



DECEMBER 2019 EXAMINATIONS

CHIEF EXAMINERS REPORTS

CA ZAMBIA

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

### **QUESTION ONE**

The general performance on this question was good. Of the 103 candidates who attempted the question, 58% achieved the pass mark. The average score on the question was 52%.

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

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

### **QUESTION TWO**

The general performance on this question was excellent with 87 out of the 103 candidates who sat the paper achieving more than half the marks on the question. This translates to a pass rate of 84% on the question (the highest among all the questions). Performance on this question was the main determinant of the candidates' overall performance. The average score on the question was 81%.

The question required candidates to prepare a statement of profit or loss and statement of financial position for a company. This question was answered very well and some of the candidates had full marks and the part (b) was also done very well though few candidates were not able to deal with some technical issues very well.

The main mistakes included the following:

- i. Swapping sales returns and purchases returns. Candidates must know that sales returns and purchases returns have debit and credit balances respectively.
- ii. Showing bank overdraft under current assets.
- iii. Including the authorised capital instead of the issued capital in the statement of financial position.
- iv. Treating interest on long term investment as finance cost instead of finance income.
- v. Expensing ordinary dividends paid in the statement of profit or loss. Ordinary dividends paid is an appropriation item, therefore should be charged directly to equity (retained earnings). Further, proposed dividends should only be disclosed in the notes to the financial statements.

### **QUESTION THREE**

The general performance on this question was good. 65% of the candidates who attempted the question passed it. The average score was 55%.

This question tested candidates on the basics of double entry in the cash book, bank reconciliations as well as the principles of partnership accounts.

Part (a) of the question required students to prepare an updated cashbook from a bank statement and a number of other transactions not recorded on the bank statement. Most students answered this part correctly. The common error on this question was candidates not knowing what double entries to make to correct an error that had been made in the cashbook. A payment transaction of K12,800 was erroneously entered as K18,200, a number of candidates did know how to correct this mistake.

Part (b) required candidates to prepare a bank reconciliation statement starting with the balance recorded on the bank statement. Most candidates answered this part correctly and scored more than half of the marks available. A common mistake committed was candidates starting the reconciliation with the cash book balance from part (a) and not the bank statement balance as instructed in the question.

Part (c) required students to explain why partners may be entitled to salaries, interest on capital and charge interest on drawings. It further needed candidates to show the appropriate double entries for each of the items. The first part, which was the theory part, was answered relatively well while a number of candidates had difficulties with the double entry aspects.

### **QUESTION FOUR**

The general performance on this question was very good with 65% of the candidates who attempted the question achieving more than 50% of the total marks. The average score for this question was 59%.

The question tested the candidates' ability to prepare departmental accounts.

Common shortfalls included the following:

- i. Failure to adjust for accruals and prepayments.
- ii. Wrong adjustments for accruals and prepayments

### **QUESTION FIVE**

The general performance on this question was poor with only 16% (15 out 92) of the candidates who attempted the question obtained more than 50% of the total marks. The average score on the question was a mere 31%.

Part (a) of the question required candidates to calculate gross profit and find the amount of inventory lost in a fire. Part (b) tested candidates' ability to prepare journal entries that would correct errors in the books, clear the suspense account and finally adjust the pre-determined gross and net profits. A number of candidates attempted this question but performance was poor.

In part (a) candidates failed to convert the profit to mark-up profit margin before calculating gross profit. As a result the amount of gross profit calculated was incorrect for most candidates.

In part (b) the answers revealed a weakness in understanding double entry and correct flow of entries in the ledger account up to trial balance. Incorrect account names were used, and wrong entries were stated. Consequently, few in any, posted correct entries to the suspense account. Adjustments of profits were at best poor guesses and haphazard, to say the least.

## **QUESTION SIX**

This question had the worst performance in the paper. Of the 24 candidates that attempted the question, only 1 (4%) scored 50% and above of the available marks. It was also the least popular question with only 24 out of the 103 candidates choosing it. The average score on the question was a disappointing 24%.

The question had three parts. The part (a) of the question asked candidates to compute VAT inclusive prices, prepare the journal entries to record the sale, calculate input and output VAT and determine how much VAT will be payable to government. Part (b) asked candidates to explain how research and development expenditure must be accounted for. Part (c) asked the candidates with reference to IAS 2-Inventories, to discuss the inventory valuations.

Part (a) was generally well answered by candidates. However, some candidates computed wrong VAT because they had mistakenly assumed that the figures were VAT inclusive despite the question clearly indicated that the figures were VAT exclusive. In Part (b) only few candidates attempted and it was not well answered. The candidates seem to have not revised IAS 38. Most candidates simply indicated that the amounts should be expensed or capitalised without referring to the requirement of the relevant accounting standards. Candidates and Lecturers are reminded that IAS 38- Intangible assets is examinable and it will keep on featuring in future examinations.

In Part (c) the valuation of the machine as per IAS 2 was generally well done except that some candidates failed to account for further repair costs before the sale, amounting to K1, 720. This amount was supposed to be deducted when determining the net realisable value.

## **OVERALL PERFORMANCE OF CANDIDATES**

- i. Highest mark obtained in this paper: 84%
- ii. Lowest mark obtained in this paper: 13%
- iii. Overall pass rate in this paper: 54.4%

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

### **QUESTION ONE**

This was a multiple choice question that was attempted by all the candidates. The questions covered the entire syllabus and the general performance in this question out of a total of 20 marks was 13. The questions in this section were both short direct question and questions which need short algebraic solving to arrive at answers given in the multiple choice options.

### **QUESTION TWO**

This was also a compulsory question that was attempted by all the candidates. The average performance in this question was 9 marks out of a total of 20 marks. The highest mark obtained was 17 and the lowest was 0.

The question was split in two parts:

Part a) required candidates to use a given table of grouped data to find the median and interpret the result. It was observed that most of the candidates failed to find the correct median due to use of the incorrect formula. It also observed that candidates struggled to provide correct interpretation of the median.

The second part required candidates to use given data that followed the regression model to fit the regression line. Most of the candidate managed to fit the regression model but had challenges in interpreting the results hence lost marks on the part of interpretation of the model.

### **QUESTION THREE**

This was an optional question that was attempted by 91% of the candidates. The average performance in this question was 13.6 marks out of a total of 20 marks. The highest mark obtained was 20 and the lowest was 0.

The question was split in two parts. Part a) required candidates to use the given data on probability random variable to find the expected value. Majority of candidates managed to solve the question correctly. The candidates who failed to solve the question correctly were confusing calculation of average of any general data and calculation of the average or expected value that involves probability.

The second question required candidates to use available data to perform a time series and find trend values. Most candidates managed to get the question correct. The candidates who failed were making errors in calculating moving averages hence getting the final result wrong.

## **QUESTION FOUR**

This was an optional question that was attempted by 63% of the candidates. The average performance in this question was 6.2 marks out of a total of 20 marks. The highest mark obtained was 20 and the lowest was 0.

The question comprised the two parts. The first part on probability was the harder part of the question as candidates not fully correctly use the basic probability rules to solve the questions from the given scenario. The second part was a list of ungrouped data and candidates were required to calculate the mean, standard deviation, median range and interquartile range. Most candidates correctly solved the second part of the question though there were some cases observed of candidates failing to find the interquartile range. They were dividing the interquartile range by two hence getting the final results wrong.

## **QUESTION FIVE**

This was an optional question that was attempted by all of the candidates. The average performance in this question was 12 marks out of a total of 20 marks. The highest mark obtained was 20 and the lowest was 0.

The question comprised of part one which required candidates to construct a pie chart from given data. It was observed that most candidates managed to construct a correct pie chart but the ones who failed could not clearly use the calculated degrees to write a correct spit chart. The question also required candidates to construct a bar chart. Most candidates managed to construct a correct bar chart but there was also an observed failure to distinguish between a bar chart and histogram by some candidates.

The second part required candidates to use given information and calculate probabilities using the normal distribution. Few candidates got the final result correct with the observed major setback being too quick to round of some critical values in the process of calculation.

## **QUESTION SIX**

This was an optional question that was attempted by 45% of the candidates. The average performance in this question was 10.6 marks out of a total of 20 marks. The highest mark obtained was 17 and the lowest was 0.

The question in part one required candidates to use a table of random values and their probabilities to calculate the probabilities, expected value, variance and apply the calculated measure in a given scenario. Most candidates failed to apply calculated measures in the scenario. The second part required candidates to calculate the correlation coefficient and coefficient of determination. It was observed more than half of candidates failed to calculate the coefficient of determination despite having a correct correlation coefficient.

## **OVERALL PERFORMANCE OF CANDIDATES**

- i. Highest mark obtained in this paper: 86%
- ii. Lowest mark obtained in this paper: 15%
- iii. Overall pass rate in this paper: 57.1%

**SUBJECT: CA 1.3-BUSINESS ECONOMICS**

**QUESTION ONE**



The question was made up of 10 multiple choice questions each worth 2 marks. Since the question was compulsory, it was attempted by all the candidates that sat for this paper. The questions covered the entire syllabus. Performance was excellent at 78%. The highest mark scored was 18 out of 20 while the lowest was 6 out of twenty.

## **QUESTION TWO**

This was another compulsory question which required candidates to demonstrate understanding of the concept of demand and supply. Overall performance on the question was ok though many weak answers were presented as well. The pass rate was 65% with 19 out of 20 marks as the highest score and 0 out of 20 marks as the lowest. The most common problem was that some candidates could not distinguish between Demand and Supply!

Part (a): This part asked candidates to define supply. Surprisingly, a good number could not do so. Basically, supply connotes the ability and willingness of the seller to sell a good at a given price.

Part (b): This part required candidates to outline any five factors that affect supply, with particular reference to the supply of tomatoes. All that candidates were required to provide are factors that affect supply in general. Weak answers were 'non-economic' in nature. Candidates are strongly advised that scenarios simply set the notion for understanding the basic economic principles. None economics answers are not accepted. Some weak candidates provided factors that affect demand instead of supply. Candidates are advised to address the specific requirements of each question.

Part (c): This part tested candidates on the effect of a change in price on supply. A change in the price of a good always leads to a 'Movement along' a curve and not a shift. Only changes in any other factors (other than own price) affecting supply will lead to shift in a supply curve.

Part (d): This part required candidates to demonstrate the effect of price controls with particular reference to maximum price. A maximum price is also called a price ceiling and the end result is always a shortage when the price is set below equilibrium price.

### **QUESTION THREE**

This was an optional question which required candidates to demonstrate understanding of business operations in different markets. This was the least attempted question by candidates and the lowest performance was secured. The pass rate was at 48% with the highest score of 17 out of 20 marks and the lowest score at 4 out of 20 marks. The question was divided into four parts (a) to (d) as follows:

(a) This part of the question required to outline any three forms or types of product differentiation. Required answers were physical product differentiation, marketing differentiation, human capital differentiation, distribution differentiation (these answers are in the Study Manual). This part of the question was poorly performed, possibly due to question spotting, that is, omitting certain topics when studying.

(b) This part required candidates to use diagrams to illustrate abnormal profits in the short run. Product differentiation is a characteristic of Monopolistic competition hence profit maximization for a firm operating under monopolistic competition was required (See suggested solutions).

(c) This part required candidates to explain the long run equilibrium again bearing in mind the characteristics of monopolistic competition where there is freedom of entry and exit.

(d) This part required candidates to outline any two positive effects and two negative effects of the given scenario, that is, the outbreak of cholera in Lusaka.

### **QUESTION FOUR**

This question tested candidates on their understanding of the operations of the Bank of Zambia. Pass rate was 54% with the highest mark scored being 20 out of 20 and the lowest being 0 out of 20. The question was divided into five parts (a) to (e) as follows:

(a) This part required candidates to explain what is meant by the term 'statutory reserve requirement ratio'.

(b) This required candidates to explain any two effects of the reduction is the stator reserve ratio. Once one understood what it is the effects follow naturally. It's a method used to control money supply in the economy. A reduction leads to increase in money supply.

(c) Required candidates to describe the monetary policy measures of credit control by the central bank. The central bank uses interest rate controls, bank ratio controls and direct controls over banks.

(d) Required candidates to explain any other two functions of the central bank apart from implementing monetary policy. Answers required include bankers' bank, lender of last resort, regulating and supervising banks as well as banker to the state. Performance on this part was fairly good.

(e) Required candidates to outline any three factors that affect the general level of interest rates over time. All that candidates were required was to give and explain any three factors that affect interest rates.

## **QUESTION FIVE**

This question tested candidates' understanding of unemployment as an economic problem. Performance was generally very good at 93% pass rate with 19 and 5 marks out of 20 as the highest and lowest scored on this question. The question was divided into four parts namely (a) to (d) as follows:

(a) Required candidates to state the formula for measuring unemployment

(b) Required candidates to explain any four negative consequences of unemployment. These include loss of output, loss of human capital, social costs, increased income inequalities, and so on.

(c) Required candidates to explain any three types of unemployment. This section was fairly well done.

(d) Required candidate to explain their argument regarding an increase in minimum wage. If one agreed that it would lead to loss of employment, then one must explain why. This is because there would be an increase in costs of production forcing some employers to scale down on the number of employs on their payroll. Alternative answer with a plausible explanation contrary to the above was acceptable.

## **QUESTION SIX**

This was another optional question examining candidates' understanding of international trade. The pass rate was fair at 78%. It was the second preferred question under the optional category. Highest mark scored was 20 out of 20 and the lowest was 4 out of 20. The question was divided into five parts from (a) to (e) as follows:

(a) Required candidates to explain the meaning of trade imbalance as given in the scenario.

(b) Required candidates to explain any five barriers that a country can use to restrict imports. This was fairly well answered though some candidates confused barriers to trade with reasons for erecting barriers to trade. Candidates are strongly advised to read the questions clearly and address the specific requirements.

(c) Required candidates to explain any five arguments that countries give in support of erecting barriers to trade.

(d) Required candidates to explain the 'J' curve effect for the current account when an open economy devalues its currency. Key is the time it takes for the devaluation to influence imports and exports thereby producing a 'J' shaped curve.

(e) Required candidates to explain the role of the Zambia bureau of Standards. This is a governmental agency with the mandate of providing assurance to buyers that the goods being sold meet the set quality standards. Weak answers confused this organization with the Bureau de change for buying and selling foreign currencies.

Future candidates are strongly encouraged to study the entire syllabus and make use of the examiners' feedback and past papers to improve on their performance

### **OVERALL PERFORMANCE OF CANDIDATES:**

- i. Highest mark obtained in this paper: 86%
- ii. Lowest mark obtained in this paper: 33%
- iii. Overall pass rate in this paper: 87.3%

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

**QUESTION ONE**

The general performance on this question very good. 173 out of 226 candidates that attempted the question obtained 10 and above marks out of the available 20. The pass rate recorded was 76.5%. The highest score was 20 while the lowest was 4 out of 20.

This question was compulsory and was of multiple choice questions. The general performance was fair. Half the candidates that is, 168 scored above average. The general view is that candidates had to think critically for them to pick the correct answer. The majority of the candidates were able to at least get most questions correctly. There is a need for the students to thoroughly study the topics in the manual for them to have a better grip on multiple questions as they may be tricky in comparison to the standard.

As with other compulsory question papers, once the students have a broader perspective of the manual, that will enable them apply the knowledge acquired and through the elimination process will be able to arrive at the correct/best answer.

## **QUESTION TWO**

The general performance for this question was poor. Only 86 out of the 226 candidates that attempted the question obtained 10 and above marks out of 20. The pass rate was 38.1%. The highest got 17 while the lowest got 1 out of 20.

The question 2 had five parts from a) to (e). Part (a) required candidates to identify the type of meeting the company was supposed to hold and thereby explain how this meeting is conducted.

Part (b) required candidates to explain the powers of a liquidator in line with the Companies Act.

In part (c), candidates were required to explain what the golden rule is and how the courts may apply it while part (d) required them to explain effectiveness of a contract between a minor and an adult at law.

Part (e) required candidates to explain how an agency relationship may be terminated at law.

The following common mistakes noted:

- i. About 10% of the students did not understand that only listing and explaining one required meeting in that regard was what the part required. Students listed and explained all the three types of meetings without stating which one was needed in this particular question.
- ii. About 10% Students were not listing the powers of a liquidator in line with the Companies Act.
- iii. About 5% of Students misunderstood the Golden rule for the literal rule of interpretation.
- iv. About 5% of the students did not understand the legal consequences of contracting with a minor.
- v. About 5% of students confused the methods of terminating a contract for grounds upon which contracts may be terminated.

The above suggests that students must read and understand the elements of a contract and methods and grounds for termination of a contract.

### **QUESTION THREE**

The general performance for this question was excellent. 179 candidates out of the 213 that attempted the question obtained 10 and above marks out of 20. A pass rate of 84% was recorded. The highest got 20 while the lowest got 0 out of 20.

The question required one to explain ways in which directors may vacate office and the fiduciary duties of directors. It had two parts (a) on vacation of director and (b) on fiduciary duties of directors.

The only challenge that of candidates writing on the general duties of directors and not necessarily fiduciary duties. In future, students should be able to study around the distinction between fiduciary duties and other duties of director in a company.

#### **QUESTION FOUR**

The general performance for this question was good. 93 candidates out of the 143 that attempted the question obtained 10 and above marks out of 20. The pass rate recorded was 65%. The highest got 18 while the lowest got 0 out of 20.

The question required candidates to show an understanding of the topic on sources of the law in Zambia which is one of the introductory topics in the manual. More specifically it required them to discuss legislation as a source of law by referring to the stages that a bill goes through before it becomes law.

Those who did well were able to discuss the stages of a bill and explain what happens at each stage and scored very high marks; those who did not score very high marks, managed to identify the stages, but mixed up the sequence in which they flow or did not give the details of each stage.

Going forward students must pay attention to introductory topics such as this one as they lay the foundation for their course. Once attention is given to such topics, answering the question would not present much of a challenge.

The second part was based on the Sale of Goods where candidates were required to identify the remedies available to the buyer.

Most candidates here managed to identify the correct remedies. Candidates who did well managed to identify and explain what these remedies were, while those who did not do well were mistaken putting the sellers instead of buyers remedies. Very few did not manage to even identify the correct remedies.

Going forward candidates must study all topics, know them well. This will help them answer questions correctly and they will no longer be confusing the principles contained in each topic.

#### **QUESTION FIVE**



The general performance for this question was very good. 146 candidates out of the 203 that attempted the question obtained 10 and above marks out of 20. A pass rate of 71.9% was recorded. The highest got 17 while the lowest got 2 out of 20.

The question required candidates to show an understanding of the topic on Partnership law in Zambia. More specifically, it required them to discuss partnership by estoppel and general partners. Most candidates got the distinction correctly. Those who did well were able to discuss the differences between the two and even gave examples; those who did not score very high marks only managed to define and failed to distinguish the two. Other candidates exhibited total ignorance of the subject matter and this could either be attributed to selective study or failure to understand the topic completely.

Going forward students must pay attention to all topics and make use of the study manual which is adequate for their studies. The question required candidates to advise Bwalya and Mulenga. In answering, they could have been explicit as opposed to just being general.

The second part was based on labour law and candidates were expected to discuss the effect of immediate dismissal of Mulenga. Most candidates did not answer this question well as they mixed up concepts. Candidates who did well managed to identify and explain summary dismissal and addressed the question fully, while those who did not do well were mistaken and just gave general knowledge on the subject riddled with guess work.

Going forward candidates must study all topics, know them well. This will help them answer questions correctly and they will no longer be confusing the principles contained in each topic. There is always a question on contract termination as far as labour law is concerned. Candidates must address their mind to this.

## **QUESTION SIX**

The general performance for this question was poor. Only 30 candidates out of the 111 that attempted the question obtained 10 and above marks out of 20. A pass rate of 27.3% was recorded. The highest got 20 while the lowest got 0 out of 20.

This question was based on share capital and the procedure a company goes through to reduce its share capital. This topic is not just serious but a problematic area in company law especially that the procedure has slightly been affected by the New Companies Act No 10 of 2017. A number of students had a favorable idea of the entire procedure that is involved in the reduction of share capital. However, the other group of students had an average understanding of the procedure. They were able to state a few steps but failed to complete the others. Those who failed to fully explain did not have an understanding of Articles of Association and its alteration, and how a company must reduce share capital in accordance with the Companies Act as well as the Articles of Association. In this given scenario, the starting point was to advise that the Articles of the company can be amended to allow for such reduction and then follow the procedure in the Companies Act. The rest were basically lost as they did not have an understanding of the topic.

Prospective students must understand this topic fully. The Companies Act only authorizes the reduction of share capital in certain circumstances. It must be noted that the liability of members of a limited company is limited to the nominal value of their shares. The creditors of the company look to its capital for repayment of their debts. Hence, a company wishing to alter its capital must comply with the statutory requirements as provided under section 140(1) and the procedure is outlined in section 150 of the Companies Act.

Thus, a reduction of share capital diminishes creditors' security. To protect the creditors, the Companies Act imposes conditions which the company must fulfill. Any alteration of a company's share capital can be made after a special resolution, and the special resolution must be lodged with Registrar within twenty-one days of being passed. Thus, there is need to spend more time on this topic so as to have a reasonable understanding.

This part was ably answered by the students as most of them were able to identify voluntary winding up and how a company can wound up voluntarily.

On the other hand, students who failed to answer this question were confusing voluntary winding up with involuntary winding up. It must be noted that involuntary winding up is a winding up in which the directors of the company do not feel able to make a statutory declaration that the company will be able to pay its debts within approximately twelve months while voluntary winding up maybe by members or creditors. The law provides the grounds for involuntary wining up under the Corporate Insolvency Act No. 9 of 2017.

Thus, the object of a voluntary winding up is to enable a company and its creditors to be free to settle their affairs without having to seek the assistance of the Court. Prospective students must be able to spend quite a number of hours also on this topic. Winding up is divided into 2 that is, voluntary and involuntary winding up. Under voluntary winding up, they are divided into 2 that is, by the members or the creditors while under involuntary winding up, the law gives the procedure and the circumstances.

### **OVERALL PERFORMANCE OF CANDIDATES**

- i. Highest mark obtained in this paper: 80%
- ii. Lowest mark obtained in this paper: 21%
- iii. Overall pass rate in this paper: 67.3%

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

#### **QUESTION ONE**

The general performance on this question was very good. 33 out of the 31 candidates that attempted the question got 10 and above marks out of 20. The highest got 18 out of 20 while the lowest got 4. The pass rate was 80.5%.

This was a multiple choice question, with a total of twenty (20) marks. Most candidates did well on this one.

## **QUESTION TWO**

The general performance on this question was poor. Out of 40 students that attempted it, only 17 obtained 10 marks and above from the possible 20. The pass rate was 42.5%. The highest mark obtained was 15 while the lowest was 0.

This had two parts: It had a total of up to 20 marks which were as follows:

- a) Part (a): asked the candidates to explain the various activities that managers carry out in work planning, resource allocation and project management. Most candidates did very well on this part.
  
- b) Part (b) was a bout describing a suitable model a company can utilize to determine the most ethical outcome of implementing a strategy to curb alcohol and drug abuse.

## **QUESTION THREE**

The general performance on this question was excellent. 31 out of the 38 that attempted the question obtained 10 marks and above out of 20. The pass rate was 81.6%. The candidates that scored highest got 20 out of 20 while the lowest got 5.

This question three parts which required students to define organizational change, explain what is meant by the term Planned and Unplanned Change as well as the internal triggers for change which could develop within an organization. The performance on this question was good. The common mistake made by those that did not do well on the question was that of generalizing in the answers given.

## **QUESTION FOUR**

The general performance on this question was excellent. 28 out of the 37 that attempted the question obtained 10 marks and above out of 20. The pass rate was 75.7%. The candidate that scored highest got 18 out of 20 while the lowest got 4. This question was based on Public and Private sector organizations.

### **QUESTION FIVE**

The general performance on this question was excellent. 30 out of the 36 that attempted the question obtained 10 marks and above out of 20. The pass rate was 83.3%. The candidates that scored highest got 20 out of 20 while the lowest got 0. It required students to describe five (5) functions of Management as well as explain the five (5) principles of Management. Most candidates attempted this question. However, most candidates could not get full marks due to generalizations.

### **QUESTION SIX**

This was the least popular question. Only 12 out of the 41 candidates that sat for examination attempted it. The general performance was excellent. 10 out of the 12 candidates that attempted the question obtained 10 marks and above out of 20. The pass rate was 83.3%. The candidates that scored highest got 18 out of 20 while the lowest got 0.

Question Six was based on Divisionalisation, and had three (3) parts. Part (a) required candidates to define the term Divisionalisation while Part (b) asked candidates to state two (2) reasons for making such a move in an organization. Part (c) required the candidates to explain six (6) conditions for successful divisionalisation.

The first two parts were well attempted while the last part was not. The poor performance on the last part (Part C) was mainly as a result of candidates failing to provide solutions as required.

### **OVERALL PERFORMANCE OF CANDIDATES**

- i. Highest mark obtained in this paper: 82%
- ii. Lowest mark obtained in this paper: 35%
- iii. Overall pass rate was: 80.5%

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

### **QUESTION ONE**

This was the most attempted question in the paper. All 58 candidates present attempted it. The general performance on this question was excellent. 55 out of the 58 candidates that attempted the question obtained 10 marks and above out of 20. The pass rate was 94.8%. The candidates that scored highest got 20 out of 20 while the lowest got 6.

Question one comprised multiple choice where ten questions were given and candidates were required to select the best answer.

## **QUESTION TWO**

The general performance on this question was excellent. 53 out of the 58 candidates that attempted the question obtained 10 marks and above out of 20. The pass rate was 91.4%. The highest mark obtained was 17 out of 20 while the lowest got 7.

This question was compulsory which required candidates to define an email in (a) and write a memo including advantages of emails in the main body of the memo for part (b). The last part required them to state main types of technical controls from a given scenario.

The common mistakes noted included the following:

- i. Email was defined as a letter, in some cases as an electronic mail or internet.
- ii. Some candidates were giving poor statements (poor grammar) in the opening paragraph.
- iii. Mismatching the memo elements such as to, from, date and subject.
- iv. Failure to provide required advantages of email in the main body of a memo.
- v. Wrong content on advantages of emails.
- vi. Repetition of advantages of emails in the main body of a memo.
- vii. Failure to attempt the last part of the question.
- viii. Answers such as encryption, antivirus, firewalls were presented which was not the case.

## **QUESTION THREE**

This was the least popular question. Only 32 of the candidates present attempted it. The general performance on the question was poor. Only 11 out of the 32 that attempted the question obtained 10 marks and above out of 20. The pass rate was 34.4%. The candidate that scored highest got 19 out of 20 while the lowest got 0.

The following mistakes were noted in this question:

- i. Part (a) on Databases was mostly answered wrongly, confusing it with backups of the system.

- ii. Part (c) was poorly answered by students because they were confusing word wrap with word art.

#### **QUESTION FOUR**

The general performance on this question was good. 30 out of the 50 candidates that attempted the question obtained 10 marks and above out of 20. The pass rate was 60%. The candidate that scored highest got 17 out of 20 while the lowest got 2.

The following were noted in this question:

- i. Some candidates explained confidentiality and authentication well but most students could not apply authorization in term of computer security.
- ii. Students were mistaking problems associated with the use of computers in business with disadvantages

#### **QUESTION FIVE**

The general performance on this question was very good. 28 out of the 38 that attempted the question obtained 10 marks and above out of 20. The pass rate was 73.7%. The candidates that scored highest got 19 out of 20 while the lowest got 4.

The question required candidates to draw a multiple line graph from a given scenario, while the second part required candidates to explain some parts of a report.

The following were the common mistakes that were observed:

- i. Wrong diagram such as pie charts and bar charts were presented instead of a multiple line graph.
- ii. Very small and untidy diagrams were presented.
- iii. Failure to label the required diagram.
- iv. Incomplete diagrams with nothing on it other than just an x and y axis.
- v. The findings were presented as how events unfolded themselves in a scenario form.
- vi. Appendices were presented as personal opinions.
- vii. References were presented as referees on a curriculum vitae.

#### **QUESTION SIX**

The general performance on this question was excellent. 49 out of the 54 that attempted the question obtained 10 marks and above out of 20. The pass rate was 90.7%. The candidates that scored highest got 18 out of 20 while the lowest got 3.

The common mistakes noted included the following:

- i. Very poor subject line.
- ii. Mismatching of the parts of a business letter.
- iii. Subject and the complimentary close did not match in some cases.
- iv. Some features of a letter were missing in most cases, (ie no subject, no addresses).
- v. Some answers did not include features of Microsoft a key aspect in the required answer of the main body of the letter.
- vi. Incomplete answers on the differences between a letter and a memo and wrong content.
- vii. Poor language/ grammar of the required letter.

### **OVERALL PERFORMANCE OF CANDIDATES**

- i. Highest mark obtained in this paper: 88%
- ii. Lowest mark obtained in this paper: 38%
- iii. Overall pass rate in this paper: 87.9%

**SUBJECT: CA 2.1 FINANCIAL REPORTING.**

**QUESTION ONE**



The general performance on this question was excellent with 143 out of the 146 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 98%. The average score on the question was 55%.

The question tested candidates on their ability to prepare single entity financial statements. It also included parts that tested candidates ability to explain the limitations of financial statements, and a comparison between accruals basis and cash basis of preparing accounts. A number of candidates did reasonably well on this question.

Common errors included the following:

- i. Adding the number of shares to the amount of share capital instead of the nominal value.
- ii. Failing to take into account current year depreciation before calculating the revaluation amount of the building part of property.
- iii. Treating the deferred tax balance as a liability when in fact it was a deferred tax asset. Correspondingly, the decrease in the balance was wrongly treated as an income instead of an expense.

The entries in the Statement of Changes in Equity comprised opening balances only for most of the candidates. Other entries in the SOCIE were incorrectly done.

Part d of the question was not attempted by most of the candidates. Interestingly, most of those who attempted this part did it correctly well.

## **QUESTION TWO**

The general performance on this question was extremely good as 118 of the 131 candidates who attempted the question achieved a pass (that is a score of at least 10 out of 20 marks), representing a pass rate on the question of 90%. The average score on the question was 785%.

This was a 20 mark question and required candidates to prepare the consolidated statement of financial position. This was a question testing IFRS 10 on consolidated Financial Statement and IAS 28 investment in Associates and joint ventures.

The approach by a few candidates was quite good as they scored the maximum marks.

Some of the candidates applied total consolidation in respect of the Associate instead of equity accounting.

Loss of marks was mainly due to the following:

- i. Not showing all the workings. Others simply showed consolidated figures for property, plant and equipment and other items of the statement of financial

position without showing how they were arrived at. Marks were lost especially where their consolidated figures were incorrect.

- ii. Including subsidiary's share capital in consolidated statement of financial position. Candidates should bear in mind that only parent's share capital is part of consolidated statement of financial position.
- iii. Treating an associate like a subsidiary in consolidated statement of financial position. Candidates need to know that an associate is accounted for in the consolidated financial statements using the equity method and not line by line consolidation which applies to subsidiaries. They should therefore learn the equity method to avoid losing marks unnecessarily.
- iv. The information for the computation of Goodwill was straight forward yet most candidates could not do it.
- v. It must be emphasized that goodwill is computed on the date of business combinations, not at reporting dated. Therefore deferred consideration should have been discounted for three years, not one year.

Few candidates charged interest on deferred consideration in the books of the subsidiary instead of the parent.

### **QUESTION THREE**

The question recorded the worst performance with only 17 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 23%. The average score was 45%.

This question was testing candidates on a number of accounting standards using short scenarios. Candidates were required to show a good grasp of the double entry as well as show the practical application of the relevant accounting standards to each of the six scenarios.

Part (a) was testing candidates on IAS 23- Borrowing costs; most candidates did not realize that the borrowing of the K600,000 was specifically for the purpose of constructing a non-current asset, this means that only interest related to the first two months during which no active construction took place ( $2/12 * K150,000 = K25,000$ ) was chargeable in the statement of profit or loss. The balance of K125,000 was to be capitalized as part of the non-current asset.

Part (b) was well attempted by most candidates as they were able to identify the fact that the company was no longer a going concern and should therefore prepare its financial statements on a break-up basis.

Part (c) was testing candidates on the basic definition of a subsidiary and an associate. Most candidates were able to make the correct diagnosis that a share holding of 30% does not meet the criteria for treatment as a subsidiary but rather as an associate. A

lot of candidates however did not give sufficient material to warrant awarding of the full four (4) marks available. Most answers, though correct, did not provide sufficient build up to the conclusion reached.

Part (d) was testing candidates on the treatment of government grants. This part was well attempted by most candidates. The common weakness exhibited by students was the inability to correctly split the government grant between the current and non-current liabilities.

Part (e) of this question was testing students on the principles of equity accounting and was attempted well by most candidates.

Part (f) was a straight forward application of IAS 16 on valuation of non-current assets. The question was answered correctly by most candidates who attempted it.

#### **QUESTION FOUR**

The general performance on this question was poor with only 29 out of the 68 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 43%. The average score 45%.

This question was avoided by most candidates. It is most likely that they were intimidated by the provided extra information for discounting purposes. However, this was a fair question and well prepared candidates who attempted it also scored fairly high marks.

Part (a) had three scenarios, the first two of which were answered very well by most candidates. The last scenario required candidates to recognize the legal obligation to restore a construction site after 10 years. This meant that the cost of dismantling the structure should be included at its present value as a liability. A number of candidates had challenges in calculating this liability correctly and how it should be reflected in the carrying amount of the non-current asset concerned.

Part (b) of the question required candidates to identify and explain three qualitative characteristics of financial statements. This part of the question was well attempted by most candidates.

#### **QUESTION FIVE**

The general performance on this question was extremely good with 95 out of the 126 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 75%. The average score amounted to 65%.

The question was composed of two parts. Part (i) required calculation of ratios and Part (ii) required candidates to assess the operational and financial performance and position.

Part (i) was well answered by candidates, the common mistake which was made by candidates was to waste precious time by computing ratios for 2018 which were already given in the question. No marks were awarded for computing ratios for 2018.

Part (ii) was not well answered. Most candidates failed to assess the operational and financial performance and position. It seems students are not comfortable with interpretations.

Many candidates simply repeated the ratios from part (i) and stated whether they had increased or decreased (not even suggesting whether they gave a better or worse position). The central aim of the question was to comment on the changes that had taken place during the year.

Candidates are, once again, reminded of the importance of reviewing past papers to identify the skills required in applying their knowledge in the examination. An appropriate level of workings supports good answers and allows markers to understand how answers have been arrived at.

## **OVERALL PERFORMANCE OF CANDIDATES**

- i. Highest mark obtained in this paper: 85%
- ii. Lowest mark obtained in this paper: 18%
- iii. Overall pass rate in this paper: 69%

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

### **QUESTION ONE**

This is a 40 marks compulsory question. All the candidates attempted the question. The performance was below average with less than 25% of the candidates passing the question. The highest and lowest scores were 31 and 1 respectively.

It required candidates to prepare a cash budget, budgeted income statement, basic variances, explain contradiction in the two labour variances and explain how standard costing is used as a system for recording and reporting costs. The final part required the discussion of the essential elements of information provided by a management accounting system.

The performance on this question varied from good answers to poor answers. Poorer answers failed to take into account the percentage increases in the sales volumes, the timing of the receivables and payables. Others included non-cash flows like depreciation and bad debts in the cash budget model. Bad debts and depreciation figures were required in the income statement and not in the cash budget. On variances, most candidates could not ably calculate fixed overhead volume and expenditure variances. Hardly anyone explained the apparent contradiction in the adverse labour rate and adverse labour efficiency variance.

How standard costing is used as a reporting and recording system was poorly answered.

As for essential information system requirements candidates explained planning, control and decision making instead of explaining accuracy, timely, etc. as essential characteristics of good information.

## **QUESTION TWO**

A total of 90 candidates attempted this question with more than 37% passing it. The highest score recorded was 95%. The performance was below average. Activity based costing is a key topic in management accounting and therefore will keep on being examined.

The question was comparing Activity Based Costing (ABC) with Traditional Absorption Costing and comprised parts (a), (b), (c) and (d).

Part (a) required the computation of the product cost per unit using Traditional Absorption Costing methods.

This was well done as more than 70% of the scripts scored almost all the marks. However, a number of candidates failed to calculate the overhead absorption rate using the formula:

$$\text{OAR} = \text{Budgeted overheads} / \text{budgeted level of activity}$$

In this case, the level of activity was labour hours.

Part (b) focused on calculating the product cost per unit using ABC system.

Though well done too, there is room to improve on work presentation as a number of candidates lacked proper work layout. Most of the candidates failed to calculate the appropriate rates to use in charging the overheads to the products.

Part (c) compared Absorption Costing and ABC unit costs and a comment was required on the comparison.

Generally, most candidates failed to produce standard comments. They needed to comment on why both systems had the same overhead cost per unit and the effect each costing system has on the overall product cost per unit for each product and conclude with the more realistic costs per unit.

Part (d) needed explanation of the importance of flexible budgeting in performance management.

Most scripts showed poor responses on this task as they did not seem to understand what a flexible budget is.

### **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 was the least popular question as only seventy-nine candidates attempted it. The pass rate in this question was 32%.

The question was based on pricing decision and cost volume profit analysis.

Part (a), required the students to calculate the selling price, profit, breakeven sales units and percentage change.

Some common mistakes noted on part (a) included:

- i. Most candidates could not to get full marks due to their failure to inflate the figures.
- ii. A good number of the candidates used 80,000 units in calculating the profit instead of 75,000 and therefore failed to appreciate cost behavior.

- iii. Some candidates failed to calculate the contribution per unit.
- iv. Many candidates lost marks because they could not show the percentage change.

Part (b), candidates needed to calculate the optimum price and sales demand using the columnar (table) approach. It was well answered.

#### **QUESTION FOUR**

This was the most popular question in section B drawn from decision making – relevant costing. The performance in this question was average. The highest mark was 17.

This question tested the learning objectives 5, 6 and 7. The majority marks were allocated to the part (a) which was on relevant costing. Most of the candidates did well in determining the relevant costs though they struggled in giving the reasons. Part (b) required explanation on the six (6) problems that make it difficult to measure performance in the public sector. This was relatively easier for the students who had read the topic in the official manual.

#### **QUESTION FIVE**

The question recorded 75% attempts making the second most popular. The performance was very good. Above 84% of the candidates scored above average with highest scoring 95%.

Part (a)

I. This part was well answered by the majority of candidates except for few candidates who could not explain what incremental budget was and others ended up explaining a rolling budget instead of incremental budget.

II. This part wanted candidates to explain the conditions that should be available for just in time to be implemented. Most of the candidates answered this part correctly however, some candidates were explaining just in time principle instead of the conditions for just in time.

III. This part requested candidates to outline the objectives of budgetary control. This part was well answered and the majority of candidates obtained the maximum marks. A few of the candidates limited themselves to less marks because of stating less than the four points required as per allocated marks.

IV. This part of the question wanted candidates to distinguish between Product cost and Period cost. This part was poorly answered. The majority of candidates failed to distinguish between the two types of cost. Instead candidates were explaining product life cycle cost of a product.

In Part (b), candidates were required to explain Cost allocation, cost apportionment and absorption cost.

Almost all students were able to explain the cost allocation, cost apportionment and absorption cost and the majority candidates score obtained maximum points from this segment.

## **OVERALL PERFORMANCE OF CANDIDATES**

- i. Highest mark obtained in this paper: 68%
- ii. Lowest mark obtained in this paper: 11%
- iii. Overall pass rate in this paper: 36%



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

### **QUESTION ONE**

A total of 164 candidates attempted this compulsory question. There was a case of one candidate who did not attempt this compulsory question.

The average score in this question was 15 and only 34 candidates scored half or more of the available marks. With an average of 15 marks and only 34 candidates scoring more than half the available marks this contributed to the poor performance because candidates who score less than half the available marks in the compulsory question are unlikely to pass the examination. Remember that in theory one needs to score 50% in each of the attempted four question to get 50% overall.

This is a scenario based questions and the following were observed.

Part (a): This part of the question required candidates to suggest three suitable controls each for the cash on hand, bank balances and the purchases and inventory systems.

A majority of candidates scored poorly in this question and the following were observed:

- i. A number of candidates gave less than the required number of controls for the three systems in the question and so scored marks in proportion to the controls suggested.
- ii. Some candidates wasted time explaining control deficiencies which were clearly not asked for and no marks were awarded.
- iii. Some candidates explained tests of controls expected instead of stating suitable controls.
- iv. In some cases candidates wrote far too much for the available marks. It is obvious from the available marks that for each relevant control one mark would be awarded. Brief clear controls attracted maximum marks.

Candidates are reminded that internal control is a major part of the syllabus and questions in this area will feature frequently in future examinations. Candidates need to understand fully the control objectives, the controls and tests of control and should not confuse these in the examinations. Candidates must ensure they answer the question asked or the risk losing easy marks.

The 2.3 Revision Kit has more than sufficient number of questions on internal controls and candidates are encouraged to go through these in preparation for the examinations.

Part (b): This part of the question was on corporate governance and in particular adherence with the UK Corporate governance code.

A majority of the candidates scored poor marks and the following likely causes were noted:

- i. Many simply did not attempt this part of the question losing the easy available marks. Candidates could have scored easy marks by using appropriately the information in the scenario.
- ii. Many candidates defined the terms rather than relate them to the information for Warthog Ltd.

Part (c): This part of the question required candidates to explain four advantages of a principles based conceptual framework.

The performance in this question was poor. While a minority scored well the majority lost marks because:

- i. Some candidates gave less than the required four advantages.
- ii. Some candidates explained fundamental principles of professional ethics and gained no marks for doing so. Candidates should understand the question before attempting to answer the question.
- iii. Some clearly showed lack of understanding of this part of the syllabus. They stated that principles based approach is rigid which is incorrect and that rule based framework applies in all situations which is in fact the opposite of the reality.

This part of the question required candidates to identify and explain ethical issues in Warthog Ltd. General answers without referring to the facts in Warthog Ltd did not attract full marks.

Candidates lost marks because:

- i. Many candidates dealt with corporate governance issues rather than ethical matters. Candidates should understand that ethical issues concern the auditor and not the audit client. Candidate discussed the issue of the same person being Chairman and Chief Executive.
- ii. Many others gave less than the expected number of ethical issues.
- iii. A minority simply did not attempt to answer this part of the question losing all the available marks.

Part (d): This question was divided into two parts and is on the important topic of fraud. The performance in both sections of this question was poor and below expectation for this knowledge based question.

This part required candidates to explain the meaning of fraudulent financial reporting and misappropriation of answer and also required candidates to give 2 examples of each.

The following were common mistakes observed:

- i. Some candidates attempted to define the two terms but did not give two examples per question requirement and so lost the marks for doing so.
- ii. Some candidates simply could not explain the two types of fraud suggesting that candidates do not go through their study text. Candidates should ensure they understand that fraudulent financial reporting relates to falsification of accounting documents and records while misappropriation of assets refers to the theft of company assets for personal gain by management and staff of a client company.
- iii. Some candidates swapped the meaning of these two types of fraud and attributed theft of company assets to fraudulent financial reporting. This part of the question required an identification and explanation of fraud risk factors in Warthog Ltd. Candidates in some cases gave general answers without referring to the facts in the scenario.

### **QUESTION TWO:**

A total of 147 candidates attempted this part of the question with 32 candidates scoring half or more of the available marks.

The average score in this question was 7 which is poor indicating lack of knowledge of the subject matter.

Part (a): This question required candidates to explain four benefits of a partnership being subject to an external audit. Candidates were required to use the information in the scenario in answering this question and it related to an active partner and one not involved in the day to day running of the business. Marks were awarded even where candidates did not refer to the scenario information. Four valid benefits would have earned candidates maximum marks.

Some candidates gave less than the expected number of benefits while others gave benefits to a company rather than a partnership. Candidates at this level of the examinations should answer the question asked under time pressure.

Part (b): The question required candidates to explain four rights of the auditor. This question could have been answered adequately without referring to the information in the scenario. The rights of the auditor are clearly stated in the Company's Act 1994.

It was disappointing to note that candidates lost marks largely:

Candidates gave less than the required number of rights as required by the question. Many gave the duties of the auditor as against the rights that the auditors have including ethical duties such as communicating with outgoing auditors before accepting appointment.

Part (c): This part of the question required candidates to explain the meaning of social and environmental audits and suggest possible benefits of these audits to a company.

Candidates lost marks in that they gave some benefits of these audits without explaining each of social and environmental audits as required in the question.

Some candidates simply did not know these two types of audits and gave answers such as that social and environmental audits are audits of the society and the environment which is clearly incorrect.

Organizations operate within societies and get materials from the environment. It is becoming increasingly common for organization to give back to the communities and so they set targets that they wish to meet and also to protect the environment. Many stakeholders are concerned with how organizations meet their social goals as well the protection to the environment. The social and environmental audits give assurance to stakeholders on how companies have performed in this regard.

Part (d): This question required candidates to state the matters that are implied in an unmodified opinion. This question has been examined in this manner in the past and candidates who go through past examination question should have had no trouble explaining the implications of an unmodified opinion.

The unmodified audit opinion is a means of communication and there are matters that are not specifically mentioned in the report but are implied.

Candidates performed poorly in answering this question because:

Many simply did not attempt to answer this question and lost all the available marks. Other candidates discussed what is explicitly stated in an unmodified opinion such as the appropriateness of the financial reporting framework used by the client company and the fact that financial statements show a true and fair view.

Some candidates discussed the three forms of modified opinions and scored no marks while others brought in the emphasis of matter paragraph inappropriately.

This topic is clearly dealt in the study manual and the matters implied are clearly stated.

Question three:

A total of 104 candidates attempted this question out of whom 9 scored half or more of the available marks. This was the least attempted optional question.

The average score in this question was 6 out of the maximum possible 20 marks.

Part (a): The majority of candidates scored poorly in this part of the question. The question required candidates state four factors supporting the argument that auditors only give reasonable and not absolute assurance.

The following were observed:

Some candidates did not attempt to answer this part of the question and lost all the available marks.

Many candidates simply did not know the difference between reasonable assurance and absolute assurance. The auditors cannot state with certainty whether the financial statements are correct. This is largely because the auditors do not test all the

transactions and balances in the financial statements. Further financial statements themselves have limitations including the fact that they contain a lot of estimates. Others gave less than the required four factors and so scoring marks in proportion to the number of points given.

Part (b): This question required candidates to use simple information in the scenario to assess whether or not preconditions for an audit existed when deciding whether or not to accept appointment.

It was evident that a majority of the candidates did not know what the preconditions of the audit are and gave incorrect answers or simply did not attempt to answer this part. Others gave far less than the expected number of points for the available marks.

Candidates should have discussed matters regarding the appropriateness of the financial reporting framework and also the confirmation by management giving the auditors the information that they require to conduct the audit.

Part (c): A majority of the candidates were able to explain the importance of the engagement letter. Many lost marks because they were not able to explain five matters that may be contained in an engagement letter with many giving less than that number resulting in a loss of easy marks.

Part (d): This candidates required candidates to explain the justification for the issuance of a new engagement letter using the facts in the scenario. These reasons are clearly stated in the study manual and the facts in the scenario should have helped candidates to answer this question.

Many candidates lost marks because they gave less than the required number of factors while others did not attempt this part. Marks were awarded for correct factors even when they were not related to the facts in the question.

Part (e): This was basic question on advertising by auditing firms. Candidates were required to state four ethical matters that should be considered in drafting an advert. Many candidates gave less than the four matters expected and so lost easy marks.

#### **QUESTION FOUR**

A total of 118 candidates attempted this question out of whom 23 scored half or more of the available marks.

The average score in this question was 8

Part (a): This part of the question required candidates to explain the impact on the work of external auditors on reliance of work done by internal audit.

A majority of candidates who attempted this question scored poorly largely because:

Many candidates did not attempt this part of the question and thereby lost all the available marks.

Many explained the reason why external auditors should not rely on the work of internal audit instead of addressing the requirement of the question to state the impact of the reliance of internal audit on the work of external audits.

Candidates should have commented on the quality of the work of internal audit and noted that auditors may limit the amount of their work when they rely on internal audit. External auditors are fully responsible for their work even when they rely on internal audit.

Part (b): Most of the candidates gave satisfactory answers to this part of the question. Some lost marks because they gave less than the expected number of points for the 7 available marks.

Part (c): Candidates were required to the importance of using CAATs in the audit of non-current assets of Nzonzi Plc.

Most candidates scored more than half the available marks. Others gave general answers without reference to the audit of non-current assets.

A few candidates explained the advantages of using CAATs which were not asked for in the question.

Part (d): This part of the question required candidates to suggest audit procedures regarding the assertion of completeness of the non-current asset figure.

Many candidates scored low marks here because instead of suggesting audit procedures to test the assertion of completeness, they discussed other assertions on account balances which were not asked for.

Candidates are reminded that audit procedures are designed with the assertion being tested in mind. Procedures to test other assertions may not be suitable for testing completeness and so general answers on procedures for other assertions did not attract maximum marks.

Part (e): This part of the question required candidates to suggest suitable audit procedures to test for the accuracy of the profit or loss on disposal in the financial statements.

Most of the candidates lost marks largely because many left this part of the question unanswered while others discussed procedures to test assertions on transactions rather than zero in on the profit or loss on disposal.

#### **QUESTION FIVE**

A total of 120 candidates attempted this question out of whom 17 scored half or more of the available marks.

The average score in this question was 6 marks out of possible maximum marks of 20.

Part (a): This part of the question required candidates to explain the terms true and fair that are used by the auditor in the opinion paragraph.

Some candidates did not attempt to answer this part thereby losing the available marks. A sizeable number explained the meaning of these terms and scored more than half the available marks.

Part (b): This part of the question required candidates to explain the contents of the opinion and Key Audit Matters paragraphs in the auditor's report.

Only a few candidates were able to explain the contents of the opinion paragraph. Candidates should have noted that the opinion paragraph has standard wording and they needed to state the content in the standard wording.

This part required candidates to explain the contents of the key audit matters paragraph. A majority of candidates could not explain adequately the contents of this paragraph which contains significant matters that the auditor came across during the course of the audit.

Part (c): This part of the question required candidates to exhibit knowledge of the situations in which an unmodified or modified opinion would be appropriate.

A majority of candidates failed to give satisfactory answers to the three situations in the question. Others simply answered whether or not they agreed with the recommendation without giving the reason why they agree which basically required candidates to deal with the issues of materiality and pervasiveness of the matters of concern.

### **Overall performance of candidates**

- |      |                                      |       |
|------|--------------------------------------|-------|
| i.   | Highest mark obtained in this paper: | 57%   |
| ii.  | Lowest mark obtained in this paper:  | 12%   |
| iii. | Overall pass rate in this paper:     | 12.1% |

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

### **QUESTION ONE**

The general performance of candidates on this question which covered taxation of unincorporated businesses and property transfer tax was reasonably good. It was a compulsory question which was attempted by all 257 candidates who sat for the paper. A pass rate of 59.1% was recorded. The highest mark scored was 36 while the lowest was 0 out of the available 40 marks.

The question was divided into five parts. In part (a) candidates were required to calculate the provisional income tax payable by the tax payer and to show how this should be paid, stating the due date for each payment. This part of the question was poorly answered. The common weaknesses leading to poor performance on this part of the question included:

Taking the provisional income figure given in the question to be provisional income tax payable and using the figure to compute the wrong amount of provisional income tax payable by the tax payer per quarter. Candidates should instead have used the figure for provisional income to compute the provisional income tax payable by applying the personal income tax bands for individuals.

Using the company income tax rate of 35% to compute the provisional income tax paid, when the graduated personal income tax bands should have been used given that the tax payer in the question was an individual and not a company.

In part (b) candidates were required to calculate the capital allowances claimable by the tax payer on implements, plant & machinery and buildings. This part of the question was generally poorly answered. The most common mistakes made by candidates who performed poorly on this part of the question included:

- i. Time apportioning capital allowances to reflect the number of months the assets were in use in the business during the tax year, when these are claimable in full in the year the assets are brought into use with no apportionment.
- ii. Computing wear and tear allowances on assets disposed of during the year, instead of computing balancing charges or allowances arising on the disposal of those assets.
- iii. Computing the wear and tear using the income tax value the assets instead of using the original costs of the assets.
- iv. Forgetting to restrict the amount of the wear and tear allowances available to the business use of the assets for assets with some private use by the sole trader.
- v. Using the wrong rates to compute wear and tear allowances on the buildings. Most candidates mistakenly took the building in the question to be an industrial building and consequentially, computed a normal wear & tear allowance at 5%, an initial allowance at 10% and an investment allowance at 10% which was wrong. The building in the question was a commercial building and as such only qualified for a wear and tear allowance at 2% on cost.



In part (c) candidates were required to compute the taxable business profit after capital allowances. The main challenge faced here by candidates who scored poor marks was failure to distinguish allowable from disallowed expenditure in computing the taxable profits.

Part (d) required candidates to calculate the income tax payable by the tax payer and was generally poorly answered. The common weakness here included:

- i. Failing to aggregate the taxable business profits with the employment income in computing the tax payable. Most candidates subjected the business profits to tax separately and then also proceeded to tax the employment income separately which was wrong.
- ii. Using the wrong tax rates to compute the income tax payable. Most candidates used the company income tax rate of 35% to compute the income tax payable instead of using the graduated personal income tax bands for individuals given that the tax payer in the question was an individual and not a company.

Part (e) asked candidates to explain the property transfer tax (PTT) implications of the disposal of various assets by the tax payer during the year. The main challenges faced by candidates who scored poor marks on this part of the question included:

- i. Computing PTT on the disposal of the delivery van and office furniture, which are not chargeable property for PTT purposes given that a disposal of chattels falls outside the scope of PTT.
- ii. Failing to determine the correct realized value in computing the PTT arising on the sale of the music shop.

## **QUESTION TWO**

The general performance on this question was fair. 114 candidates out of the 225 that attempted it got 10 and above marks out of 20. The pass rate was 50.7%. The lowest mark scored was 0 while the highest was 18 out of 20.

This was an optional question covering property transfer tax, taxation of investment income for individuals and taxation of emoluments from employment, was just above average. It was divided into three parts. In part (a) candidates were asked to explain the property transfer tax (PTT) issues arising on various transactions in capital assets which occurred during the year. The common weaknesses demonstrated by candidates who scored poor marks on this part of the question included:

- i. Failure to identify chargeable assets for PTT purposes resulting in such candidates computing PTT on assets such as chattels which falls outside the scope of PTT.
- ii. Computing PTT on the acquisition of assets by the tax payer which was wrong, given that PTT is charged on transferor or seller of property and not by the purchaser or transferee of the property.

- iii. Using the wrong rates to compute the amount of PTT arising on the sale of chargeable property. Candidates are encouraged to use the correct tax rates that are provided in the question paper.

Part (b) candidates were required to calculate the amount withholding (WHT) tax paid at source on each type of investment income earned by the tax payer during the year. This part of question was generally poorly answered because:

- i. Most candidates failed to notice that the figures for the investment income given in the question were the net amounts after deducting the WHT and not the gross amounts. Candidates took the figures to be gross amounts and therefore computed the wrong amounts of WHT.
- ii. Some candidates used the wrong tax rates in computing the amount of WHT paid.

In part (c) candidates were asked to calculate the final amount of income tax payable by the tax payer. This part of the question was generally well answered. The main challenges faced by candidates who performed poorly on this part of the question were:

- i. Including investment income on which WHT is a final tax in the personal income tax computation of the tax payer, which was wrong since, only investment income on which WHT is not a final tax must be included when computing the income tax payable by an individual.
- ii. Including employment income which is exempt from tax such as repatriation pay, salary in lieu of notice and pension refunds in the computation.
- iii. Miscounting the number of months the tax payer was in employment in the tax year 2019 and therefore calculating the wrong amount of employment income to be included in the computation.

### **QUESTION THREE**

The general performance on this question which comprised four parts covering ethical issues in tax practice and administration of direct taxes, was poor. Only 84 out of the 185 candidates that attempted the question got 10 and above marks out of 20. The lowest score was 0 while the highest was 19.

Part (a) required candidates to explain the differences between and causes of tax evasion and tax avoidance and was generally well answered, with the exception of a few candidates who demonstrated a lack of knowledge of these terms and therefore fail to provide the required explanations.

In part (b) candidates were asked to explain the principle of integrity and to discuss how it applies in the provision of taxation services. This part of the question was also

generally well answered, with the exception of a few candidates who failed to relate their answers to the specific circumstances and facts given in the scenario in the question.

Part (c) (i) which required candidates to explain the consequences of submitting the self-assessment company income tax return late was generally poorly answered. Candidates demonstrated a general lack of knowledge of:

The appropriate due date for the submission of the return which is the 21 June following the end of the tax year to which the return relates.

Consequences of submitting a self-assessment return late. Most candidates instead provided explanations of the consequences of paying income tax late which are that, a penalty at the rate of 5% will be chargeable per month or part thereof and that additionally interest at the BOZ discount rate plus 2% will arise and therefore lost marks as this was wrong. Late submission of income tax returns by a company gives rise to a penalty of 2000 penalty units (i.e. K600) per month or part thereof

Candidates consequently, failed to compute the amount of penalties chargeable on the tax payer for the late submission of the self-assessment return.

Part (c) (ii) required candidates to explain the consequences of paying the final amount of income tax for the tax year 2018 late. Most candidates' answers were limited to stating that late payment of income tax attracts a penalty of 5% of the unpaid tax per month or part thereof, plus interest on overdue tax at the rate of 2% above the Bank of Zambia discount rate without supporting their answers with a computation of actual amount of penalties and interest arising in the context of the question set and therefore did not score full marks.

Part (d) which required candidate's state the reasons why the Commissioner General may make enquiries into a self-assessment company income tax return submitted by the tax payer was also poorly answered as candidates failed to provide the required explanations, as they demonstrated a total lack of knowledge of this part of the syllabus.

#### **QUESTION FOUR**

This question covered taxation of income from mining operations and was generally poorly answered. Only 25 out the 95 candidates that attempted it got 10 and above out of the 20 available marks. The recorded pass rate was 26.3%. The highest got 16 out of 20 marks while the lowest got 0.

It was clear from the quality of answers provided, that most candidates did study this area of the syllabus adequately. The question was divided in three parts. In part (a) candidates were required to explain the meaning of terms Norm value, Gross value and Mineral royalty. This part of the question was poorly answered as most candidates demonstrated a generally lack of knowledge of each of these terms.

Part (b) which asked candidates to calculate the mineral royalty tax (MRT) paid by the company on exports of copper was also poorly answered as candidates demonstrated a lack of knowledge of how MRT is computed. Candidates also failed to state due dates for the payment of mineral royalty tax.

The performance of candidates on part (c) (i) which required an explanation of the consequences of paying MRT late was equally poorly answered. Similarly, in part (c) (ii) candidates failed to explain the consequences submitting the mineral royalty tax return late.

## **QUESTION FIVE**

The general performance on the question was fair. 124 candidates out of the 216 that attempted it obtained 10 and above marks (representing a pass rate of 57.4%). The highest score was 19 out of 20 while the lowest was 0.

This question which covered customs and excise duties and presumptive taxes for transporters was fairly well answered by the candidates who attempted question.

In part (a) candidates were required to calculate the total import taxes paid on the importation of a second hand Toyota Caldina car and a second hand Toyota Coaster bus. This part of the question was generally well answered by most candidates. The most common mistakes made by candidates who performed poorly on this part of the question included:

Including costs incurred within Zambia in computing the VDP for customs purposes which was wrong as only costs incurred by the importer up to the point of entry into Zambia are included in the computation of the VDP.

Using the rates for customs and excise duty for brand new cars in computing the import taxes arising which was wrong, given that the question clearly stated that the motor vehicles imported were second hand motor vehicles.

Part (b) (i) asked candidates to explain the tax treatment of the expenditure incurred by the tax payer in running a public passenger transportation business and was generally poorly answered. Most candidates made the mistake of stating that this expenditure will be allowable in computing the tax payable by the tax payer, which was wrong. The tax payer in the question was required to pay presumptive taxes for transporters because he was individual running a public passenger transportation business. Business expenses are disregarded and are irrelevant when computing presumptive taxes paid since presumptive taxes for transporters are fixed amounts based on the sitting capacity of the vehicle being used. Presumptive tax is not computed on the profits made by a business.

Part (b) (ii) candidates were required to calculate the total amount of tax paid by tax payer in the tax year 2020 and was equally poorly answered by most candidates. This was because candidates wasted time calculating the taxable business profit and then subjecting the profits computed to tax using the graduated income tax bands for individuals which was wrong, instead of simply using the appropriate presumptive tax

rates provided in the tax table in the question paper to compute the amount of presumptive taxes arising.

**OVERALL PERFORMANCE OF CANDIDATES**

- i. Highest mark obtained in this paper: 87%
- ii. Lowest mark obtained in this paper: 03%
- iii. Overall pass rate in this paper: 54.7%

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

### **QUESTION ONE**

The performance was slightly below average. A total of 320 students attempted this question and only 155 students passed it representing a pass rate of 48.4%.

Part (a) required candidates to compute the weighted average cost of capital. The computation of WACC was required, but wrongly computed due to mistakes in computing the cost of debt and equity, resulting from incorrect weights, beta equity and interest payments not adjusted for taxation, when computing the cost of debt. Some students miscalculated the IRR (cost of debt of the bond), for instance by not taking the after tax interest as a cash flow, that is  $(1 - 0.3)100 = 70$ .

A few students wrongly assumed the bond (debt financing) was irredeemable, and hence used the wrong formula in computing the cost of debt. The bond was stated to have a five year maturity, and therefore redeemable.

Part(b) required candidates to evaluate the best way to invest the available funds (Capital rationing). The common error was to use the cost of equity ( $K_e$ ) as the discount rate. Other mistakes included students not differentiating between cash inflows and outflows through incorrect or absence of signage, for instance savings generated from capital allowances were designated as outflows by a few students.

To advise on the best way to invest the limited funding of K10 million, students needed to rank the projects using the NPV and Profitability Index (PI). Which could have been computed as either  $[PV \text{ of future cash flows}/\text{Initial Investment}]$  or  $[(NPV + \text{Initial Investment})/\text{Initial Investment}]$ . In a number of instances, learners did not compute and provide advice based on the PI.

Part(c) required candidates to explain the reasons for capital rationing. Performance was generally very good in this part of the question. The common mistake was to provide bullet points. A few displayed a lack of awareness of the rationale behind capital rationing.

### **QUESTION TWO**

The performance was very poor. A total of 198 students attempted this question and only 43 students passed representing a pass rate of 21.7%.

Part (a) required candidates to explain factors that a venture capitalist would consider before making a decision to invest in a company. Surprising some of the candidates failed to identify the appropriate factors and the answers were vague and not convincing.

Part(b) required the candidates to estimate the current value of a company using the dividend valuation method. Majority of the candidates failed to apply the dividend valuation to the scenario especially on the dividend growth aspect.

### **QUESTION THREE**

The performance was above average. A total of 292 students attempted this question and only 166 students passed it representing a pass rate of 56.8%.

Part (a) required candidates to advise on whether to take up the discount from its supplier. Some candidates were unable to calculate correct interest and consequently, the conclusion, i.e. whether to take the discount or not was incorrect.

Part (b) required candidates to discuss the reasons for and against holding on cash. Some candidates were giving general answers demonstrating lack of technical understanding. The motives were not properly given and as a result some candidates lost marks.

Part (c) required candidates to discuss reasons for lengthening cash operating cycle should be a cause of concern and the measures to be taken to shorten it. Some candidates clearly failed to identify and explain the various methods of reducing the operating cycle.

### **QUESTION FOUR**

The performance was poor. A total of 294 students attempted this question and only 95 students passed it representing a pass rate of 32.3%.

Part (a) required candidates to nature business risk and financial risk and how to assess them. Majority failed to explain how to measure these risks and some failed to clearly tell the difference between the two.

Part (b) required candidates to objectives of working capital management. Despite being repeated several times, some candidates did not know the objective of working capital management and some could not explain the conflicting interest of profitability and liquidity.

Part (c) required candidates to discuss the whether it is appropriate to have one company objective. Surprising most of the candidates failed to explain the importance of non-financial objectives as well as other secondary financial objectives.

## **QUESTION FIVE**

The performance was poor. A total of 163 students attempted this question and only 72 students passed it representing a pass rate of 44.8%.

Part (a) required candidates to explain the reasons for listing on capital market. The performance was fair although the reasons for seeking to list on LUSE very poorly explained

Part (b) required candidates to analyze the financial performance of the company and how to restructure the financial statements after listing. Surprising some candidate failed to calculate basic ratio and majority could not tell the meaning of the ratios calculated. Calculation for ratios such as (a) interest cover (b) gearing P/E ratio were poorly done.

## **OVERALL PERFORMANCE OF CANDIDATES**

- i. Highest mark obtained in this paper: 66%
- ii. Lowest mark obtained in this paper: 06%
- iii. Overall pass rate in this paper: 42.4%



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

### **QUESTION ONE**

The general performance on this question was good with 203 out of the 387 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 53%. The average score was 48%

This compulsory 40 mark question had three parts as follows:

Part (a) required candidates to prepare a consolidated statement of cash flow using the indirect method.

This part was not well answered by most of candidates, it seems this topic was ignored by most candidates because it had never been tested before under the CA programme. You are advised to avoid predicting what will come in the examinations, you are not the examiner. The syllabus is what must guide you.

The tax paid and depreciation figures were well treated by most of the candidates. Candidates are encouraged to revise the principles and format of group cash flows as this was an area of weakness for those who did not perform well. Brought forward knowledge is cardinal at advisory level. Knowing the format helps in earning free marks related to treatment of depreciation charge for the year, working capital changes, profit or loss on disposal of property, plant and equipment, proceeds from issue of shares, cash paid to acquire property, plant and equipment, tax paid and dividends paid just to mention but a few.

Loss of marks by some candidates was due to following mistakes:

- i. Deducted employee benefits paid (K58, 000) as cash outflow, instead of contributions (K243, 000).
- ii. Some candidates started with profit after tax (K23, 000), but failed to adjust for the tax expense (K15, 000), in order to come up with profit before tax of K38, 000.
- iii. Subtracted share of associate loss, the loss should have been added since it was deducted when profit was determined.
- iv. Adding back profit on disposal of plant, cash paid to acquire property, plant and equipment and dividends paid instead of subtracting.
- v. Ignoring deferred tax balances in calculating tax paid. Tax paid is computed by taking into account current and deferred tax balances, and income tax expense in the profit or loss account.
- vi. Swapped the balances brought forward and balances carried forward. Further, few candidates indicated balances on a wrong side of the ledger accounts. You are advised to use narrative if you are not comfortable with ledger accounts. Take note that both narrative and ledger accounts are acceptable.

Part (b) required candidates to evaluate any ethical and professional issues which may arise from accepting the offer.

This part of the question was attempted by almost all candidates and many scored high marks.

Generally, most candidates performed well in part b. There is an improvement in the way candidates are answering questions on ethics.

Part (c) required candidates to advise the directors how the joint arrangements should be treated in the consolidated financial statements through the contract period.

Part (c) was well answered by candidates. However, some candidates only discussed extensively the five steps under IFRS 15 –Revenue from contracts with customers, hence lost marks. Few candidates classified wrongly the contract as lease contract.

Candidates are urged to use the syllabus as an indication of the full range of topics that will be examined, so that nothing comes as a surprise in the examination. Note all that is in the syllabus is examinable, therefore students need to avoid specializing in certain areas only.

## **QUESTION TWO**

The general performance on this question was very poor with only 18 out of the 226 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 only 8%. The average score was 27%.

The question required candidates to explain and make necessary adjustments in finalizing the draft financial statements relating to three areas; revaluation of a property, issue of convertible loan notes and defined benefit pension scheme, and the deferred tax implications arising from the same. Most candidates failed to adequately address the requirement. Those who tried still failed to exhaust the issue of deferred tax implications.

## **QUESTION THREE**

The general performance on this question was poor with only 87 out of the 332 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 26%. The average score was 35%.

The question required candidates to advise directors of Sibajene plc on how to account for a lease (Transaction One) and on how to account for a Sales and Lease Back (Transaction Two) in line with provisions of IFRS 16 and and IFRS 15.

Transaction One

A number of candidates correctly discounted the future cashflows to find the PV of the minimum lease payments, though the final amount was incorrect because the cashflows for year 5 were not correctly determined. Most of the candidates did not include the unguaranteed part of the residue value of the asset as a year 5 cashflow. A good number of candidates used the fair value as the amount for initial recognition of the ROU asset and the lease liability. The common error was applying the old IAS 17 and to conclude that it was an operating lease, instead of a finance lease.

#### Transaction Two

A good number of candidates correctly stated that the transaction had a commercial substance and so it was a sales. However, they failed to calculate the amount at which the ROU asset would be recognized after the de-recognition. As a consequence of this, the profit on disposal that was subsequently calculated was incorrect. Only a handful of candidates were aware of the proportion:  $PV \text{ of MLP} / \text{Sales Proceeds} \times \text{Carrying amount}$ , as prescribed in IFRS 15. A good number of candidates found depreciation over 20 years, instead of the lease period, 4 years, which was shorter.

Noteworthy is the fact that most answers to this question were very unstructured. Candidates did not discuss issues methodically, providing subheadings in some logical order. At this level candidates are expected to present solutions logically even if the examiner does not demand a 'Report Format' to be used.

### **QUESTION FOUR**

The general performance on this question was extremely poor with only 10 out of the 155 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 6%. The average score was 23%.

The question tested candidates on application of IAS 23; borrowing costs and IFRS 9 Financial instruments. The few who chose it displayed a number of weakness, notably of which are the following;

- i. Failure to correctly calculate the amortized cost of the loan notes.
- ii. Failure to split the loan notes between the current and non-current liabilities.
- iii. Some candidates did not realize that interest cost accrued during the period when no active construction was taking place should be charged to the profit or loss statement. Consequently the amount to be amortized was not correct.
- iv. A tendency to write all that a candidate knows on the subject without relating it to the scenario at hand.
- v. Some candidates treated the question as a pure theoretical question and made little or no use of the monetary values given in the scenario. This resulted in them not getting the full credit even if their explanation were correct.

## **QUESTION FIVE**

The general performance on this question was poor with only 137 out of the 328 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 35%. The average score was 45% only.

The question required candidates to calculate conventional basic ratios and comment on the financial performance and position of the entity.

This question was reasonably well attempted by the majority of candidates. However, despite the examiner stating that relevant ratios were to be calculated and included in the comments, a number of candidates just commented on the changes in the absolute figures of entries in the financial statements from 2018 to 2019. Common errors were those of a biased evaluation. Some candidates would comment on liquidity and little on profitability or gearing, for example. Marks were restricted for each part of the evaluation, needless to say.

## **OVERALL PERFORMANCE OF CANDIDATES**

- i. Highest mark obtained in this paper: 80%
- ii. Lowest mark obtained in this paper: 04%
- iii. Overall pass rate in this paper: 19%

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

### **QUESTION ONE:**

A total of 529 candidates attempted this compulsory question. Out of this number, a total of 152 candidates representing 29% of the total who attempted this question scored more than 50% of the available marks.

The average score in this question was 17 marks out of a possible maximum of 40 marks. There were very few candidates who scored less than 20 marks in this question that managed to pass this examination.

It should be noted here that candidates who score less than half the available marks in the compulsory question stand a lower chance of passing the examination.

Part (a) of the question required candidates to explain the meaning of materiality and to state the distinction between materiality for the financial statements as a whole and performance materiality.

It was noted that the majority of candidates at this level scored very low marks largely because they simply could not explain the meaning of materiality. This is a topic that is fully covered in the lower paper CA 2.3 of the examinations.

The following were observed in answers to this question:

- i. A majority of the candidates simply gave wrong answers to the meaning of materiality while others gave benchmarks that the auditor uses to determine the materiality. Some candidates stated that 'materiality is when the matter in question has an impact on financial statements' without relating it to the users of financial statements.
- ii. Many candidates did not address the second part of the question which required a distinction between materiality for the financial statements as a whole and performance materiality and so lost the available marks for doing so.
- iii. Others simply gave wrong answers in trying to explain the distinction between materiality for the financial statements as a whole and performance materiality.
- iv. Some candidates related materiality to performance of client management clearly showing that the candidates do not understand the topic.
- v. This question required candidates to show an understanding of the fact that materiality levels are set at the planning stage of the audit and that this is based on some assumptions regarding the risk levels assessed by the auditor.
- vi. A sizeable number of candidates simply did not attempt to answer this part of the question losing all the available 4 marks.
- vii. Many did not attempt to answer the first part of the question requiring explaining the possible reason for a change in the materiality levels while many

others in answering the second part of the question went to great detail to discuss working paper documentation which was not specifically asked for.

- viii. Many candidates went to great trouble explaining the contents of auditor working papers rather than restricting themselves to documentation of materiality levels and any changes to materiality levels.

Candidates are reminded that different auditing standards give specific documentation requirements. ISA 320 gives specific documentation requirements for materiality. Other standards that give specific documentation requirements include ISA 240 on fraud and ISA 315 on Assessing risk.

Part (b) was divided into three sub questions. The first part required candidates to show knowledge of the need for audit firms to carry out annual client reviews in order to ensure that ethical issues including independence are considered before continuing being auditors of existing clients. This is important because if there are ethical issues that cannot be resolved, the auditor may need to consider resigning from the engagement rather than to continue with the engagement and risk being sued for professional negligence.

A majority of candidates scored poorly because:

- i. Some confused the annual client reviews with the review of audit working papers including hot and cold reviews. The fact that the question specifically states that this is annual client review and this should have helped candidates to conclude that these are not individual audit reviews which are done as part of quality control.
- ii. A sizeable number simply did not attempt to answer this part indicating that they had no knowledge of the matter.

The second part of (b) was an ethics question requiring candidates to evaluate ethical matters in the scenario and to recommend action that should be taken to mitigate the ethical matters so evaluated.

Candidates lost easy marks for the following reasons:

- i. Some candidates evaluated ethical issues from the point of view of the client for example stating that the company made sales made without the issuance of VAT invoices thereby considering this as an ethical issue.
- ii. Others simply could not identify any ethical issues in the scenario.
- iii. Some candidates gave general answers without relating to the scenario and so did not get full marks. At this level of the examinations candidates are required to use the information in the scenario given.
- iv. Some candidates evaluated ethical issues without suggested recommended action and so lost easy marks.

- v. A sizeable number of candidates confused ethical matters with risk and discussed the risks including tight schedule and the sudden departure of the financial controller.

Candidates are reminded that ethics is a major part of the syllabus and will be examined regularly. Ethics in this case is in the context of the auditor and not the client company. Candidates are encouraged to go through the revision and practice kit and attempt exam standard question on the topic of ethics.

The third part of (b) required candidates to consider matters that the firm should consider before accepting to be auditors of Zambezi Manufacturing Plc. Candidates were required to consider the matters in the scenario and general answers without reference to the scenario did not earn maximum marks.

Candidates lost marks because of the following:

- i. In some cases candidates have general answers without dealing with the matters specifically in the scenario. At this level of the examinations candidates are expected to use given information and apply the theory in applying to the scenario given.
- ii. Some candidates gave much less than the required number of points and disregarded the available marks in determining the length of answers expected.
- iii. Other candidates discussed business risks of Zambezi Manufacturing Plc. and these only become relevant after accepting appointment. The question required dealing with matters before accepting appointment and this should have guided candidates on which matters to include.

The final part of the question was on identification of business risks in Zambezi Manufacturing Plc. and relating these to the risk of material misstatement where appropriate.

Most of the candidates were able to identify the business risks while others lost marks because:

- i. They gave less than the required number of risks to gain maximum marks.<sup>7</sup>
- ii. They did not relate the business risks to the risk of material misstatement as required by the question.
- iii. Candidates writing more than what is necessary in the introduction to their answers for which they did not gain any marks. This is a waste of time which could be used in answering other questions.
- iv. Some candidates explained what Zambezi Manufacturing Plc. should do in order to mitigate the risks which were not a requirement of the question.
- v. A sizeable number of candidates discussed ethics in this part of the question for which they did not gain any marks. Candidates should clearly understand

the difference between business risks and ethics and should answer the question asked.

## **QUESTION TWO**

424 candidates out of 529 who sat for the examination attempted this question. The performance in this question was very poor with an average score of 5 out of a possible maximum of 20 marks. Many candidates scored zero out of the maximum 20 marks in this question.

A majority of the candidates gave very poor answers to this question with most simply not attempting parts of the question.

The following comments are made for the individual parts of the question:

Part (a): This part of the question required candidates to explain lowballing in relation to fees charged by the auditors and also to discuss the ethical guidance in relation to audit fees.

A majority of the candidates simply did not know the meaning of lowballing and had no idea on ethical guidance on fee determination.

Others simply attempted to define lowballing and did not address the remaining part of the question regarding ethical guidance on fee determination and the basis for determining the fee when submitting a tender for audit services.

Part (b): This question required an explanation of the statement made by the audit senior that auditors do not have any responsibility towards the financial statements after signing the audit report.

The question simply required an expression of knowledge of the responsibilities of the auditor after the signing of the report. The senior auditor was correct to assert that fact and candidates should have observed that the auditor has a passive duty during this period and that it is the duty of management to bring to the auditor matters of concern after the signing of the audit report.

Candidates should have stated that the auditors may have to perform some work if information that would have caused them to issue a different opinion comes to their attention.

Candidates lost marks largely because:



- i. Many candidates simply determined and concluded that auditors have or do not have any responsibilities after signing the audit report without giving any explanations. For a maximum of 6 marks this was not adequate and candidates at this level are expected to give valid arguments in support of their answers.
- ii. Some candidates simply went to great trouble explaining adjusting and non-adjusting events without discussing the responsibilities of management after signing the report.
- iii. A number of candidates explained in detail the responsibilities of the auditors before signing the report when the requirement was for responsibilities after signing the audit report.

Part (c) of the question required candidates to discuss the action that the audit firm should take in view of an adjusting event between the date of signing the audit report and the issuing of the financial statements.

Candidates should have stated that the auditor needed to discuss the matter with management and establish how management intends to deal with this matter. This is an adjusting event after signing the report and if considered material management is expected to amend the financial statements and the auditor performs further audit procedures on the amendments made. If management declines to amend the financial statements the auditor will then consider the impact on the financial statements of not doing so.

Candidates should have mentioned the need for a new audit report after the amendments and the need to extend the period of looking out for subsequent events to the date of the new audit report.

Basis knowledge of the provisions of ISA 560 is sufficient to enable candidates score maximum marks.

Many candidates scored very low marks largely because:

- i. They appeared to lack basic knowledge of the provisions of IAS 10 and ISA 560.
- ii. Some candidates gave general answers without making specific reference to the matter of the legal case in the scenario. Once again candidates are reminded that they should use information in the scenario when answering the questions and especially when specifically required to do so in the question.

Part (d): This question required candidates to evaluate an extract of the draft audit report and discuss the appropriateness of the matters contained in the extract. At this

level of the examinations candidates are required to be able to critique a proposed audit opinion/report.

A majority of candidates scored very poorly with a large number simply not attempting to answer this part of the question.

The following were the main reasons why candidates scored low marks:

- i. A large number of candidates that attempted this question explained the elements of a standard audit report without making reference to the extract in the question which was not the requirement of the question.
- ii. Many candidates brought in and discussed matters that are not in the extract for example discussing the emphasis of matter paragraph or the going concern paragraph. The question had sufficient matters to discuss without bringing in issues relating to matters not in the extract.

The following are some of the matters candidates should have discussed in their evaluation:

- i. The report is addressed to the directors instead of the shareholders.
- ii. The inclusion in the audit opinion of the use of an auditor expert was not appropriate.
- iii. The fact that there is supposed to be only one opinion in the audit report and the opinion in the 'Other information' paragraph is not appropriate.
- iv. Candidates could have observed that the paragraph on management responsibilities was appropriate.
- v. Under the auditor's responsibilities the statement that the auditors are responsible for the assessment of the ability of the client company as a going concern is incorrect.
- vi. The audit report is supposed to be signed by the engagement partner and not the audit manager.

Very few candidates gave answers that dealt with any of the above matters. Marks were awarded to those candidates who noted that since Zambezi manufacturing Plc. is a listed company a key audit matters paragraph was required.

Candidates should have a detailed understanding of reports if they are to correctly critique a suggested report/opinion. This topic is likely to be examined in this way in future examinations.

### **QUESTION THREE**

A total of 364 candidates attempted this question. The average score in this question was 5 out of the maximum 20 available marks. Only 21 candidates scored half and above the available marks.

Part (a) (i) of the question was on related parties and related party transactions. Candidates were expected to fully understand the accounting for related party transactions and the audit risk that arises.

A majority of the candidates simply did not attempt to answer this part. Many of those who attempted this question seemed not to understand risk of material misstatement. Candidates discussed business risks which were clearly not asked for in this question.

Candidates should have used their financial reporting knowledge to answer this question considering the fact that auditors gather evidence that transactions have been accounted for in accordance with relevant International Financial Reporting Standards.

Generally in the case at hand the two companies Quality Paints Plc and paint Manufacturers Plc are related parties. The risk that financial statements could be misstated arises from the fact that the related party relationship and the dealings with the related parties may not have been disclosed resulting in a misstatement of the financial statements.

A majority of the candidates scored well in part (ii) of the question. A minority lost marks because instead of specifying the work auditors should carry out, they discussed the objectives of the auditors attending the year-end inventory count.

Candidates are reminded to ensure that they understand the meaning of audit procedures and should note that audit procedures to test financial statement assertions will always feature in this examination.

Part (b) was a knowledge based question on quality control in the audit firm. Candidates should be familiar with the requirements of ISQC 1 which guides auditors with regards quality control at the firm level and also ISA 220 which gives guidance with regards quality control at the individual audit level. It had two subquestions.

Part (i) required candidates to discuss the importance of quality control at the firm level and at the individual audit levels.

A majority of the candidates did not score any marks largely because they discussed quality control from the client's point of view. They went on to suggest that the client product should be of good quality.

This topic has been examined in this way in the past and the poor performance is indicative that candidates do not go through past examination questions in preparing for the examinations.

Quality control is considered in the firm of auditors. It concerns the quality of the work that is carried out which forms the basis for the audit opinion. The auditors are 'selling' a product which is a service and it should be of a high quality in order to reduce the risk of being sued for professional negligence.

Part (ii) of the question required candidates to distinguish between quality control at the firm level and that at the individual audit level.

Many candidates failed to distinguish between quality control at these two levels. Many discussed the elements of quality control at each of these levels without relating them to each other as required by the question.

Basically quality control at the firm level is at a higher level for the firm and usually is coordinated by a quality champion who understands the provisions of the two standards ISQC 1 and ISA 220.

On the other hand quality control at the individual audit level is the responsibility of the engagement partner and is concerned with the work being carried out during the audit. Candidates should have observed that some of the provisions in ISQC 1 are the same as those in ISA 220. For 3 marks candidates should have given thought on the lines explained here.

#### **QUESTION FOUR**

This was the least attempted optional question with 347 candidates out of the 529 who sat for this examination attempting this question.

The performance in this question was very poor with only 14 of those who attempted it getting a core of more than half the available marks.

The average score was 5 marks with a large majority scoring between 0 and three marks.

Part (a): Most candidates scored poorly in this part of the question. The question required candidates to discuss the need for the audit firm to gain an understanding of the legal and regulatory framework applicable to Mwala Ltd.

To score well in this question, candidates needed to bring to bear their knowledge of the provisions of the ISA 315 Assessing the risk of material misstatements through understanding the entity and its environment. At this level of the examinations candidates should be able to deal with questions that they should apply their theoretical knowledge and apply it in answering questions.

Many candidates answered the question from the point of view of Mwala Ltd and went on to suggest internal controls that should be put in place to avoid litigation. Candidates tend to bring in other topics which are not related to the question being asked for example litigation was not relevant here.

The main reason why the firm should gain an understanding of the legal and regulatory framework is that the auditors require to assess the risk that there might be non-compliance which could result in the financial statements being misstated. An understanding also gives the auditors an opportunity to respond to the risks identified.

Part (b): Many candidates lost marks because instead of relating audit procedures to financial statement assertions they listed and explained financial statement assertions.

Candidates at this level should be clear about financial statements assertions and the fact that auditors design audit tests or procedures with a view to test the assertions made in the financial statements.

Candidates needed only to explain this giving a suitable example.

Part (c): This part of the question required candidates to discuss the risk with regards development costs in the financial statements of Mwala Ltd and to suggest suitable audit procedures to audit development costs.

Candidates scored poorly in this part of the question because:

- i. Candidates clearly did not know the provisions of IAS 38 Intangible assets which gives guidance with regards development costs.
- ii. Some candidates referred to wrong standards including IAS 16 Property, plant and equipment and IAS 37 Provisions, contingent liabilities and contingent assets.
- iii. Many attempted to answer the first part of the question requiring a discussion of the risk in auditing development costs and did not answer the second part requiring the audit procedures to audit development costs.

- iv. There were answers that were simply wrong and not relevant such as inspecting the calculation, observe the development costs.

Candidates are reminded that they need to have financial reporting knowledge if they are to pass this examination. It is unlikely that a candidate who has not done a financial reporting paper or whose knowledge is scanty will pass this paper. Audit procedures are a key area of the advanced audit and assurance paper and it is important that candidates familiarize themselves with the accounting of specific areas of the syllabus. Without financial reporting knowledge candidates will not be in a position to state suitable audit procedures.

The best approach candidates should take in answering such questions is to always ask what could go wrong in the financial statements. Audit procedures should be designed to address what could go wrong because that is what is likely to cause the financial statements to be misstated.

Part (d): Many candidates scored poorly in this part of the question. Again candidates should have knowledge of what decommissioning costs are.

It is also important for candidates to distinguish between the audit procedures that should be carried out when auditing decommissioning costs and the audit evidence the auditor expects to find when reviewing working papers. A majority of the candidates gave audit procedures rather than the evidence expected in the working papers.

What should be expected in the working papers is after the audit procedures have been conducted and the working papers are being reviewed. In other words the reviewer should know the evidence expected if the review will be meaningful. Candidates should refer to questions 22 and 23 in the CA 3.2 2017 Revision Kit which give illustrative questions on evidence expected.

## QUESTION FIVE

A total of 408 candidates attempted this question out of the 529 who sat for this examination. Only 36 candidates scored half and more of the available marks.

The average score in this question was 6 marks out of a possible maximum of 20 marks.

Part (a): A majority of candidates could not give satisfactory answers on the chances of John Banda succeeding in taking legal action against the company.

Auditor liability was examined in the June 2019 examinations. In this case candidates should have observed that John as an individual will be treated like a third party when suing the auditors. He will need to prove all three criteria of establishing and proving a duty of care on the part of the auditor, the breach of the duty of care by the auditor and the fact that as a result of the breach John suffered loss.

A majority of the candidates could not satisfactorily explain the facts in answering the question.

Part (b): This was a knowledge based question requiring candidates to explain the meaning of due diligence reviews and to discuss typical matters that auditors would enquire about in a due diligence review.

Most candidates simply did not attempt to answer this part of the question.

Those who attempted this part tried to explain due diligence reviews but did not address the matters that would be considered in this review. Some students compared due diligence with an audit of financial statements which was not required in the question.

Part (c): This was a knowledge based question which required candidates to answer using the case scenario in the question.

Candidates who studied group audits well should have had no trouble answering this question. It was disappointing to note that a majority of those who attempted this question performed poorly. Candidates gave answers such as that auditors have the right to be paid the audit fees, the right to enter the company premises etc.

Candidates are reminded that at the advisory level group audits will feature in the examinations and it is important that they understand the subject matter fully.

Part (d): This question required candidates to discuss the risks in the audit of the group financial statements. The case scenario contained enough information which should have made it easy for well-prepared candidates to identify the risks.

Most candidates lost marks because they did not use the information in the scenario when answering the question and gave general answers instead which did not attract full marks.

### **OVERALL PERFORMANCE OF CANDIDATES**

- i. Highest mark obtained in this paper: 67%
- ii. Lowest mark obtained in this paper: 14%
- iii. Overall pass rate in this paper: 11.2%



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

### **QUESTION ONE**

The general performance for this question was fair. 131 candidates out of the 253 that attempted the question obtained 20 and above marks out of 40. A pass rate of 51.8% was recorded. The highest got 33 while the lowest got 0 out of 40.

This was a case study-based compulsory question to be attempted by all candidates; and candidates scored reasonably well. It had four (4) sub-questions with a total of up to 40 marks. Part (a) required the candidates to explain the relationship between Strategy and Corporate Social Responsibility.

Most candidates were able to define Strategy and what Corporate Social Responsibility (CSR). However, the challenge came on explaining the relationship between two. Most candidates could not explain how CSR can be used as an effective strategy for business development. Firms use their profits to win communities on their side, as they advance social progress through meeting the social needs and development expectations of their target communities.

Part (b) asked candidates to discuss, with particular reference to Zambia, any three arguments against and any three arguments for Corporate Social Responsibility (CSR). This part was answered reasonably well by most candidates.

Part (c) required candidates to discuss two stances of Corporate Social Responsibility (CSR). Most candidates did not fare well on this part. Very few candidates made reference to the Laissez-faire approach; the enlightened self-interest (long term share holder interest); multiple stakeholder obligations and Shapes of Society.

Part (d) asked candidates to describe what is considered to be the basic elements of Corporate Social Responsibility (CSR). Most candidates unfortunately probably misread this question and instead made reference to elements of good Corporate Governance. However, those that understood what the question required, got good marks.

### **QUESTION TWO**

The general performance for this question was poor. Only 116 candidates out of the 244 that attempted the question obtained 10 and above marks out of 20. A pass rate of 47.5% was recorded. The highest got 18 while the lowest got 0 out of 20.

This was a scenario-based question on Agency Theory- The case of Fashiono Limited. It had four sub-questions. It had a total of up to 20 marks. This was a very popular question attempted. The majority of candidates who attempted failed to provide

solutions that would match the level at which this examination is presented. The solutions failed to address the issues demanded in the question. Candidates need to prepare well, and develop requisite skill for this level of examination. The solutions provided must make sense to the examiner. Candidates must avoid generalizations and simply address what the question has asked. Solutions must be well present, coordinated and demonstrate that they are well thought through.

The last part of calculations received the worst performance. It would appear as though students were not expecting any calculation.

### **QUESTION THREE**

The general performance for this question was fair. 138 candidates out of the 243 that attempted the question obtained 10 and above marks out of 20. A pass rate of 56.8% was recorded. The highest got 20 while the lowest got 0 out of 20.

This question was on Value-chain, SWOT analysis and the process of strategic choice- the case of South African Breweries (SAB). Most candidates responded well to the question. However, there still some that could not give the correct answer to part (b) on SWOT Analysis or TOWS Matrix and part (c) on the process of making Strategic Choices. Most candidates could not make reference to the three generic business strategies for competitive advantage

### **QUESTION FOUR**

The general performance for this question was very poor. 4 candidates out of the 19 that attempted the question obtained 10 and above marks out of 20. A pass rate of 21.1% was recorded. The highest got 14 while the lowest got 0 out of 20.

This was the case of the Ethics Resource Center. The question had three parts. Part required candidates to describe how a company can safeguard it systems and procedures in terms of unethical behaviors. Very few candidates attempted this part. From the few that did, they gave wrong solutions.

Part (b) was a bout describing a suitable model a company can utilize to determine the most ethical outcome of implementing a strategy to curb alcohol and drug abuse.

Very few candidates attempted this part. From the few that did, none mentioned the AAA model.

Part (c) was about calculating the EVA. This part was poorly answered. Perhaps candidates need to expect calculations even in Management papers.

## **QUESTION FIVE**

The general performance for this question was fair. 127 candidates out of the 251 that attempted the question obtained 10 and above marks out of 20. A pass rate of 50.6% was recorded. The highest got 20 while the lowest got 0 out of 20.

This was a question on Competition and industry analysis- the case of Mindolo Beverages Company. Part (a) of the question was about demonstrating the five (5) barriers to entry. Most candidates answered this question well. However some confused the solution with Porters 5- Forces, than giving 5- barriers to entry.

Part (b) asked candidates draw the Porters 5-Forces model. This part was answered well by most candidates. However labeling correctly was a problem for some.

Part (c) was to advise the company whether to enter this industry or not. This part received a split responses as to whether the company should join the industry or not. Either response unfortunately could not justify their position. Full marks were allocated to those that fully justified their response.

### **OVERALL PERFORMANCE OF CANDIDATES:**

- i. Highest mark obtained in this paper: 81 %
- ii. Lowest mark obtained in this paper: 08%
- iii. Overall pass rate in this paper: 53%

## **SUBJECT CA 3.4 ADVANCED TAXATION**

### **QUESTION ONE**

The general performance for this question was poor. Only 53 candidates out of the 161 that attempted the question obtained 20 and above marks out of 40. A pass rate of 32.9% was recorded. The highest got 39 while the lowest got 1 out of 40.

This compulsory question covering tax planning involving incorporation of partnership into a limited company and taxation and investment policy was generally reasonably well answered. In part (a) which candidates were required to explain any five tax incentives available to businesses engaged in manufacturing. Candidates lost an opportunity to score some easy marks as the majority of candidates were only able to state two or three out of the five required incentives, whilst weaker candidates completely failed to state the appropriate incentives altogether.

In part (b) candidates were required to compute the final partnerships taxable profits and show the allocation of the profits to each partner.

The main challenge faced by candidates who performed poorly on this part of the question, was failing to compute the capital allowances claimable, when computing the final taxable profit of the partnership. 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. This because on incorporation, assets held by the partnership qualifying for capital allowances are deemed to have been disposed of at their market values. Therefore, balancing charges or balancing allowances should instead have been computed by comparing the Income Tax values of the assets with the market values of those assets on the date of incorporation.

Part (c) (i) which required candidates to calculate the values of the shareholdings of each of the two shareholders in the new company was generally answered well. However, some as 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 (c) (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 and was generally well answered. However, weaker candidates failed to compute the amount of Property Transfer Tax arising on the disposal by the tax payer, of 10% of his holding in the company because they failed to determine the realized value of the shares disposed of.

Part (c) (iii) asked candidates to calculate the taxable business profit and the income tax payable by the newly formed company for the tax year 2019.

Common challenges faced by candidates who scored poor marks on this part of the question included:

- i. Failing to time apportion each director's emoluments to relate to the six 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 each individual to the NAPSA ceiling given that the earnings of these two directors were above the NAPSA threshold for the tax year 2019 and computing the employer's NAPSA contributions for the whole year, instead of just computing the contributions payable for the last six months when the individuals ran the company as directors. .
- iii. Failure to calculate the correct amount of capital allowances. Mistakes here included:
- iv. Using the wrong rates to compute the wear and tear allowances
- v. Using the original costs of the assets in computing the allowances when market values on the date 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.
- vi. Time apportioning the capital to the six months, the business was run as a company, when these should have been claimed in full.
- vii. Deducting the dividends drawn by the shareholders as allowable deductions, when these are not allowable for tax purposes.

Part (d) which required a computation of the income tax payable by each individual was generally poorly answered.

The common mistakes by candidates in answering this part of the question were:

- i. Not aggregating each individual's allocation of the partnership's profit generated in the first six months when the business was run as a partnership computed in part (b) with the salaries drawn by each individual in the last six months when the business was ran as a company in computing the final income tax payable by each individual.
- ii. Using the annual salaries drawn by each individual in the computation instead of only including salaries for the six month period when the business was ran as limited company.

Part (e) (i) required candidates to advise the individuals of the tax implications of drawing interest free loans of K400,000 each from the business to finance the construction of personal houses and was also generally poorly answered. Most candidates demonstrated a lack of knowledge of the taxation implications of a

company being deemed to have made a loan to effective shareholders and therefore failed to provide the required explanations and computations.

In part (e) (ii) candidates were required to advise the tax payers of the tax benefits for both for the company and employees of an approved share option scheme. Most candidates scored poor marks on this part of the question because they provided explanations of the general benefits of share option schemes as opposed to the tax benefits which were actually requested for in the question.

## **QUESTION TWO**

The general performance for this question was equally poor. Only 35 candidates out of the 139 that attempted the question obtained 10 and above marks out of 20. A pass rate of 25.2% was recorded. The highest got 17 while the lowest got 1 out of 20.

This question which examined the interaction of taxes and ethical issues in tax practice was generally poorly answered.

In Part (a) candidates were required to advise the tax payer of the taxation implications various transactions, transactions (1) to (5) which occurred during the year. Candidates provided good answers for transaction (1) which required an explanation the tax implications of the company paying out dividends. However, for transaction (2) candidates failed to identify all the relevant tax issues arising from the acquisition of a US denominated loan by the taxpayer from its foreign based parent entity.

In transaction (3) candidates were required to explain the taxation implications arising from the purchase air conditioners. Most candidates failed to explain that input VAT on air conditioners is not recoverable and therefore also failed to compute the correct amount of capital allowances available on the air conditioners.

Transaction (4) required an explanation of the taxation implications arising from the acquisition of a combine harvester under a finance lease and was generally well answered with the exception of a few candidates who used the wrong rates in computing the capital allowances, which will be claimable.

Transaction (5) which required an explanation of the tax implications of receiving interest income from sources by the tax payer was also generally well answered, although some candidates failed to compute the amount of double taxation relief that was available on the foreign income.

In part (b) candidates were required to evaluate the ethical and professional issues faced by the practitioner in relation to his discovery of undisclosed income by the tax payer in the question. Most candidates scored poor marks on this part of the question because they did not relate their answers to the specific facts outlined in the scenario. In most cases, candidates merely provided explanations of the general fundamental

principles of the code of ethics without applying them to the scenario, whilst others simply provided explanations the general threats to independence.

### **QUESTION THREE**

The general performance for this question was poor. 18 candidates out of the 113 that attempted the question obtained 10 and above marks out of 20. A pass rate of 15.9% was recorded. The highest got 17 while the lowest got 1 out of 20.

The general performance on this question which covered taxation of insurance companies and tax planning relating to alternative remuneration packages was very poor.

Even though candidates managed to provide fairly good answers for Part (a) which required a computation of the tax adjusted profit and the income tax payable by an insurance company for the tax year 2019, the performance of candidates on part (b) of the question was very poor resulting in overall poor performance on the question.

Part (b) required candidates to provide an evaluation, supported by relevant calculations of two alternative packages and determine which package will result in higher income tax savings for the company including explanations of the tax implications for the company for each package.

Common mistakes made by candidates in answering this part of the question led to loss of marks included:

- i. Computing the amount of pay as you earn that would be paid by an employee under each package instead of computing the tax savings arising for the company under each package as required by the question.
- ii. Explaining the taxation implications from the point of view of an employee receiving the benefits under each package, instead of explaining the taxation implications for the company.
- iii. Failing to explain the taxation implications for the company of providing benefits in kind which included free canteen meals, free residential accommodation and personal-to-holder cars, which are taxable on the company. Ultimately candidates failed to reach a reasoned conclusion as to which package was beneficial for the company from a taxation point of view.

### **QUESTION FOUR**

The general performance for this question was very poor. Only 19 candidates out of the 122 that attempted the question obtained 10 and above marks out of 20. A pass rate of 15.6% was recorded. The highest got 20 while the lowest got 0 out of 20.

This question examined international aspects of taxation and was poorly answered by most candidates who attempted the question. The question comprised four parts.

In part (a) candidates were required to discuss whether the two foreign companies in the question would be treated as permanent establishments of the Zambian resident company. This part of the question was poorly answered by most candidates who failed to provide the appropriate explanations and demonstrated a total lack of knowledge of what a permanent establishment is. Candidates confused a permanent establishment with the criteria used to determine the residence of a company for income tax purposes, and therefore provided explanations as to whether the companies in the question will be treated as being resident in Zambia for tax purposes.

Part (b) required candidates to calculate the amount of income tax payable by a Zambian resident company receiving income from foreign sources and was also poorly answered. The common mistakes included:

- i. Failing to gross up the dividends received by the Zambian resident company from its two foreign based subsidiaries before including the dividends in the company income tax computation.
- ii. Failing to compute the correct amount of double taxation relief available on the dividends received from the two foreign based subsidiaries.

Part (c) candidates which candidates required to calculate the amount of income tax payable by a Zambian resident individual receiving employment income from Zambian sources and dividend income from foreign sources and was equally poorly answered. Common challenges faced by candidates in answering this part of the question included:

- i. Including the net dividends received from foreign sources in the personal income tax computation of the tax payer instead of grossing up the dividends first and then including the grossed up amounts in the personal income tax computation.
- ii. Subjecting the dividends received from foreign sources to tax at the rate of 15%, instead of aggregating the dividends together with the other income the tax payer received from Zambian sources and then subjecting the total income to the income tax bands for individuals.
- iii. Failing to compute the correct amount of double taxation relief available on the dividends received from foreign sources.

In part (d) candidates were required to explain the international tax implications if the two foreign based subsidiaries were to invoice their Zambian based parent for the musical instruments supplied to the Zambian parent at prices that were higher than the market prices and explaining adjustments that would be made to the profits of the Zambian resident parent company. A good number of candidates showed a lack of knowledge of international transfer pricing issues and therefore failed to provide the required explanations.



## **QUESTION FIVE**

The general performance for this question was poor. Only 33 candidates out of the 102 that attempted the question obtained 10 and above marks out of 20. A pass rate of 32.4% was recorded. The highest got 16 while the lowest got 0 out of 20.

This question which covered tax audits and tax investigation, taxation of mining operations and, investment planning for individuals was generally poorly answered. Part (a) (i) which required candidates were required to describe the nature and purpose of a tax audit and explaining how it differs from a tax investigation was generally answered well.

Part (a) (ii) which required a computation of the amount of mineral royalty tax (MRT) arising on the sale of copper and other base metals for the month of December 2019, was also generally well answered. However, a few candidates failed to compute the correct amount of MRT because they used the gross value of the minerals instead of the norm value.

In part (a) (iii) candidates were asked to evaluate whether the company in the question, was thinly capitalized and to give a detailed explanation of how the interest on the loans incurred by the company will be dealt with when computing the taxable profit. Most candidates managed to provide satisfactory answers for this part of the question, except for few candidates who demonstrated a general lack of knowledge of thin capitalization and therefore failed to provide the appropriate explanations.

In part (b) candidates only a few candidates were able to explain the operation of the collective investment scheme as required by t the question, with most of them demonstrating a lack of knowledge what the schemes are and therefore scored poor marks.

Part (c) required candidates to advise the tax payer of the tax treatment of income from a collective investment scheme both, for the fund manager as well as for an individual investor. Only a few candidates were able to provide the required explanations. Most candidates failed to differentiate between the taxation implications for the fund manager and the tax implications for an individual investor.

### **OVERALL PERFORMANCE OF CANDIDATES**

- i. Highest mark obtained in this paper: 82%
- ii. Lowest mark obtained in this paper: 07%
- iii. Overall pass rate in this paper: 35.8%

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

### **QUESTION ONE**

This is a 40 marks compulsory question. A 39.6% pass rate was recorded in this question with highest mark being 31 out of 40. The performance was below average. Some candidates were unable to apply the requirement to the given scenario. In most scripts candidates were answering this question using book knowledge. Candidates should appreciate that this is an advisory level paper hence requires knowledge, application and professional judgment. Most of them failed to display the professional judgment by not addressing the verb 'Evaluate'.

Part A: this part was not well answered by the majority of candidates except for few candidates who were able to evaluate the performance reporting system as requested. The majority of candidates were instead evaluating performance by calculated the ratios which were already given in the question hence earning no marks. The question wanted candidates to comment and evaluate the system. It was expected of them to say something good or bad about the performance system.

Part B: it carried most marks and therefore required the candidates to put in a lot of effort. Candidates were expected to draw on their knowledge of mission statements and their benefits and drawbacks. They should have referred to the scenario. Candidates should have also defined what CSFs and KPIs are, and then explain how they relate to each other. The key point here is that KPIs need to be used to help an organisation measure how well it is performing in relation to its CSFs. It was expected of the candidates to offer a recommendation of which most of them did not.

Part C was well answered by the candidates though with some difficulties in interpreting the measures and also identifying and evaluating the type of benching marking used in the question.

### **QUESTION TWO**

Thirty – seven (37) candidates attempted this option question. The performance was very poor as only 5 candidates achieved a pass. In most cases, candidates did not appreciate the duration of the project and failed to identify the relevant costs for an investment appraisal. In certain cases, candidates were unable to calculate the capital allowances and to appropriate allocate them. The net present value computations will continue featuring in this paper as it is one of the key areas of the syllabus.

This question required candidates to assess the financial viability of the project using the net present value method in part (a). In part (b) a discussion of six qualitative

factors that should be considered in deciding whether to invest in the cashew project or not.

The performance on this question was moderate. Challenges faced included how to deal with hectares planted and the timing of the harvests, timing of receivables and payables, the certainty equivalent level of 85% and inclusion the irrelevant feasibility study cost in the computation.

Part (b) was very well attempted probably because any reasonable qualitative factor relevant to the project was accepted as the answer. However, some candidates were giving generic answers instead of scenario basis.

### **QUESTION THREE:**

The performance in this question was excellent. The question recorded a 78% pass rate. Most candidates exhibited understanding of the topic on the effect of quality on performance. However, those who failed to apply the knowledge onto the scenario got no or less marks.

Both parts of the question required the candidates to look at the issues of quality and their impact on the performance of the company. A number of candidates dealt on quality costs instead of the issues of quality in relation to performance management at Dorly's. Candidates are advised that passing of this paper is based on how one relates the requirements to the scenario and not on knowledge dumping.

### **QUESTION FOUR**

This was a theoretical and one of the most attempted questions. The performance was very disappointing as only six out of the thirty-five scripts got the passes. The poor performance could be attributed to failure to apply the knowledge in the given scenario.

Though an optional question, more than 72% of the candidates attempted this question. The question was on performance management. It comprised part (a) and part (b).

Part (a) focused on how medium term strategy may influence tactical decisions. Most candidates did not seem to understand the question or just did not know what to do with the task. A good number of the scripts did not answer the requirement.

They were expected to identify the short term achievements such as sales growth, profits, keeping costs within budget and efficiency improvements upon which managerial performance is measured and state tactical decisions that involve the

sacrifice of longer term interests. They were also supposed to state clearly how organisation's strategic interests can be served by S/L trade-offs.

Part (b) was scenario based focusing Corporate Social Responsibility (CSR). Candidates needed to explain CSR and sustainable development in the context of modern performance management and how CSR could help in the sustainability development of the company in the scenario.

Generally, most candidates did well on this part of the question as they scored more than 50% of the marks allocated to this part.

## **QUESTION FIVE**

This was the least attempted question with least pass rate. The performance was very poor. Transfer pricing is a challenging topic for most students and hence avoided at all means. Most candidates failed to apply the general rules of setting a transfer price later on the purpose of having a transfer price policy in an organisation. This topic will continue to feature in the future examinations as it is an important area when evaluating divisional performance.

Part (a) – Candidates were expected to apply the general rules of establishing a transfer price. Some candidates failed to explain the concept of transfer pricing.

Part (b) (i) and (ii) Most candidates failed to determine the opportunity cost hence arriving at wrong totals. In certain cases the decisions were not being made.

Part (c) – A number of candidates did well in this part of the question though some failed to revise the operating and capital employed figures.

## **OVERALL PERFORMANCE OF CANDIDATES**

- i. Highest mark obtained in this paper: 62%
- ii. Lowest mark obtained in this paper: 03%
- iii. Overall pass rate in this paper: 27.1%

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

### **QUESTION ONE**

The performance was very poor. There were 72 candidates who attempted this question and only 20 passed representing 27.78% pass rate.

Part (i) required candidates to evaluate the financial viability of the proposal using the NPV method. Majority of the candidates failed to compute cash flows such as materials labour and tax savings. Additional labour costs were not taken into account. Surprising most of the candidates had challenges with computing the annuity factors and timing of cash flows.

Students were not discounting net cash flows to get present values. The combined capital structure was also wrongly calculated with wrong figures. Both new asset Beta of enlarged company and equity Beta of enlarged company were also wrongly calculated because most students used wrong formulae.

Part (ii) required candidates to discuss the reasons a company might choose borrowing at floating rate compared fixed rate. Majority of the candidates provided general answers exhibiting lack of technical knowledge of the subject matter. Most candidates did not understand floating rates and could not explain well.

### **QUESTION TWO**

The performance was very good. There were 45 candidates who attempted this question and only 33 passed representing 73.33% pass rate.

Part (a) of this question, required computation of the dividend payable to the holding company, based on the company's current dividend policy. Generally, learners were able to compute the dividends payable by the subsidiaries to COP, except that payable by the CHM Group to COP, was miscalculated because they did not take in account the minority interest in the computation.

Students performed very poorly on part (b) of the question. Learners were unable to determine the free cash flow for the subsidiaries, which could be quantified by adding back to the profits for the year, the depreciation, less the reinvestments. The new dividend was then obtainable by applying 40% on the free cash flow.

Part (c) required discussion of dividend policy of the holding company, COP. Exceptional answers highlighted the fact that a higher dividend was payable under the current dividend policy than the using the free cash flow model, and therefore validating the CFO's proposal. Most students performed well in this part by advising against usage of dividends by COP as the only source of income to finance its operational and investment plans. However, overall performance on the question was poor due to poor scores in part(b), with most students showing little or no understanding of the computation of free cash flows,

### **QUESTION THREE**

The performance was very poor. There were 58 candidates who attempted this question and only 14 passed representing 24.14% pass rate.

Part (a) required candidates to explain the course of action for the company to manage the currency risk. Majority of the candidates could not identify the course of action.

Part (b) required candidates to discuss the merits and demerits of derivatives which most candidate exhibited shallow knowledge.

### **QUESTION FOUR**

The performance was poor. There were 55 candidates who attempted this question and only 20 passed representing 36.36% pass rate.

The question required computation and discussion of the range of values for CEC using the assets based, P/E ratio, dividend based and cash flow based valuation methods, and a recommendation whether the directors should accept or reject the offer.

Learners generally did not appreciate the required calculations for the dividend and cash flow valuation methods. Very limited discussion of the valuation methods was also provided. Since valuation computations were incomplete or incorrect, most students were not able to make a supported recommendation whether the offer for CEC shares should be accepted or not by the company.

### **QUESTION FIVE**

The performance was very poor. There were 30 candidates who attempted this question and only 6 passed representing 20% pass rate.

Part (a) and (b) required candidates to explain the capital structure theories and to assess the value of a firm using the MM theory. Surprising majority of the candidate exhibited shallow knowledge of the theories. They failed to explain them.

Part(c) required candidates to discuss how a financial manager could alter the debt to equity ratio in order to maximize the value of a company. Majority failed to answer the question.

### **OVERALL PERFORMANCE OF CANDIDATES**

- i. Highest mark obtained in this paper: 62%
- ii. Lowest mark obtained in this paper: 04%
- iii. Overall pass rate in this paper: 25.4%

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

### **QUESTION ONE**

A total of 343 candidates attempted this compulsory question. Out of this number, a total of 107 candidates scored more than 50% of the available marks.

The average score in this question was 17 marks out of possible maximum 20 marks.

Part (a): This part of the question required candidates to explain the objectives and benefits of public sector auditing.

Some candidates lost marks because they confused objectives and benefits for example by stating that transparency and accountability are benefits of public sector auditing when they are the objective which public sector auditing tries to achieve.

There were a few candidates who defined financial, performance and compliance audits which were not asked for and no marks were awarded for doing so. Other candidates gave objectives of the Central Medical Stores giving answers such as ensuring that drugs and medical supplies are delivered and too ensure that stores distributes drugs efficiently.

Part (b): This part of the question was a compliance question requiring candidates to describe the procedures they would undertake to test for compliance with the agreement made.

Candidates lost marks because of giving general answers without referring to the procurement procedures itemized in the question.

The audit procedures that candidates should have discussed relate to procedures aimed at establishing whether or not Central medical Stores complied with the agreement. For example with regards regulation 1 requiring that there should be a procurement plan for awarding contracts with a determination of an estimated cost, the audit procedures required is for the auditor to check a sample of procurements and confirm that there was a plan and estimated costs before procuring occurred.

Part (c): This question had two parts which candidates were required to address. The first part required candidates to explain how absence of documentation in a client affects audit risk and the second part required candidates to suggest measure that the auditor will take in the absence of audit documentation which will enable the auditor reach an appropriate opinion.

Candidates lost marks because of among other reasons poor presentation of the answers resulting in candidates not dealing with the second part of the question requiring the measure that the auditor should undertake in the absence of documentation. In a number of cases candidates assumed that the lack of documentation is in the audit firm rather than the client being audited.

Many candidates could not explain how the absence of documentation affects audit risk and instead explained audit risk without relating it to the absence of documentation.

Candidates should have noted that auditors need to carry out alternative procedures to gather absence in order to obtain sufficient appropriate evidence and if still unable to do so they will consider how absence of documentation will impact the audit opinion.

Part (d): This part of the question required candidates to identify and explain the risk of fraud in the accounting and stores management at the Regional Offices of the CMS.

Other candidates explained risks rather than the risk of fraud. For example discussing payments to ghost suppliers instead of discussing lack of segregation of duties which is a fraud risk factor.

Candidates were expected to use the available information in the scenario in answering this part of the question.

A majority of candidates did not give satisfactory answers to this part of the question.

Part (e): This part of the question required candidates to explain how sufficient appropriate evidence would have been obtained in order to answer the questions in the scenario.

Most candidates did not address the questions referred to and gave general answers not related to the question. Others discussed performance audits and discussed in detail the three 'e's of economy, efficiency and effectiveness.

Many others discussed the methods used to gain an understanding of an entity of enquiry, observations and analytical reviews.

Part (f): This part of the question required candidates to describe expected controls over the outsourced inventory management system.

Candidates performed poorly in this question and many lost marks because:

Candidates discussed general controls without reference to the scenario.

Other candidates discussed control objectives instead of dealing with the controls expected in the system.

Some discussed contents of an inventory system discussing matters of FOFO methods, Bin Cards etc.



## **QUESTION TWO**

A total of 88 candidates attempted this question out of whom only 3 scored half or more than the available marks. This was the least attempted optional question.

The average score in this question was 5 marks out of a maximum possible marks of 20 marks.

Part (a): This part of the question required candidates to suggest reasons for financial, compliance and an evaluation of internal controls being carried out by the public sector auditor at the same time.

A majority of candidates did not answer this part of the question resulting in them losing all the available marks.

Those who attempted the question simply explained financial and compliance audits without dealing with the part that required an explanation of the reasons why these can be done at the same time.

Candidates needed to observe that there are cost benefits in carrying out these tasks at the same time and it is also convenient to the entity being audited and the auditor where they are engaged to perform all three.

Part (b): This part of the question required candidates to distinguish between planning and performance materiality.

Generally, candidates were able to explain planning and performance materiality but answers fell short of explaining the importance and use of performance materiality which is generally set at a lower level than materiality set at the planning level.

Part (c): This part of the question required candidates to describe analytical procedures that would be appropriate to use with regards to objectives of Lusaka Park District Hospital.

Candidates lost marks because of not attempting this part of the question. Some were able to suggest suitable analytical procedures but the answers fell short of the requirement which required an explanation of further action required after undertaking the analytical procedures.

Part (d): This question required candidates to describe areas that must be considered before issuing an unmodified opinion.

The facts in the question refer to the unmodified opinion and candidates should have used their theoretical knowledge to answer this. Basically when the auditor is satisfied that sufficient appropriate audit evidence has been obtained and the financial statements are not materially misstated then the unmodified opinion is appropriate.

A large majority of candidates who attempted this part of the question did not give satisfactory answers to warrant maximum marks.

### **QUESTION THREE**

A total of 323 candidates attempted this question out of whom 133 scored half or more of the available marks.

The average score in this question was 9 out of the possible maximum marks of 20.

Part (a): This part of the question required candidates to describe the objectives of a compliance audit in public sector audits.

Many candidates defined compliance auditing without describing the objective of carrying out a compliance audit. They lost easy marks for not doing so.

Candidates should have observed that compliance audits are performed with a view to confirm compliance or non-compliance of the audited entity with a given criteria.

There were also candidates who gave less than the expected number of points to attract maximum points.

Part (b): This part of the question required candidates to explain the elements of public sector auditing suggesting the type of engagement appropriate for the audit of Copper Street Ltd.

Candidates lost marks because of not dealing with the requirements of the question. A sizeable number of candidates explained the elements of public sector auditing but did not address the second part of the question which required a suggestion of the type of engagement that would be appropriate in the case scenario.

Some candidates confused the elements of public sector auditing with ethical principles which are different and no marks were awarded for this. A number of candidates explained financial, compliance and performance audits in attempting to answer this question.

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

Part (c): This question required candidates to describe the audit evidence expected in the compliance audit of Copper Street Ltd using the information in the scenario.

Many candidates lost marks because they described audit procedures rather than the expected evidence expected in the compliance audit. For example, obtaining the surveyor's report which is an audit procedure.

Part (d): This part of the question required candidates to discuss the implications with regards the integrity of the management of Copper Street Ltd with regards the incident that happened and commenting on any ethical matters arising.

Candidates lost marks because some defined and explained integrity instead of discussing the implication of lack of integrity by management. A number of candidates only addressed the first part of the question and did not address the part the required a comment on ethical matters.

#### **QUESTION FOUR**

A total of 323 candidates attempted this question out of whom 69 scored half or more of the available marks.

The average score in this question was 8 out of a possible maximum marks of 20.

Part (a): This part of the question required candidates to describe the purpose of public sector audits and an explanation of transparency and accountability.

Most candidates scored well in this part of the question

Part (b): This part of the question required candidates to explain the possible audit objective and also to propose the approach that could be used in an audit of the procurement of drugs in the ministry.

Most candidates lost marks because:

- i. Many candidates dealt with only one part of the question which was on the audit objective but did not address the part that required a discussion of the audit approach.
- ii. Others gave less than the required number of marks to attract marks.

Part (c): This part of the question required candidates to explain the principles of economy, efficiency and effectiveness in carrying out a performance audit of the procurement of drugs.

Candidates lost marks because they simply explained each of these terms without going into details on how they can be achieved in the performance audit of the procurement of drugs. Candidates should have noted that for 9 marks there are 3 marks for each of the three elements and so giving one point will not attract maximum marks.

### **QUESTION FIVE:**

296 candidates out of the 343 who sat for this paper attempted question this question out of this number 146 candidates score half or more of the available maximum points of 20.

Of those who attempted this question, 146 candidates scored half or more of the available marks.

Part (a): This part of the question required candidates to explain why the use of data analytics is important in forensic investigations.

On average the candidates who attempted this question scored the available marks and were able to give satisfactory answers.

Part (b): This was a knowledge based question requiring candidates to features of a forensic audits which distinguishes them from other types of audits.

Many candidates lost marks because they gave far less than the expected features. Candidates were expected to give up to six valid points and those who gave less than that scored less marks

A few candidates simply did not attempt this part of the question suggesting that they did not know the subject matter.

Part (c): This question required candidates to describe the key stages in a forensic investigation. This is knowledge based and these are well explained in the study manual.

Candidates lost marks largely because:

- i. Many did not give the expected number of stages and so losing easy marks.
- ii. There were some who simply did not attempt to answer this part of the question.

Part (d): This part of the question required candidates to recommend procedures that could be used in a forensic investigation on the alleged bribery case.

Most candidates did not attempt to answer this question. For those who attempted the question candidates gave general answers without referring to the scenario.

### **OVERALL PERFORMANCE OF CANDIDATES**

- i. Highest mark obtained in this paper: 67%
- ii. Lowest mark obtained in this paper: 13%
- iii. Overall pass rate in this paper: 33.2%

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

### **QUESTION ONE**

The performance was very poor. There were 7 candidates who attempted this question and no one passed representing 0% pass rate. Part (a) required candidates to evaluate the financial viability of the proposal to invest in a hospital using the NPV method. ). Majority of the candidates had problems in allocating specific expenses under the appropriate column (year) in order to determine the correct Net Cash Flows for the purposes of discounting. Some candidates failed to determine the annuity factor resulting into incorrect calculation of Present value outflows.

Part (b) and (c) required candidates to explain the two types of risks that the Zambian government would be exposed to after the investment and two ways in which fiscal risk can be categorized as recommended by the IMF. Some candidates were unable to effectively categorize the Fiscal Risk Categorization as recommended by the IMF.

### **QUESTION TWO**

The performance was below average. There were 5 candidates who attempted this question and only 2 passed representing 40% pass rate. Part (a) required candidates to explain the nature and essential features of PPP arrangement and four (4) PPP delivery methods available to the city council. PPP delivery methods were poorly explained resulting in loss of marks. Part(c) required candidates to recommend to the council which of the four delivery method is most suitable for the sports facility. Some candidates failed to answer this question.

### **QUESTION THREE**

The performance was excellent. There were 5 candidates who attempted this question and only 4 passed representing 80% pass rate.

Part (a) required candidates to explain the factors affecting the budget process in the past and the current budget reforms in the public sector. Part (b) required candidates to explain the difference between ABB and OBB. Part(c) required candidates to explain the challenges of implementing the OBB in Zambia. Differences between OBB and ABB did not come out clearly and challenges were not well spelt out

### **QUESTION FOUR**

The performance was excellent. There were 7 candidates who attempted this question and only 6 passed representing 85.71% pass rate.

Part (a) required candidates to discuss the likely causes of fraud and corruption and the role of Accountant in fraud prevention and detection. Part (b) required candidates to explain five duties of the Auditor General and Parliament. Candidates did not have many problems.

## **QUESTION FIVE**

The performance was excellent. There were 5 candidates who attempted this question and only 4 passed representing 80% pass rate.

Part (a) required candidates to explain the procedures necessary for effective management of public resources while Part (b) required candidates to explain the concept of fiscal decentralization and factors underpinning its success. Performance on the question was exceptionally good with some students scoring full marks.

### **OVERALL PERFORMANCE OF CANDIDATES**

- i. Highest mark obtained in this paper: 63%
- ii. Lowest mark obtained in this paper: 03%
- iii. Overall pass rate in this paper: 75%