the question achieving a pass (that is a score of at least 20 out of 40 marks), representing a pass rate on the question of 63%. The lowest score was 0%, whilst the highest and average scores were 98% and 52% respectively.

The question required candidates to explain the two methods of valuing non controlling interest in part (a) and to prepare a consolidated statement of financial position including a subsidiary and an associate in part (b).

Most candidates described the two valuation methods: proportional and at fair value, albeit haphazardly. They could not state clearly reasons for applying a particular method.

In part (b) candidates failed to calculate goodwill correctly because they included wrong amounts of NCI and deferred consideration. In most cases, the latter was discounted from 2 instead of 3 years. The amounts for fair value adjustments were correctly adjusted by most candidates. The group's share of post acquisition profits of the subsidiary and the associate were in most cases incorrect. This was due to failure to compute pre acquisition reserves in respect of the acquisition during the year. Most candidates failed to correctly adjust for unrealized profits on transactions between the group and subsidiaries and associates.

### **QUESTION TWO**

The general performance on this question was poor with only 15 out of the 46 candidates who attempted the question achieving a pass (that is a score of at least 10 out of 20 marks), representing a pass rate on the question of 33%. The lowest score was 5%, whilst the highest and average scores were 85% and 37% respectively.

The question was based on IAS 12, Income taxes as follows:

Part (a) required candidates to explain the general requirements of IAS 12 relating to accounting for deferred tax.

Part (b) require candidates to explain the purpose of providing for deferred tax and;

Part (c) require candidates to prepare extracts of the financial statements of Zamtax for the year ended 30 September 2018 showing the impact of deferred tax.

Overall, the question was less popular and was poorly performed despite a similar question being examined in June 2018. Students are advised to be revising past examination papers.

Many candidates expressed ignorance on deferred taxation. Future students are advised to study all areas of the syllabus as the exam is not going to discriminate syllabus areas. Candidates are advised to have an understanding of each area of the syllabus to increase their chances of passing. The Financial Reporting examination requires a deep understanding and knowledge of the Conceptual Framework and IFRSs. The Financial Reporting syllabus is extensive but good exam (and exam preparation) techniques are just as important as learning the key elements of International Standards, with preparation and analytical skills.

### **QUESTION THREE**

The general performance on this question was very poor with only 10 out of the 75 candidates who attempted the question achieving a pass (that is a score of at least 10 out of 20 marks), representing a pass rate on the question of 13%. The lowest score was 0%, whilst the highest and average scores were 100% and 53% respectively.

This question was in two parts. Part (a) required candidates to prepare a statement of profit or loss and Part (b) required candidates to prepare a statement of financial position.

Common mistakes included the following:

- i. Assuming lease payments were made in advance, despite the question clearly stating that payments were made in arrears
- ii. Charging equity dividends in the statement of profit or loss as administrative expense. This was supposed to be deducted from retained earnings as per IAS 32, presentation of financial instruments.
- iii. Lease liabilities were shown as Right of Use Asset (ROUA), further few students treated it as an operating lease as per old standard (IAS17 leases). Student are advised to be using latest study materials and should expect more questions to be tested on IFRS 16 leases, being a latest standard.
- iv. Treated under provision of current tax as over provision, hence computed a wrong tax expense figure.
- v. Most students failed to correctly account for the construction contract in the scenario in accordance with the requirements of IFRS 15, revenue from contract with customers. Candidates are advised to revise and understand IFRS 15 for future examinations.

Most candidates demonstrated their lack of understanding of latest accounting standards (IFRS 15 and 16). Candidates are advised to have an understanding of each area of the syllabus to increase their chances of passing.

#### **QUESTION FOUR**

The general performance on this question was poor with only 21 out of the 103 candidates who attempted the question achieving a pass (that is a score of at least 10 out of 20 marks), representing a pass rate on the question of 20%. The lowest score was 8%, whilst the highest and average scores were 95% and 61% respectively.

The question required candidates to calculate basic ratios and provide an informed commentary on them.

Part (a) that involved the computation of ratios was well done. Most candidates correctly calculated the ratios, save that earnings per share and price earnings ratio were incorrectly calculated.

In part (b), most candidates failed to adequately articulate issues in their financial analysis. Ideally, candidates are expected to provide commentary under a number of relevant headings relating to financial performance and position, and stock markets' performance.

#### **QUESTION FIVE**

The general performance on this question was extremely good with 61 out of the 79 candidates who attempted the question achieving a pass (that is a score of at least 10 out of 20 marks), representing a pass rate on the question of 77%. The lowest score was 15%, whilst the highest and average scores were 85% and 56% respectively.

The question tested candidates understanding of IAS 16 from initial measurement down to subsequent measurement including application of the revaluation model. The question was reasonably well attempted except that some candidates could not calculate the carrying amount for the building in part (b). Candidates could not calculate the remaining useful life correctly. Most of them did not use the revised carrying amount K 2 100 000 to calculate the depreciation for the year.

#### **Overall performance of candidates**

- i. Highest mark obtained in this paper: 76%
- ii. Lowest mark obtained in this paper: 15%
- iii. Overall pass rate in this paper: 58%

## **SUBJECT: CA 2.2 – MANAGEMENT ACCOUNTING**

### **QUESTION ONE**

This was a 40 marks compulsory question covering mainly budgeting and functions of management accounting. All candidates attempted this question.

It was observed that candidates were unable to account for the number of students and courses hence had challenges computing cash inflows and that affected the cash budget in part (b) of the question. The rest of the other parts were generally well attempted.

### **QUESTION TWO**

In parts (a) and (b), the question asked for the determination of the optimum production mix and contribution (ignoring the major customer contract) and the maximum financial penalty if the contract was cancelled.

In part (c) calculations of breakeven point and margin of safety percentages for each product were required. Common errors committed by candidates were failure to determine the contribution per unit and forgetting the breakeven point formula.

Part (d) required the commenting on other factors that the company should consider before cancelling the major customer's contract. Candidates gave weird factors – including steps in decision making as factors.

### **QUESTION THREE**

Part (a), required the students to calculate the standard cost, majority were able to score maximum marks with a few failing to account for the overheads as they could not multiply the rate against the total hours (both for skilled and unskilled labour).

Part (b), a number of candidates used the original budgeted sales volume of 1,100 instead of flexing the volume to the actual level of activity.

Part (c), a few candidates made attempts to calculate the advanced variances. Most answers showed that the candidates had problems to determine the standard measurements. Some candidates were calculating basic variances instead of the required advanced variances.

Part (d), most of the scripts showed that the candidates did not appreciate the factors that need to be considered before investing a variance.

### **QUESTION THREE**

This question was on activity based accounting and absorption costing. In part (a), most of candidates failed to determine the total cost formula. The steps carried out in the application of ABC were not followed by a number of candidates.



(b)(ii) Based on no calculations, or wrong calculations from (a) candidate attempted to answer this part of the question. Without a good basis for the decision the answers were wrong.

(b)(iii) Incremental budgeting vs Zero Based Budgeting – some candidates failed to describe ZBB as they were confusing it with rolling budgets. Nevertheless, good marks were scored here.

### **QUESTION FIVE**

The question tested candidates' ability to select and apply appropriate costing methods specifically process costing.

It was observed in part (a) that the performance was above average with a few students failing to distinguish between abnormal losses and gains.

In part (b), the determination of the joint process costs without deducting the normal loss value denied most candidates from scoring the maximum marks. A number of candidates failed also to determine the revenues for each product instead they used output proportions.

### **Overall performance of candidates**

- v. Highest mark obtained in this paper: **64%**
- vi. Lowest mark obtained in this paper: **23%**
- vii. Overall pass rate in this paper: **29.1%**

## **SUBJECT: CA 2.3- AUDITING PRINCIPLES AND PRACTICE**

### **QUESTION ONE**

The performance in this question was below expectation with an average score of 17 out of the total 40 available marks. Of the 131 candidates who attempted this question 45 scored above 20 which is 50% of the available marks.

The question was divided in parts a), b), c), d) and e). Part a) had two sections and was on audit planning by the auditor.

- i. This part required candidates to distinguish between walkthrough tests and tests of control.

A majority of candidates showed lack of understanding of these tests. Candidates needed to explain each one of the two and state when each is used by the auditor.

Simply put walk through tests are performed by the auditor when recording a client system with the objective of confirming the system has been recorded correctly whereas tests of control are performed in order to test the effectiveness of the client internal controls.

- ii. This part of the question required candidates to recommend two methods of recording a client accounting and control system giving two advantages of each of the two recommended.

The performance on this part was not satisfactory largely because most candidates mistook methods of gathering evidence for methods of recording accounting and control systems. Candidates went to great length explaining methods such as observation, inspection, re-performance etc. for which no marks were awarded. Candidates needed to explain methods such as narrative notes and flowcharts.

Some candidates did not give the advantages as required while others gave disadvantages which were not asked for and so lost the marks attributable to this part.

Part b) of the question was on internal controls. Although most candidates scored well above half the available marks there were still others who scored poorly as explained below.

- i. Candidates were required to identify and explain internal controls in Lion Plc. Candidates lost marks largely because instead of talking about the controls given in the question candidates were suggesting other controls not in the question and not asked for. Others went further to question the controls in the scenario.

Further, it was noted that some candidates discussed what they considered to be internal control weaknesses which were not asked for and so earned no marks.

- ii. This part of the question was a follow up to part (i) and required candidates to suggest suitable tests of controls for the internal controls identified and explained in (i).

Most candidates who failed to identify suitable controls failed to answer adequately this part of the question. Tests of controls suggested and not related to the controls in (i) earned no marks.

Some candidates gave control objectives instead of tests of controls. Candidates are encouraged to ensure that they fully understand the differences between internal controls, control objectives and tests of control as these are likely to feature in each examination.

Part c) of the question required candidates to explain any four advantages of principle based guidance of ethical principles.

While a few candidates gave good answers, a majority explained the five fundamental principles which were not asked for. Candidates should read and understand the question before attempting to answer the question.

Candidates who did not understand the topic failed to answer the question adequately and lost marks.

Part d) required candidates to explain any four financial statement assertions pertaining to wages in the financial statements of Lion Plc.

Candidate lost marks largely because they simply listed some assertions without explaining them and relating them to wages. In some cases candidates gave less than the required four assertions. Candidates are reminded that marks are awarded for each valid point and so giving fewer points than required, thereby resulting in loss of marks.

Part e) was a knowledge based question relating to regulation of auditors:

- i. This part required candidates to explain why auditors need to be regulated.  
Most candidates showed lack of knowledge on the reasons why auditors need to be regulated and lost easy marks.
- ii. Most candidates lost marks because they gave less than the required number of points for six marks.

## **QUESTION TWO**

110 candidates attempted this question. 54 candidates scored 10 or more out of the available 20 marks.

Observations for each section are as follows:

- a) This was a mixed question requiring candidates to exhibit knowledge of going concern issues and subsequent events.
  - i. Candidates were required to identify and explain going concern issues in Bufallo Plc. Candidates lost marks where they gave going concern issues that were not in the scenario. Many others gave less than the required four issues resulting in the loss of easy marks.
  - ii. This question was aimed at testing candidates on their knowledge of the duties and responsibilities of the auditor between the period end and the date of signing the audit report.

Candidates who understand the provisions of ISA 560 had little difficulties answering this part of the question. There were, however, candidates who lost marks who confused this question with the fact that the auditor can attend the annual general meeting. This shows lack of understanding of the subject matter because the annual general meetings can only be held after the audit report is signed and so this is not relevant in answering this question.

- b)** This was a question on the important topic of risk. Candidates were given the risks that exist in Rhino Ltd and only needed to discuss the responses the audit firm should put in place in view of the risks given in the question.

Most candidates lost marks because they considered risk from the point of view of Rhino Ltd instead of the point of view of the auditor. Other candidates discussed general responses such as perform audit procedure without specifying the audit procedures that should be performed to address the specific risks in the question.

### **QUESTION THREE**

This was the least attempted optional question with 58 candidates attempting the question. Only 6 candidates scored more than half the available marks in this question and the overall performance was very poor.

The question examined a number of topics as indicated below:

Observations for each section are as follows:

- a) This part of the question required candidates to discuss the approach that auditors should use in testing for errors and omission in the figures contained in the financial statements.

A majority of candidates scored poorly in this part and showed complete lack of knowledge in testing for errors and omissions.

Candidates should note that testing for errors begins from the figures recorded in the financial statements. Omissions cannot be tested by selecting test samples from recorded figures because if they have been recorded they would not have been omitted. Testing for omissions begins from outside the accounting records and items are traced back to the accounting records.

- b) This was a knowledge based question requiring candidates to describe the use of directional testing by the auditors.

Most candidates showed lack of clear understanding of directional testing and gave few points for the available marks.

Candidates should have mentioned the use of double entry bookkeeping by the auditors in testing for over and understatement of figures contained in the financial statements. Because of the principle of double entry auditors test debits primarily for overstatement and credits for understatement. By so doing they are testing the corresponding entry for indirectly for under and overstatement.

- c) This question was on audit procedures and required candidates to state four audit procedures in the audit of the figure of inventory. A majority of candidates scored poorly largely because of the following:

- i. Some candidates gave less than the required four audit procedures.
  - ii. Candidates simply put general procedures such as inspection without further explanation as required by the question.
- d) This part of the question required candidates to list and describe the audit work that should be performed by the auditors to determine the valuation of inventory.

Most candidates lost marks because they only discussed the requirements of IAS 2 *Inventory* which requires that inventory should be valued at the lower of cost and net realizable value without stating how this should be done to mitigate the risk that this has not been the case in the inventory valuation of Giraffe Ltd.

Candidates should have observed that inventory can only be valued at the net realizable value when it is lower than cost as required by IAS 2.

#### **QUESTION FOUR**

This was the most popular optional question with 114 candidates attempting this question. 54 candidates scored more than half the available marks and the average score was 9 out of the 20 maximum marks.

Observations for each section are as follows:

- a) This part of the question required candidates to write brief notes on a three elements of a standard audit report.
- i. Candidates were required to write brief notes on the going concern paragraph. Some candidates lost the available marks because they instead explained the meaning of going concern without explaining the use of the paragraph by the auditor.
  - ii. Candidates were required to write brief notes on the key audit matters paragraph. Again many candidates simply did not know the use of the KAM paragraph and so lost the 2 available marks.
  - iii. Candidates were required to explain the use of the Other information paragraph in the auditor's report. Many candidates seemed not to know the use of this paragraph signifying that they do not know what other information is.

Candidates are encouraged to fully understand the elements of an audit report. This is the outcome of the audit process and auditing standards fully explain these.

- b) This part of the question related to professional matters that should be followed when the auditor resigns. A majority of candidates scored high marks in this part.
- c) Many candidates failed to explain the elements of an assurance engagement. These were easy ten marks which a well prepared candidate should have scored. The mnemonic CREST should have helped candidates in answering this question.

Some candidates explained fundamental principles and lost all the available marks whereas others explained management and auditor responsibilities in the audit of financial statements.

Candidates should practice with past examination questions because this question has been examined in this form in the past.

### **QUESTION FIVE**

107 out of the 131 candidates who sat for this paper attempted this optional question. The average score was 9 out of the available 20 marks and 42 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 was on corporate governance and the following observations were made:
  - i. For 4 marks the question required a distinction between executive and non-executive directors. Two relevant points on each one could have earned candidates full marks.

Most candidates were able to distinguish the two and obtained maximum marks.

- ii. This part of the question required candidates to explain the role of non-executive directors of the board of directors.

Weaker candidates had difficulties answering this part and gave less than the expected number of points for the available marks. Candidates needed to explain fully the role that independent non-executive directors play in the board of directors.

- b) This was a question on ethics and candidates were expected to discuss the responses the audit firm should take in view of the ethical dilemmas faced. The general performance was below expectation and the following were observed:
  - i. Required candidates to recommend action the firm should take in view of the ethical issue in Antelope where the audit client bought shares in a company that the firm holds shares. Many candidates lost marks because

gave general answers on ethics instead of dealing with the self-interest threat that arises. Further, recommending action that should be taken by the firm simply suggests the safeguards that should be put in place. Most candidates did not state these and so lost marks.

- ii. Again this was an ethical question requiring candidates to explain a way out of an ethical dilemma. The firm is currently performing non audit services for Warthog and if the firm accepted to perform assurance services this will obviously increase the income from Warthog from whom already 19 of the firm's income comes. Many candidates simply stated that the firm should decline without explaining and so lost marks.
- iii. Candidates were required to explain why high percentage of fees poses a threat to the independence of the auditor. Most candidates gave good answers and scored maximum marks in this part of the question.  
Weaker candidates failed to explain and observe that when there is overreliance on one client the firm will not want to lose that client and so will have a self-interest which will impact on the objectivity of the auditor.

### **Overall performance of candidates**

- i. Highest mark obtained in this paper: 68%
- ii. Lowest mark obtained in this paper: 19%
- iii. Overall pass rate : 38.2%



## **SUBJECT: CA 2.4 -TAXATION**

### **QUESTION ONE**

The general performance on this question was poor with only 86 candidates out of 220 candidates who attempted the question passing the question, representing a pass rate of 39%

This question examined on taxation of companies and comprised five (5) parts.

In part (a), candidates failed to state the date when the company was required to submit the return of provisional income tax and also failed to explain the consequences of late submission of returns and therefore scored poor marks.

In part (b) candidates were required to compute the amount of provisional income tax paid by the company for the tax year 2019 and state the due date for each installment.

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

- i. Using the original provisional taxable profit figure of K15,600,00 given in the question to compute the amount of provisional income tax instead of using the revised provisional taxable profit of K10,200,000.
- ii. Taking the original taxable profit figure of K15,600,00 and some cases the revised provisional taxable profit of K10,200,000 as the amount of provisional income tax payable by the company.
- iii. Using the graduated income tax rates for individuals to compute the provisional income tax payable, instead of using the company income rate of 35% given that the tax payer in the question was a company and not an individual.

In part (c) candidates were required to calculate capital allowances for the charge year 2019 on buildings and implements, plant and machinery and was generally poorly answered.

The following common weaknesses were noted:

- i. Using the wrong rates to compute the wear and tear allowances available.
- ii. Time apportioning capital allowances to relate to the period assets were used in the tax year, which was wrong as capital are claimable in full without any time apportionment as long as the asset was brought into use during the tax year.
- iii. Failure to compute the correct amount of balancing charges arising on assets sold during the tax year.

Part (d) which required candidates to calculate the final taxable business profit after capital allowances was on average fairly well answered. However, a number of candidates faced challenges in differentiating between allowable expenses and disallowable expenses in computing the taxable profit for the company.

In part (e) candidates were required to compute the income tax payable by the company generally poorly answered. Common challenges included:

- i. Failure to aggregate the business profits and investments income in computing the company income tax payable. A few candidates who did manage to aggregate the income made the mistake of including investment income which is subject to withholding tax which is a final tax in the computation which was wrong.
- ii. Using the wrong tax rates to compute the tax payable. Some candidates applied the graduated income tax rates for individuals to compute the company income tax payable and therefore lost marks

## **QUESTION TWO**

The performance of candidates on this question was below average as only 43% of the candidates who attempted this question passed the question and 57% failed.

The question covered taxation of farming income for individuals and property transfer tax.

The performance of candidates in part (a) was poor as most candidates failed to explain the circumstances under which income from farming may be averaged, as they demonstrated lack of knowledge of averaging of farming profits.

In part (b) candidates were required to compute the income tax payable by, a sole trader generating both in farming and non-farming income in the tax year 2019 and was equally poorly answered. Common weaknesses which led to poor performance by candidates on this question included:

- i. Failure to compute the final amount of taxable farming profits arising from the decision by the tax year to make an irrevocable election to average farming profits during the tax year
- ii. Failure to aggregate income generated by the tax payer from different sources which included farming profits, profits from retailing, employment income and investment income into one personal income tax computation and then also failing to tax the non-farming income first using the income tax bands for individuals before taxing the farming profits at a flat rate of 10%.

In part (c) candidates were required to explain the Property Transfer Tax (PTT) implications of the transactions entered into by the tax payer during the tax year 2019, including a computation of property transfer tax payable, and was also generally poorly answered. Common challenges faced by most candidates included:

- i. Failure to determine the realized value for chargeable transfers of property.
- ii. Failure to distinguish between chargeable transfers for PTT purposes and transfers of property in the question that did not give rise to any PTT.

### **QUESTION THREE**

This was the most popular choice of the four compulsory and was reasonably well answered by the candidates who attempted the question. 133 candidates out of 209 candidates who attempted the question passed the question representing a pass rate of 64%.

The question examined taxation of partnership and was divided into three parts:

Part (a) candidates required to calculate the provisional income tax paid by the partners and was fairly well answered with the exception of a few candidates who used the actual taxable profits they computed in part (b) of the question instead of using the estimated taxable profit of K550,000, which was already given in the question.

Part (b) which required candidates to calculate the final taxable business profit for the tax year 2019, was also fairly well answered. However, a few candidates had challenges in identifying disallowable expenses, when computing the tax adjusted profit.

In part (c) candidates were required to calculate the income tax payable by the partners. The main mistake made by candidates who performed poorly on this part of the question was forgetting to first allocate partner's salaries to each partner

before applying the profit/loss sharing ratios, to the balance of profits to allocate profits to each partner.

#### **QUESTION FOUR**

This question was fairly well answered by the candidates who attempted it with 54% of the candidates (102 out of 190) managing to pass the question and the remaining 46% failing.

The question examined aspects of Value Added Tax (VAT) and comprised four (4) parts.

In part (a) candidates were required to explain whether a trader would be required to register for VAT in each of the three sectors was considering setting up her business, including an explanation of the consequences of registering for VAT. This part of the question was generally fairly well answered by most candidates with exception of few candidates who could not differentiate between consequences of making taxable supplies and exempt supplies.

In part (b) candidates were required to calculate the VAT payable or repayable for each sector and was poorly answered. This was because candidates failed to compute the amount of output VAT and input VAT arising under each business sector that was being considered.

Part (c) asked candidates to explain how the recoverable non attributable input VAT on overheads is calculated for a trader making a mixture of taxable and exempt supplies. A good number of candidates failed to explain that the recoverable non attributable input VAT on the overheads should be restricted to the ratio that the taxable supplies bears to the total supplies made by the business.

In part (d) candidates were required to advise the trader on the tax implications arising from submitting the VAT returns and payment of VAT late. A good number of candidates failed to state the relevant amount of penalties arising and consequently also failed to compute the correct amount of penalties arising for submitting the VAT return late by the tax payer.

#### **QUESTION FIVE**

This question which examined taxation of mining operations was the least popular choice of the four compulsory questions and was poorly answered by the candidates who attempted it. The pass rate on the question was 25%, as only 10 out the 40 candidates who attempted the question passed it.

Part (a) required candidates to show how the taxable loss suffered by the company in the tax year 2016, was to be relieved in each of the tax years 2017 and 2018. Common weaknesses resulting in poor performance of candidates on this part of the question included:

- i. Failure to index the loss brought forward before offsetting the loss against the profits available for loss relief for each relevant tax year.
- ii. Failing to restrict profits that could be used to offset the indexed loss brought forward in each relevant tax year to 50% of the taxable mining profits generated in that particular tax year.

In part (b) candidates were required to calculate the taxable business profit and the income tax payable by the mining company for the tax year 2019. Common weaknesses which resulted in candidates scoring poor marks on this part of the question include:

- i. Failure to determine the disallowable expenses in computing taxable mining profits.
- ii. Treating mineral royalty tax as an allowable deduction when it is not allowable for tax purposes.
- iii. Failure to calculate the correct amounts of capital allowances claimable on implements, plant and machinery held by the company.
- iv. Using the wrong tax rates to compute income tax payable on both mining profits and non-mining income in form of bank interest income

### **Overall performance of candidates**

- i. Highest mark obtained in this paper: 87%
- ii. Lowest mark obtained in this paper: 3%
- iii. Overall pass rate in this paper: 57.7%

## **SUBJECT: CA 2.5-FINANCIAL MANAGEMENT**

### **QUESTION ONE**

Part (a) required candidates to advise whether it is cheaper to replace the existing three machines with a new machine using the NPV method. The common mistakes made by candidates included:

- i. Using Equivalent Annual Cost method when the question asked for NPV method. Most of the candidates mistook the question as asking for replacement policy.
- ii. Failure to pick the relevant costs in the scenario. Most candidates treated depreciation and absorbed overheads as relevant cash flows.
- iii. Exhibited lack of understanding of annuities. In addition, most of the candidates failed to identify that the period remaining for the old machines was ten years because they had been used for two years.

Part (b) required candidates to explain if it was appropriate to use NPV in the scenario provided and other factors that might influence the decision. Instead of explaining whether it was appropriate to use NPV, most candidates focused on stating the advantages and disadvantages of NPV method. Worse more, majority of the candidates failed to explain other factors (such as accuracy of forecast, environmental concerns e.t.c) to consider in the decision making.

Part (c) required candidates to calculate the current share price from the information given in the scenario. Majority of the candidates failed to apply the dividend valuation model and to separate between finite and infinite cash flows as well as discounting accordingly.

### **QUESTION TWO**

Part (a) and (b) required candidates to calculate the current annual cost of the current ordering policy and saving from using the EOQ. Majority of candidates did not know the difference between buffer inventory held and average inventory held. They did not know how to deal with buffer stock. Surprisingly, some candidates

calculated EOQ wrongly. It seems most candidates did not expect this topic. Candidates should not be selective in syllabus coverage.

Part(c) required candidates to explain the factors to consider when formulating the working capital policy. Most candidates were raising irrelevant points which did not warrant full credit.

Part (d) required candidates to explain the term overtrading. The explanations of overtrading were generally good however, what was missing were examples to support these explanations.

### **QUESTION THREE**

Part (a) required candidates to calculate the value of HT Co. using P/E ratio and dividend valuation model. Most candidates got the calculation of the value of the company using dividend valuation model wrongly. Similarly discussions of P/E ratio were incorrect and so were the calculations. Majority of candidates exhibited lack of understanding on these concepts.

Part (b) required candidates to discuss the significance of value calculated in (a) above in comparison with the current market value. Majority of candidates failed to provide the answer on this part of the question.

Part(c) required candidates to discuss the agency problem and the use of share option schemes as a way of reducing it. Most candidates showed lack of knowledge of agency problem later on the share option scheme.

### **QUESTION FOUR**

Part (a) required candidates to explain the factors to consider in determining the optimum level of cash to be held. The question was fairly attempted though some candidates failed to identify the motives of holding on to cash.

Part (b) required candidates to calculate the earnings per share and comment on acceptability of the proposal. Majority of the candidates failed to differentiate the amount required and to be raised. Cash required by the company was K3, 200,000 while cash to be raised was K3, 300,000 because of the K100, 000 issue costs. Most candidates however thought it was K3, 200,000 cash to be raised.

Part(c) required candidates to discuss the factors to consider when choosing between traded bonds, issue of equity (via placing) and venture capital as source of finance. The question was misunderstood to mean a general discussion about the various sources of finance; rather it was a comparison between the various sources of finance provided in the scenario.

### **QUESTION FIVE**

Parts (a) required candidates to calculate WACC using market values as weights. Majority of the candidates failed to calculate the conversion value correctly:

therefore, using a period of 8 years instead of five years in the calculation of cost of debt using the IRR method.

Part (b) required candidates to discuss the impact of changes in IT on the porter's five forces. Candidates showed lack of knowledge of porter's five forces model. Some referred to porter's model as a person or a company. Those who had knowledge of the model did not refer to the impact it has on IT as required by the question.

### **Overall performance of candidates**

- i. Highest mark obtained in this paper: 70%
- ii. Lowest mark obtained in this paper: 2%
- iii. Overall pass rate in this paper: 19%



## **SUBJECT: CA 3.1 ADVANCED FINANCIAL REPORTING.**

### **QUESTION ONE**

The general performance on this question was excellent with 241 out of the 363 candidates who attempted the question achieving a pass (that is a score of at least 20 out of 40 marks), representing a pass rate on the question of 66%. The lowest score was 1%, whilst the highest and average scores were 98% and 59% respectively.

This compulsory 40 mark question had three parts as follows:

Part (a) required candidates to calculate profit on disposal of a 30% equity interests in a subsidiary for inclusion in the separate financial statements of the parent. This part was reasonably well answered by most of students, only few candidates computed group profit on disposal instead of profit in separate financial statements.

Part (b) required candidates to prepare the consolidated statement of financial position of a group incorporating a direct and indirect subsidiary.

Generally, most candidates performed well on the basic consolidation adjustments.

Common mistakes included the following:

- i. Ignoring group structure before and after disposal.
- ii. Including subsidiary's share capital in consolidated statement of financial position.
- iii. Simply showing total figures without showing how they were arrived at. Marks were lost especially where their consolidated figures were incorrect. It appeared that earlier warnings to candidates that all figures must be shown separately were ignored. For future exams, students must be aware that there are obvious/free marks for simply aggregating the given amounts from the parent and its subsidiaries before worrying about the adjustments.
- iv. Getting parent's share (proportionate) of subsidiary's assets and liabilities for consolidation. Candidates should take note that 100% of subsidiary's assets and liabilities should be consolidated (full consolidation). This has arisen in a number of past examinations. Candidates and tutors should take note of this issue.

- v. Lastly candidates failed to compute movement on equity arising from disposal of 30%. Candidates are reminded that the movement in equity is calculated by comparing decrease/increase in non – controlling interest figure and consideration paid/received by parent entity.

Part (c) required candidates to evaluate any ethical and professional issues arising from the finance director of Sana Plc recognising the income from the bridge construction in the financial statement for the year ended 31 May 2019. Most Candidates generally attempted this part, however, the main issue in the answers to this question was that candidates did not spend sufficient time discussing the ethical and professional requirements of the question. Most of students simply commented that it was unethical and unprofessional, without considering the ethical and professional issues. For future, students are advised not to be starting with conclusion when answering questions at advisory level.

## **QUESTION TWO**

The general performance on this question was poor with only 116 out of the 347 candidates who attempted the question achieving a pass (that is a score of at least 10 out of 20 marks), representing a pass rate on the question of 33%. The lowest score was 0%, whilst the highest and average scores were 85% and 41% respectively.

The question required candidates to advise clients on treatment of certain transactions in their respective financial statements.

### **Advice to Client 1:**

Common mistakes included failure to convert the purchase consideration from Kwacha into Dollars before finding the amount of goodwill, which would afterwards be translated into Kwacha for reporting purposes. Candidates had problems identifying what to multiply by or when to divide by the exchange rates. Some candidates simply stated that the exchange loss would be taken to the SoPL instead of being specific that it would be reported as Other Comprehensive Income.

### **Advice to Client 2:**

Some candidates identified the financial instrument as a financial asset, when in fact it was a financial liability when seen from the client's perspective. Some candidates discounted the future interest payments instead of simply adding the issue/legal costs to the proceeds when determining the initial measurement for recognition of the financial instrument. Some candidates simply described the amortized cost instead of actually computing it. As a result they were not able to demonstrate how the FI would be reported in the SoFP, by splitting the outstanding amount between current liabilities and noncurrent liabilities. The amounts reported under NCL and CL were incorrect because of the wrong initial measurement. Most candidates stated

the amounts to be reported in the SoPL to be interest payments instead of the effective interest which reflects the full expense to the client.

Advice to Client 3:

Candidates spent large amounts of time explaining distinguishing factors for a finance lease from an operating lease, which was not relevant for the question. Some candidates discounted the year five cashflow (K200 000) five times, instead of only once. A number of candidates discounted the decommissioning costs but failed to identify correctly what amount would be capitalized and what amount would be expensed to the SoPL. This was because most candidates did not unwind the interest on the initially recognized PV of the decommissioning costs.

### **QUESTION THREE**

The general performance on this question was very poor with only 25 out of the 236 candidates who attempted the question achieving a pass (that is a score of at least 10 out of 20 marks), representing a pass rate on the question of 11%. The lowest score was 0%, whilst the highest and average scores were 70% and 24% respectively.

This was a 20% mark scenario question based on IAS 19, Employee Benefits. The question required candidate to advise the Directors of Lusungu plc on how to account for two transactions, leave pay and a pension scheme. The question was well answered, with a pleasing level of knowledge being displayed regarding IAS 19.

Transaction One required candidates to advice on how to account for manager's leave pay. The common mistakes were failure to increase annual salaries as per question (15%) and most students failed to compute working days (52 weeks x 5 days= 260 days), instead they used 365 days, hence lost marks. Further some students wrongly indicated that leave days must be accounted for under IFRS 2, share based payments.

Transaction Two required candidates to advice on how to account for the pension scheme. The performance of candidates was poor. Some students wrongly concluded that the pension scheme was a defined contribution instead of defined benefit plan (Lusungu promised the benefits upon retirement). Further some students used the wrong interest rate at the year-end (13%), instead of the interest at the beginning of the financial year (12%) to determine the interest income and expense. Most candidates had a challenge in according the correct treatment for employee and employer contributions in arrears. IAS 19 is highly examinable and students are advised to be familiar with its requirements.

### **QUESTION FOUR**

The general performance on this question was extremely poor with only 3 out of the 79 candidates who attempted the question achieving a pass (that is a score of at least 10 out of 20 marks), representing a pass rate on the question of 4%. The lowest score was 0%, whilst the highest and average scores were 55% and 13% respectively.

The question required candidates to advise the directors of a reporting entity on the accounting treatment relating to measurement and presentation of three transactions involving financial instruments.

In transaction one, candidates were expected to conclude that the preference shares were an equity instrument in accordance with IAS 32 because dividends were not mandatory and the shares were not mandatorily redeemable. Candidates were also expected to discuss the initial and subsequent measurement in respect of the shares. Most candidates did not address these issues.

In transaction two, candidates were expected to explain and compute amounts involved in accounting for a non derivative liability classified as FVTPL item in the second reporting period of its issue. Most candidates wasted time trying to classify the instrument when the question had already stated that it was correctly classified as FVTPL. Most candidates failed to compute the fair value at which to report the instrument in the SoFP. Though some candidates stated the accounting treatment of the remeasurement gain or loss on the instrument, none correctly computed the amounts involved.

In transaction three, candidates were expected to explain the initial and subsequent measurement implications of classifying a debt instrument asset as an amortized cost item. A few candidates explained that initially, the asset was to be measured at fair value including transaction costs and correctly added the transaction costs to the fair value before the transaction costs. Almost all candidates failed to explain and apply the IFRS 9 requirements relating to impairment of financial assets.

At this level, candidates must be highly expectant of detailed questions on financial instruments.

### **QUESTION FIVE**

The general performance on this question was extremely poor with 65 out of the 307 candidates who attempted the question achieving a pass (that is a score of at least 10 out of 20 marks), representing a pass rate on the question of 21%. The lowest score was 3%, whilst the highest and average scores were 90% and 34% respectively.

The question required candidates to calculate conventional basic ratios and comment on the financial performance and position of the entity. Additionally, the question required candidates to comment on the effect of converting a bond into equity.

A good number of candidates failed to compute basic ratios. Investment ratios were left out. Comments on the ratios were only in terms of increases and reductions without the flavor of business issues/activities that would probably cause such a change. Comments on the reaction of investors on conversion of the financial instruments were crude, and in most cases missing because even the required ratios could not be calculated. This was evidence that candidates merely calculated ratios without really understanding the rationale behind their use as applied to real life issues.

## Overall performance of candidates

- i. Highest mark obtained in this paper: 72%
- ii. Lowest mark obtained in this paper: 9%
- iii. Overall pass rate in this paper: 31.4%

## **SUBJECT: CA 3.2-ADVANCED AUDIT AND ASSURANCE**

### **QUESTION ONE:**

A total number of 466 candidates attempted this question. The performance in this question was generally poor with an average score of 17 out of the total 40 available marks.

Of the 466 candidates who attempted this question, 194 passed scored above half the available marks. In order to accumulate enough marks to obtain an overall pass mark candidates are expected to score more than 50% of the available marks in this question and it is the easier of all the questions because it is scenario based and answers are contained within the scenario. A review of the scripts for candidates who passed this paper indicated that almost all of them scored more than half the available marks in the compulsory question which enabled them to pass the examination.

As will be seen in the comments on the optional questions, the performance was very bad in some questions whereby even candidates who passed scored much less than half the available marks but this was compensated by high marks scored in the compulsory question. A similar observation was made in the December 2018 examination results.

It was further noted that a sizeable number of candidates attempted the optional questions first and answered the compulsory question as the last or last but one question. Most candidates who adopted this strategy got less than half the available marks for the compulsory question.

Observations for each section are as follows:

- a) This part of the question was on ethics and required candidates to discuss ethical issues suggested by the Finance Director of Chalo Ltd.

The following observations were made in the answers by students:

- i. A significant number of candidates lost marks because they answered generally without specifically relating their answers to the facts given in the question.
  - ii. A significant number of candidates did not address the second part of the question which required candidates to recommend action that should be taken in view of the ethical concerns and so lost marks related to this part.
  - iii. Candidates failed to justify their answers. For example the matters with regards the provision of refreshments by the client company. Candidates simply stated that it is unethical and did not justify their answers. For example whereas hospitality is an ethical concern it may be argued that the provision of refreshments may not be consequential and so may be accepted.
- b) Candidates were required to explain the use of materiality in an audit of financial statements and a discussion of the matters that would be considered in determining materiality except for value.

The following were observed:

- i. Candidates lost marks because many went to great length explaining materiality and how it may be computed. This did not answer the question which basically required candidates to state the use by the auditor of the materiality figures computed.
  - ii. Most candidates showed lack of understanding of ISA 320 *Materiality in planning and performing an audit* in answering this question.
- c) This part of the question required candidates to identify and explain six business risks in Chalo Ltd. Candidates lost marks due to the following mistakes:
- i. Many identified and explained less than the six risks required.
  - ii. Other candidates could not explain the risks identified in order to justify why they are considered as risks. There were noted instances of candidates defining business risk which was not asked for and also giving more than the required six risks. Time is an important resource in the examination and so writing more than is required may not be a good strategy.
  - iii. A sizeable number of candidates did not use the information in the scenario and gave general text book answers. Candidates are reminded that at this level of the examinations they are expected to apply the theory learnt to facts in the scenario.
- d) This part of the question required candidates to evaluate the use of the business risk approach in the audit of Chalo Ltd. The majority of candidates simply did not attempt to answer this part of the question. Those who attempted this part

scored very low marks largely because they explained what the business risk approach is rather than explain its suitability in the audit of Chalo Ltd.

- e) A majority of candidates did not attempt this part of the question and so lost all the available marks. Of those who attempted this part of the question a majority scored low marks largely because they lacked knowledge of computer assisted audit techniques and so had little or no idea on interrogation audit software. Others considered the use of interrogation audit software from the point of view of Chalo Ltd instead of the point of view of the auditor.
- f) This part of the question required candidates to explain the audit response to assessed risk of fraud in Chalo Ltd.

A majority of candidates showed lack of clear understanding of the provisions of ISA 240 *The auditor's responsibilities relating to fraud in an audit of financial statements* as well as ISA 330 on the expected responses to identified risks.

A majority of candidates answered the question from the point of view of Chalo Ltd and how the company should respond to the risk of fraud including the putting in place of suitable internal controls. The question required candidates to consider the risk of fraud from the point of view of the auditor and how the auditor is expected to respond to this risk.

## **QUESTION TWO**

434 students attempted this question. 141 candidates scored 10 or more out of the available 20 marks.

This was a question on auditor liability and the risk of material misstatements. The average score was 8 and this was a poor performance.

Observations for each section are as follows:

- a) This part of the question was on the auditor liability and was largely knowledge based being applied to information in the scenario. The performance was poor as noted below:
  - i. Candidates were required to advise the shareholders of Tiger Manufacturing Plc on their chances of successfully suing the former auditors for professional negligence.
  - ii. Most students simply advised that the shareholders will either succeed or fail in suing the auditors without explaining and justifying their advice.
  - iii. A number of candidates argued that auditors are not responsible for fraud detection in the audit of a client's financial statements and so cannot be

sued for professional negligence. This is incorrect because auditors can be sued if they are negligent in the performance of the audit. Candidates should have given the general rules regarding shareholders suing auditors and specifically the fact that a duty of care is assumed to exist by the auditor to the company and that shareholders as a whole and not individual shareholders can sue. Further, shareholders should prove that there was a breach of duty by the auditors and they should also prove that they suffered loss as a result of that breach.

- iv. Candidates should have used the theory on third parties suing the auditors making reference to the Caparo case and the fact that the banks would need to prove that a fiduciary relationship existed with the auditors as well as prove that there was a breach of duty resulting in the bank suffering loss.

Many candidates simply concluded that banks are third parties and so cannot succeed in suing the auditors which is not correct.

- b) This part of the question required candidates to link given business risks in Tiger Manufacturing Plc to the risk of material misstatements.

A majority of the candidates were able to answer this part well and scored high marks. There were a few candidates who simply lacked an understanding of the risk of material misstatement which simply requires an explanation of how the business risk could cause the financial statements to be misstated.

### **QUESTION THREE**

A total of 397 candidates attempted this question out of which 168 scored more than half the available marks. The average score in this question was 9 out of the available 20 marks.

Observations for each section are as follows:

- a) This part of the question was largely a knowledge based question on money laundering.

- i. Required candidates to explain the meaning of money laundering and two examples of money laundering.

A majority of the candidates scored well in this part but there were still others who could not give suitable examples of money laundering and so lost the marks attributable to doing so.

- ii. The question required candidates to discuss how the MLRO in the scenario would be in breach of the Prohibition and Prevention of Money Laundering Act 2001.



A majority of the candidates scored poorly simply because they seemed not to know the provisions of the relevant Act and so could not determine the possible breaches. Others simply did not attempt to answer this part of the question.

- b) This question was on peer reviews and the review of audit working papers.
- i. This part required candidates to discuss the importance of peer reviews and stating the types of reviews carried out in the given scenarios. Most of the candidates answered the first part of the question well and scored most of the available marks.

A majority did not answer the part that required stating the types of reviews carried out in the audit of Kudu Ltd and Puma Ltd and so lost the available marks.

- ii. This part of the question required a discussion of the evidence expected to be found in the review of the working papers for the three clients in the question. Most of the answers were satisfactory and candidates scored well in this part.

#### **QUESTION FOUR**

A total of 416 candidates attempted this question. 94 Candidates scored more than half the available marks.

The average score was 7 out of the maximum 20 marks and this is poor performance.

Observations for each section are as follows:

- a) This was a knowledge based question requiring candidates to distinguish audit and business risks using information in Medicare Clinic.

Most of the candidates were able to distinguish the two while others did not refer to Medicare Clinic in answering the question.

- b) This part of the question required candidates to evaluate the audit risks in Medicare Clinic and state how the auditors will respond to the risks so identified. Candidates lost marks because:
  - i. A good number of candidates did not attempt to answer this part of the question.

- ii. There were candidates who discussed the audit risks but did not suggest the responses that should be taken in dealing with the risks explained.
  - iii. A good number of candidates discussed the implications of the risks identified on the audit report rather than the auditor's response as part of gathering audit evidence.
- c) This was a straight forward question on subsequent events as guided by IAS 10 and ISA 560.
- The poor performance in this part shows lack of understanding of subsequent events by candidates. It is important that candidates should understand the relevance of subsequent events to the extent that they give evidence of conditions that existed at the period end.

### **QUESTION FIVE**

431 out of the 566 candidates who sat for this paper attempted this optional question. The average score was 7 out of the available 20 marks and 44 of those who attempted this question scored 10 and above of the available marks.

#### **Observations for each part of the question are as follows:**

- a) This part of the question required candidates to discuss the need for the auditor to evaluate noncompliance with laws and regulations clearly explaining the impact on the audit report on non-compliance.

A majority of candidates scored poorly in this knowledge based question largely because:

- i. Candidates did not address both parts of the question in some cases. Candidates either simply dealt with the part regarding non-compliance without explaining the impact of non-compliance on the audit report.
- ii. A majority of candidates argued that management is responsible for non-compliance with laws and regulations and so this has no impact on the auditor's report.

Candidates should have used their knowledge of ISA 250 *Consideration of laws and regulations in an audit of financial statements* in answering this question.

- b) This part of the question was on appointment ethics by the auditor.
- Many candidates could not discuss to the required level the procedures before and after accepting appointment as auditors of Exotic Foods Restaurant. This was a knowledge based question which did not require the use of information in the scenario.

- c) This part of the question required candidates to discuss the purpose of analytical procedures, tests of control and substantive tests in the audit of Exotic Foods Restaurant.

At this level of the examinations candidates should relate their answer and refer to the case in the question. Candidates should have used their judgement that the seven marks are split on some bases among the three items and so should give sufficient points to gain maximum points. Most candidates just gave brief answers in most case not sufficient to gain maximum marks.

### **Overall performance of candidates**

- i. Highest mark obtained in this paper: 71%
- ii. Lowest mark obtained in this paper: 21%
- iii. Overall pass rate in this paper: 20.5%

## **SUBJECT: CA 3.3 -STRATEGIC BUSINESS ANALYSIS**

### **QUESTION ONE**

This was a compulsory question based on a case study on strategic management highlight. All the 222 candidates attempted this question out of which only 91 passed and 123 failed representing a 42.5%pass and 57.5% fail respectively.

The question required candidates to analyze the strategic decisions in the company by both the board and management, and also understanding of the strategic clock. The questions had four parts;

Part (a) required them to compare and contrast the roles played by the Board of Directors and Lubinda Nawa as General Manager in the governance of Zambezi Insurance Company. Most candidates were able to obtain full marks on this part of the question.

Part (b) required students to identify strategies that ZIC needed to employ under Lubasi Nawa in order to meet the expectations of the Board of Directors. A good number of candidates were able to identify the strategies and obtained good marks.

Part (c) required candidates to draw a diagram of the strategic clock and discuss the strategies which ZIC had employed since its inception. On average, candidates managed to draw the strategic clock but could not discuss the strategies employed as per scenario.

The last part of the question (Part d) required the candidates to explain why the strategies Nawa used worked to turn the company around.

### **QUESTION TWO**

189 candidates attempted this question and 32 passed while 157 failed representing a 16.9% pass and 83.1% fail. The question was backed by a scenario on strategic planning, and required candidates to provide advice on complete strategic planning

process that can lead to the production of a good business strategy, including the appropriate analyses. On sing a diagram, most of the candidates failed to come up with a diagram as requested by the question and ended up losing marks.

Part (b) required the candidates to provide advice on the different business strategies which could be utilized in order for the client to become competitive in his chosen industry, using a suitable diagram. There was a notable good attempt to this part of the question. Those who used a suitable diagram got full marks.

Part (c) required an explanation on how the client could choose the suitable business strategy that could help his business to gain a competitive advantage in his industry.

Most candidates that attempted this part obtained good marks.

Part (d) of the question sought advice from the candidates with regards the limiting factors that could affect the competitive advantage for the organization. This part of the question was well understood by the majority.

### **QUESTION THREE**

The question was on the scenario on risk management. 135 candidates attempted the question and 58 passed (42.96%) and 77 (57.04%) failed. This question was also straightforward and candidates were required to apply the knowledge and analyze the risks and advise on the strategies therein.

The question had three parts. Part (a) required candidates to use a diagram and describe the links between risk/value drivers and the various risks which they cause in this company. Most candidates failed to properly answer the question due to less preparedness and inability to present the work properly. At this level examiners expect candidates to display a well thought out answer structures.

Part (b) required candidates to explain the risk management process to the company in terms of the various steps. The performance on this part was generally poor. Most candidates appeared to have been unprepared.

The final part (part c) required candidates to use the data provided to prepare a suitable risk map for the company and advise it accordingly in terms of risk categorization and mitigation:

### **QUESTION FOUR**

This was a case scenario (Adapted from Edwards: Federated's Fingerhut Fiasco, Business Week, 2000). 120 candidates attempted this question and 27 (22.5%) passed and 93(77.5%) failed. The question attracted a good number of candidates but it was poorly answered by most of the candidates.

The question had four parts. Most candidates could not clearly describe the structure as identified in the scenario and lost marks on part (a) while the cause of loss of marks on part (b) was failure to identify the structure used.

Part (c) required candidates to use a diagram to describe a technique that helps an organization to align its objectives and measures to its mission and strategy during the strategy implementation process which is commonly utilized. There was little effort on this part of the question and general lack of preparedness in the candidates.

Part (d) required candidates to provide seasoned advice to the business community at large regarding how to select a proper organizational structure when implementing strategies to ensure superior organizational performance. Very few candidates could give the right advice as required by the question.

### **QUESTION FIVE**

The general performance on the question was poor. 199 candidates attempted this question and only 54 (27.1%) passed and 145 (72.9%) failed.

This was a case scenario on corporate strategy. The question had two parts. Part (a) required candidates to state any four (4) functions of corporate strategy. Most candidates could not state the required number of any four (4) functions of corporate strategy and hence lost marks.

Part (b) required candidates to discuss with illustrations three (3) tests that can be used to evaluate the merits of one strategy over another and to gauge how good that strategy is. The performance on this part was equally not good. Candidates failed to respond correctly to the question requirement.

### **Overall performance of candidates**

- i. Highest mark obtained in this paper: 70%
- ii. Lowest mark obtained in this paper: 13%
- iii. Overall pass rate in this paper: 21.2%

## **SUBJECT CA 3.4 ADVANCED TAXATION**

### **QUESTION ONE**

The performance on this question was very poor with only 35 out of 121 candidates who attempted the question passing it representing a pass rate of 29%.

The question examined tax planning involving incorporation of partnership into a limited company and aspects of financial planning.

Part (a) required candidates to calculate the final partnership taxable profits and allocating it to the partners, in the year the business was incorporated. Most candidates scored poor marks on this part of the question because they failed to compute the total capital allowances arising and claimable by the partnership on incorporation. Most candidates made the mistake of computing the normal wear and tear allowances using the relevant rates on the original cost of the assets, which was wrong as these are not available in the year of incorporation. On incorporation assets are deemed to have been disposed of at their market values by the partnership and therefore, balancing charges or balancing allowances should instead have been computed by comparing the Income Tax values of the assets held by the partnership with the market values of the assets.

Part (b) (i) which required candidates to calculate the values of the shareholdings of each of the three shareholders in the new company was also poorly answered as candidates failed to provide the required computations. Candidates failed to use the net asset valuation method to determine the value of the business as a whole and then to use that value as the basis of determining what each holding held by each shareholder in the new company was worth.

In part (b) (ii) candidates were required to advise the tax payer of the property transfer tax implications of the sale of part of his shareholding in the new company.

Most candidates failed to compute the amount of Property Transfer tax that would arise because they failed to determine the realized value of the shares to be disposed of.

In part (b) (iii) candidates were required to calculate the taxable business profit and income tax payable by the new company for the tax year 2019. Common challenges faced by candidates in computing the final taxable profits for the new company included:

- i. Failing to time apportion each director's emoluments to relate to the nine months that the directors ran the business as a company.
- ii. Failing to compute the correct amount of the employer's NAPSA contributions. Specifically, most candidates did not restrict the contributions for Mapalo and Bupe to the NAPSA ceiling given that the earnings of these two directors were above the NAPSA threshold for the tax year 2019.
- iii. Failure to calculate the correct amount of capital allowances due to use of wrong rates when computing the wear and tear allowances as well as using the original costs of the assets in computing the allowances when market values should have been used. This is because on incorporation the assets held by the partnership are deemed to have been acquired by the newly incorporated company at their market values on the date of incorporation. Time apportioning the capital to the nine (9) months, the business was run as a company, when these should have been claimed in full.
- iv. Deducting the dividends drawn by the shareholders as allowable deductions, when these are not allowable for tax purposes.

In part (c) candidates were required to calculate the income tax payable by each individual for the tax year 2019. The common mistake by candidates in answering this part of the question was not aggregating each individual's allocation of the partnership's profit generated in the first 3 months when the business was run as a partnership computed in part (a) with the salaries drawn by each individual in the last 9 months when the business was ran as a company in computing the final income tax payable by each individual.

Part (d) which required candidates to explain the income tax implications of financing the purchase of personal-to-holder cars using a finance lease arrangement and an operating lease agreement was reasonably well answered by most candidates with the exception of few candidates who demonstrated lack of knowledge of this part of the syllabus.

## **QUESTION TWO**



Candidates performed fairly well on this question with 60 out of the 84 candidates who attempted the question passing representing a pass rate of 71%.

In part (a) candidates were required to advise the directors of the income tax and NAPSA implications both, for themselves as individuals and for the company arising from a change in accommodation policy from providing them with free residential accommodation in company owned houses, to paying the directors a housing allowance. This part of the question was generally answered well, however, a few candidates failed to support their answers with appropriate computations of the amount of additional amount of NAPSA contributions and income tax payable by each individual and the company.

The performance of candidates in part (b) which asked candidates to advise on the income tax implications arising from provision of an interest free loan to the shareholder was poor. Most candidates failed to explain that providing an interest free loan to the shareholder who held more than 5% of the ordinary shares in the company, will result in the company being deemed to have made a loan to an effective shareholder resulting in income tax being charged on company calculated as the difference between amount of the grossed up equivalent of the loan and the actual amount of the loan provided.

Candidates provided fairly good answers in part (c) (i) which required a computation of the income tax payable by each tax payer.

In part (c) (ii) candidates were required to advise on the amount of income tax payable by the company for the tax year 2019. The common challenges faced by candidates who scored poor marks on this part of the question in calculating the tax adjusted profits included:

- i. Failing to compute the correct amount of the employer's NAPSA contributions.
- ii. Deducting the wrong amounts of director's emoluments.
- iii. Failing to compute the correct amounts of capital allowances claimable.

### **QUESTION THREE**

Candidates performed reasonably well on this question which examined taxation of mining operations. 69 out of 95 candidates who attempted the question passed the question representing a pass rate of 73%.

Part (a) required candidates to calculate the taxable mining profit for the tax year 2019 and was fairly well answered by most candidates, with the exception of a few

candidates who failed to compute the correct amount of taxable profit. Common mistakes made by such candidates in computing the taxable mining profits included:

- i. Deducting the mineral royalty tax instead of adding it back to the profit.
- ii. Using the wrong rates in computing the capital allowances available on implements plant and machinery.

In Part (b) candidates were required to calculate the income tax payable by the company for the tax year 2019. This was reasonably well answered. However a few candidates failed to aggregate mining profits and non-mining income in order to determine the total taxable income, whilst other candidates made the mistake of taxing the non-mining income in form of bank interest at the rate 30% when this should have been taxed at 35%.

#### **QUESTION FOUR**

Only 25 candidates out of 70 candidates who attempted this question passed it representing a pass rate of 36%. The question covered foreign aspects of taxation and comprised four parts.

In part (a) candidates were required to discuss whether the place of business the company intended to open in Zambia would qualify as a permanent establishment. Candidates scored poor marks on this part of the question as they were not able to explain what a permanent establishment is and in most cases confused a permanent establishment with the criteria used to determine the residence of a company for income tax purposes.

In part (b) (i) candidates were required to advise the directors of the income tax implications if the place the company intended to open in Zambia was considered as a permanent establishment. Whilst most candidates were able to state that the place of business will be deemed a permanent establishment, they failed to give the correct reasons why this would be so as they demonstrated a total lack of knowledge of what a permanent establishment is.

Part (b) (ii) which required candidates to explain the tax implications for foreign company holding meetings for the purpose of key decision making in Zambia, was generally answered well.

Candidates scored very poor marks in Part (c) which required a computation of the income tax payable by the company for the tax year 2019. Common challenges faced by candidates included:

- i. Failing to aggregate income from Zambian sources with income earned from foreign sources in computing the income tax payable.
- ii. Failing to compute the correct amount of gross foreign dividends and gross foreign interest income to include in the computation; and
- iii. Failing to compute the correct amounts of double taxation relief available on both the dividends and interest income from foreign sources.

Part (d) in which candidates were required to calculate the income tax payable by the tax payer, a Zambian resident director, who received dividend and interest income from a company resident in a foreign country was poorly answered. Candidates faced the same challenges discussed in part (c) above in computing the income tax payable.

### **QUESTION FIVE**

This question was reasonably well answered, with 55 out of 102 candidates who attempted the question passing it representing a pass rate of 54%.

In part (a) candidates were required to explain the difference between tax avoidance and discuss how to deal with discovery of the under declaration of import taxes on imported farming inputs. Whilst candidates managed to explain the differences between tax avoidance and tax evasion, most candidates failed to discuss the ethical issues relating to the discovery of under declaration of import duties at the border by the director of the company.

Part (b) required candidates to explain the taxation implications of three different transactions entered into by the company during the tax year. Candidates managed to provide good answers for the first transaction which involved the company paying rentals for one of its directors. However, candidates failed to provide appropriate explanations of the tax implications for the second transaction relating to the company, engaging a foreign supplier to provide installation works of an ultra-modern irrigation system and for the third transaction involving the purchase of a tractor under a hire purchase arrangement.

#### Overall performance of candidates

- i. Highest mark obtained in this paper: 84%
- ii. Lowest mark obtained in this paper: 3%
- iii. Overall pass rate in this paper: 51.2%

## **SUBJECT: CA 3.5 -ADVANCED MANAGEMENT ACCOUNTING**

### **QUESTION ONE**

There was 100% attempt on this question by every candidate. The general performance on this question was very good probably because the question gave a lot of scope for candidates to get marks on the sub parts (a) to (d). However, the following was noted from the poor candidates:

- i. On Part (a) candidates were only giving one example under each of the four grids despite the requirements being worth 7 marks.
- ii. Some candidates were confusing strength with opportunities; threats with weaknesses.
- iii. On Part (b)(i) candidates lots marks because they were only providing one advantage (for 4 marks).
- iv. (b)(ii), there was little explanation on what an "impact" is.
- v. On pat b iii) candidates explained on Ansoff Matrix elements instead of BCG while other drew BCG matrix and inserted stars, question marks, cash cows and dogs only. There was no explaining done on these products in terms of market growth and share. Some candidates were giving unreasonable/guessed BCG limitations.
- vi. Part (c) Option A was well attempted while on Option B, candidates were calculating discounted payback instead of ordinary payback. Some were leaving out the tax element. Future candidates should note that tax is an outflow and therefore, increases the payback period.  
Some candidates did not do well on part c) because they were including depreciation (and capital allowances) in the project O NPV calculation.

- vii. On part d), candidates struggled with the explanation of ABB and instead explained ABC.

### **QUESTION TWO**

Most candidates attempted this question with a number scoring above average. The following inadequacies were noted:

The reasons for the likely resistance for the planned changes given were generalized. Candidates at the advisory level are expected to link their answering to the case study, this was lacking in some of the scripts. The examiner required candidates to 'Discuss', but most of them listed the reasons hence scoring fewer marks.

Again candidates were dumping knowledge instead of addressing the scenario. It is expected of the candidates to apply professional judgment at this level. The requirement verb was not being addressed by most of the candidates.

The post completion audit was well answered generally with a few students listing the steps in practical audit. They were answering a question supposedly seen in other courses.

### **QUESTION THREE**

This was a scenario based theory question comprising two parts; (a) and (b). More than 85% of the candidates attempted it.

It was observed on Part (a) that most of the candidates failed to advise the Board of directors in the context of the scenario given instead provided general responses to the requirement.

On Part (b), much as reference was made to the stakeholder analysis matrix by almost if not all the candidates, they could not provide a critical analysis in terms stakeholder interest and power for each of the stakeholder category in the scenario. They were unable to identify which stakeholder had high interest and high power etc in the proposed project.

### **QUESTION FOUR**

Candidates, in the majority of cases failed to show their appreciation of basic IT and the importance of technology in a work environment. This was a general question in nature considering the application of IT in different industries world over. IT plays a role in operations, marketing, internal controls, record maintenance, security, research etc. Candidates could have done better here. Majority of the candidates identified correctly the areas of

the business that would suffer if external sources of information were cut off on account of being too costly to manage.

### **QUESTION FIVE**

Part (a), required candidates to use a specific model to discuss four factors that should be present in the present in the chosen country to invest and for each factor suggest one key performance indicator that could be used to measure it.

Most candidates generalized the factors instead of applying to the scenario and this denied them getting maximum marks. In many scripts, performance indicators were either missing or inappropriate. The performance indicators were supposed to be linked to the factors.

In part (b), a number of candidates were explaining total quality management instead of discussing its impact on the accounting system at PEL.

### **Overall performance of candidates**

- i. Highest mark obtained in this paper: 69%
- ii. Lowest mark obtained in this paper: 33%
- iii. Overall pass rate in this paper: 57.1%

## **SUBJECT: CA 3.6- ADVANCED FINANCIAL MANAGEMENT**

### **QUESTION ONE**

Part (a) required candidates to advise on the best combination of project to be accepted (given the limited funds) using the NPV method and Profitability index as well as the discussion on the appropriateness of NPV analysis for publicly-owned entity. Majority of the candidates failed to apply the annuities and perpetuities in calculating NPV and later on the profitability index. In addition, they also failed to calculate the risk free rate to use in computing the cost of equity.

Part (b) required candidates to evaluate the effects of financing the proposed MBO. Majority of the candidates failed to evaluate the impact of the financing on the company. Instead, they were discussing the advantages and disadvantages of MBO and also general comments which were not related to the scenario.

### **QUESTION TWO**

Part (a) and (b) required candidates to estimate the number of shares to issue and dilution in EPS as well as estimating the dividend capacity. Candidates failed to correctly compute EPS. Both interest at 10% and Tax at 30% were not taken into account by deducting them from profit before interest and tax. Calculation of number of shares after rights issue was wrongly calculated. Candidates should have known that a rights issue has an effect on the number of shares. i.e. it increases them.

Dividend capacity can be measured by the free cash flow to equity. Free Cash flow was wrongly computed by majority of the candidates because of the following omissions: Addition of depreciation was not done; deduction of capital expenditure, addition of new finance and working capital changes was not factored in.

Part (c) required candidates to assess the reasons for rights issue. However, some candidates failed to point out that rights issue lowers the gearing level.

### **QUESTION THREE**

Part (a) required candidates to discuss whether diversification through acquisition is the effective means of reducing risk and secure growth. The answers were too general. However, the performance was average.

Part (b) required candidates to estimate the value of the proposed offer and revised EPS. The value of proposed offer was wrongly calculated because most candidates could not multiply 64m shares by share price of K4.056. Revised Earnings per share was also wrongly calculated. It should have been revised total profits/revised no of shares i.e. K38/224m.

Part (c) and (d) required candidates to calculate share price and the effect on the shareholder's wealth of each company. The calculation of share price was wrongly

done by most candidates. It should be revised EPS x Price Earnings ratio. The effect on the shareholder wealth after offer was wrongly done by most candidates. The correct approach was to calculate shareholder's wealth before the proposal and compared with after the acquisition.

#### **QUESTION FOUR**

Part (a) required candidates to discuss the advantages and disadvantages of centralized treasury management. The performance was fair on this part of the question.

Part (b) required candidates to estimate the futures price for the hedge at the close out of the contract. Some candidates failed to identify the LIBOR in three months (i.e. 9.1%) and later on estimate the futures price. Others failed to discuss whether it is a perfect hedge or not. They could only provide a statement that it is perfect without giving the reason.

Part(c) required candidates to discuss the advantages and disadvantages of other derivatives. Some candidates failed to identify other derivatives related to managing interest rate risk.

#### **QUESTION FIVE**

Part (a) required candidates to discuss the methods of establishing interest in foreign markets. The performance was fair however, some candidates failed to distinguish between a new start-up investment e.g. setting up a manufacturing plant in a foreign country and investment in a foreign subsidiary.

Part (b) required candidates to discuss the merits and demerits of Islamic finance. Majority of the candidates were discussing Islamic finance in general e.g., the types of contracts instead of discussing the merits and demerits as required by the question.

#### **Overall performance of candidates**

- i. Highest mark obtained in this paper: 64%
- ii. Lowest mark obtained in this paper: 15%
- iii. Overall pass rate in this paper: 32.1%



## **SUBJECT: CA 3.7-PUBLIC SECTOR AUDITS AND ASSURANCE**

### **QUESTION ONE**

A total of 189 candidates attempted this question. 114 scored at least half 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 covering a range of topics across the syllabus and the following observations were made:

- a) This part of the question required candidates to distinguish the Lima Declaration from the Mexico Declaration.  
The majority of the candidates scored well in this part and were able to distinguish the two declarations issued by INTOSAI.
- b) This question was divided into three parts dealing with the Supreme Audit Institutions and the following were observed:

- i. Candidates were required to evaluate the adherence with the Mexico Declaration by the Republic of East Africa.

The performance in this part of the question was average. There were candidates who basically repeated the facts in the question and tried to state weaknesses in the case without linking with the Mexico Declaration. This suggests that candidates did not know the provisions of the Mexico Declaration and so could not compare the facts in the question with the provisions of the Mexico Declaration.

- ii. This part of the question required candidates to exhibit their understanding of the importance of independence of the SAI and the SAI auditors.

While many candidates were able to discuss the need for the SAI and the SAI auditors to be independent in order to maintain their objectivity there was a minority of candidates who did not discuss issues relating to independence in their answers.

Candidates are reminded to address the requirements of the question in answering questions or they risk losing marks.

- iii. Candidates were required to recommend best practice in the appointment of the head of the SAI. Candidates needed to use their knowledge of the recommendations of the Lima Declaration to answer this question.

A minority of candidates did not mention the need to have the office of the head of the SAI to be a constitutional office and that the appointment should be enshrined in the constitution.

- c) This was a two part question on the audit report and specifically the key audit matters paragraph.

- i. The majority of candidates lost all the marks for this part and they showed lack of knowledge of this paragraph in the auditor's report.

Most candidates confused the key audit matters paragraph with the Emphasis of Matter Paragraph.

- ii. Arising from the fact that most candidates did not know the meaning and use of the KAM paragraph they could not explain the relationship between the KAM and the auditor's opinion. For example candidates suggested that the KAM paragraph is a modified opinion or basis for a modified opinion. Candidates should have note that the KAM is part of an unmodified audit report and that it is not a separate opinion on matters raised therein.

- d) This part of the question was on audit planning and was divided into two parts as follows:

- i. Candidates were required to discuss the importance of planning before embarking on a public sector audit. Majority of the candidates scored maximum marks and had no major difficulties answering this question.
- ii. This part of the question was knowledge based and required candidates to explain the difference between the audit strategy and the audit plan.

Most candidates got low marks largely because:

- a. Many candidates simply did not attempt to answer this part of the question.
- b. Some candidates discussed strategy formulation in the organization and did not relate the two to the public sector auditors.

## **QUESTION TWO:**

A total of 188 candidates out of the 189 who sat for this paper attempted this optional question. Out of those who attempted the question 96 scored half or more of the available marks. The average score was 10 out of the maximum 20 marks available.

The following observations were made:

- a) Most candidates had no difficulties answering this question which required candidates to describe the relationship between parliament, the government and the SAI. Candidates used the accountability triangle in answering this question and scored maximum marks.
- b) Candidates were required to explain the principles of a compliance audit report. Most of the candidates scored low marks because they discussed principles of compliance audits rather than those of the audit report hence gaining no marks.
- c) This was a question on ethics where candidates were required to identify and explain ethical concerns in the given scenario.

Majority of the candidates scored well in this question. There was a minority of candidates who lost marks for not using the information in the scenario in answering or not explaining in detail why a particular issue is an ethical problem. Others simply could not explain four ethical issues and so lost easy marks as marks are awarded in proportion to the number of points made.

- d) This part of the question required candidates to suggest suitable safeguards to the ethical issues raised in (c). Candidates who could not identify and explain the required number of ethical issues had difficulties answering this part and lost the easy marks.

## **QUESTION THREE**

This was the least attempted optional question with 89 candidates attempting this question. Only 8 candidates scored above half the available marks. Candidates who attempted this question could have scored more than the average of 4 marks if they had attempted a different question. Candidates should take great care in deciding on the question to exclude.

The average score in this question was 4 out of a maximum 20 marks available.

- a) This part of the question required candidates to describe the elements of an audit of financial statements. A majority of the candidates mistook the

question to the elements of an assurance engagement which they explained in detail and did not earn any marks.

Candidates were expected to explain the three elements of:

- i. Planning an audit of financial statements
  - ii. Conducting the audit and
  - iii. Reporting on the outcome of a financial audit.
- b) This part of the question required candidates to explain the various approaches that the public sector auditors may follow in conducting a compliance audit.

Candidates lost marks here because candidates discussed the general approach in the conduct of public sector audits as against discussing the approach in conducting compliance audits.

- c) This was a question that required candidates to show an understanding of how auditors deal with subsequent events. The dates given in the question should have alerted candidates that the event on the 15 April 2019 happened between the date of signing the audit report and the date of issuing the financial statements. The auditor has responsibilities for events during this period.

A majority of the candidates did not realize this and instead discussed audit procedures for inventory and lost all the marks.

- d) This part of the question required candidates to describe the audit work that should be performed regarding the event that occurred on 15 April 2019.

The majority of candidates failed to explain that this was an event after period end which required the inventory value to be adjusted in view of the fact that the net realizable value is lower than the cost at which the inventory was valued at the period end.

#### **QUESTION FOUR**

A total of 125 students out of 189 attempted this question, out of those who attempted the question 44 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 parts of the question:

- a) This part of the question required candidates to explain the importance of cyber-security.

A number of candidates lost the easy marks because instead of explaining the importance of cyber security, they discussed and explained the meaning of cyber security.

Candidates are reminded to address the requirements of the question in answering the questions.

- b) Candidates lost marks in this question with most not attempting to answer it and others giving less than the expected number of points for the six marks.

Most candidates dwelt only on one point of the auditors lacking experience in the performance of IT audits. Candidates who adequately prepared and went through the study materials should have had no problems answering this question.

- c) This question was on quality control deficiencies in the financial audit of White Ltd.

Many candidates lost marks largely because:

- i. They discussed requirements of ISSAI 1220 in general without referring to the facts given in the question and apply the requirements of ISSAI 1220 in describing the deficiencies.
- ii. Many simply discussed one deficiency which was not sufficient to earn the maximum marks.
- iii. A few candidates inappropriately referred to quality control in White Ltd instead of the SAI.

- d) This part of the question required candidates to explain audit procedures specifically relating to the outstanding lodgments reflected on the bank reconciliation statement given by White Ltd.

A majority of candidates lost marks largely because:

- i. Many gave general audit procedures for bank balances and ignored the fact that the audit procedures required were those for the assertions on the outstanding lodgments.
- ii. Other candidates gave circularization of receivables as one of the audit procedures and yet the question had nothing to do with receivables.
- iii. There were candidates who suggested the engagement of an expert which was not relevant.

## **QUESTION FIVE**

A total of 160 candidates out of 189 who sat for this paper attempted question 5. Out of those who attempted the question, 26 scored a mark of 10 and above.

The average score was 7 out of the possible 20 marks.

The following were observed in answering individual parts:

- a) This part of the question required candidates to explain inquiry, observation and analytical procedures as methods of obtaining audit evidence.

A majority of the candidates explained clearly and scored maximum marks in this part.

- b) The question required candidates the limitations of using analytical procedures in the audit of program expenditure.

A majority of candidates lost marks because their answers showed lack of understanding of what analytical procedures are. Many candidates did not attempt to answer this part of the question.

- c) This question required candidates to explain the importance of the forensic auditor to know the law. Only a few candidates stated that the forensic auditor needs to have legal knowledge because most of the work arising from forensic investigations can end up in courts of law and further forensic auditors may take the role of an expert witness in assisting the court arrive at a fair judgement.

- d) The question required candidates to advise the senior auditor on the additional duties expected of him when preparing and giving evidence as an expert witness.

A majority of the candidates scored poorly because of the following:

- i. Many candidates just explained one or two additional duties and these were not enough for the marks available.
- ii. A lot of candidates centered their answers on the code of ethics which was not asked for and did not earn any marks for doing so.
- iii. Candidates argued from the point of view that the auditor is a prosecutor with a view to gain a conviction instead of assisting the court to fairly deal with the matter.

## **Overall performance of candidates**

- i. Highest mark obtained in this paper: 68%
- ii. Lowest mark obtained in this paper: 24%
- iii. Overall pass rate in this paper: 35.4%

## **SUBJECT: CA 3.8-PUBLIC SECTOR FINANCIAL MANAGEMENT**

### **QUESTION ONE**

Part (a) required discussion of difference between the private and public sector risk.

The performance was fair although the answers were too brief to warrant full marks.

Part (b) required explanation of how financial risks as a result of the use of PPP affect achievement of objectives. Majority of candidates were not referring to the scenario in their responses. Financial risks introduced by the use of PPP were not adequately explained by most candidates.

Part(c) required discussion of business risk involved in achievement of financial objectives. Majority of candidates were not referring to the scenario in their responses.

Part (d) required evaluation of investment using NPV method. Calculation of NPV by some candidates was wrong. For instance, candidates needed to deduct from sales, variable costs and overheads. In the third year, working capital should be recovered and in fourth year capital investment was sold.

Part (e) required discussion of a range of actions to manage risk in the investment option.

Part (f) required explanation of sources of financing and disadvantages of relying on foreign borrowing. The performance was fair.

### **QUESTION TWO**

Part (a) required outlining the most significant aspects of the legal framework governing the public financial management (PFM) in Zambia. Some candidates exhibited lack of knowledge.

Part (b) required candidates to explain the reason for the increase in rates of taxes may not lead to increase in net tax revenue. Some candidates exhibited lack of knowledge.

### **QUESTION THREE**

Part (a) required candidates to explain risks associated with operating centralized system of public finance. The responses from candidates were too brief to warrant full credit.



Part (b) required candidates to explain Public Expenditure Tracking Survey (PETS) and most candidates were not referring to the scenario in their responses.

#### **QUESTION FOUR**

Part (a) required candidates to explain the Public Financial Management cycle and three key reform processes government would embark on in the next five years.

Part (b) required candidates to explain the first stage of fiscal management and how fiscal risk identified by IMF can be managed.

#### **QUESTION FIVE**

The performance on this part of the question was good however, brief answers from some candidates could not warrant full marks. For instance in part (b) the question did not specify the number of benefits; however the marks allocated required not less than four benefits to warrant full marks.

Overall performance of candidates

- i. Highest mark obtained in this paper: 56%
- ii. Lowest mark obtained in this paper: 40%
- iii. Overall pass rate in this paper: 75%