



JUNE 2020 EXAMINATIONS

CHIEF EXAMINERS REPORTS

CA ZAMBIA

SUBJECT: CA 1.1- FINANCIAL ACCOUNTING

QUESTION ONE

The general performance on this question was fair with 36 out of the 66 (54.5%) of the candidates who attempted the question achieving more than 50% of the total marks (score 10 out of 20 and above). Though the lowest score was 0%, the highest amounted to 18 marks out of 20.

This question is composed of ten multiple choice questions of two marks each from the entire syllabus. Students that performed poorly showed signs of failure to cover the entire syllabus adequately and lack of time management.

QUESTION TWO

The general performance on this question was fair with 32 out of the 63 candidates that attempted the question achieving a pass on this question. The pass rate was 50.8%. The highest score on the question was 20 out of 20 while the lowest was 1.

Part (a) of the question required the candidates to prepare a statement of cash flows while part (b) required them to explain two advantages of cash flows to various users of accounting information.

The question was well answered. Many candidates lost marks due to their failure to explain advantages in clear terms.

QUESTION THREE

The general performance on this question was poor with only 30% of the 40 candidates who attempted the question achieving more than 50% of the total marks (10 and above out of 20). The highest score on the question was 20 while the lowest was 0 out of 20.

The question was the least popular in section B with only 40 out of 66 (61%) candidates attempting it. It required candidates to prepare a statement of profit or loss for the year to 31 March 2020, after calculation of opening capital and closing balances on the Cash and Bank Accounts. The scenario was an incomplete records situation.

Candidates earned few marks for this question due to the following common mistakes:

- i. Failure to identify correctly balances for assets and liabilities that existed at the beginning of the period.
- ii. Majority of answers included transactions in the current period obtained from the cash book.

- iii. Computing wrong figures for credit sales and credit purchases because they either poorly reconstructed the trade receivables and trade payables accounts.
- iv. Others did not prepare any of the required accounts.

The low performance generally suggested a lack of understanding of basics, namely application of double entry to transactions. For instance, Figures from the cash book were put on the wrong sides of the accounts and accruals of rent were just guessed as to whether to add to or subtract from the amount paid.

QUESTION FOUR

The general performance on the question was very good with 47 out of the 63 candidates who attempted it (74.6%) achieving at least 50% of the total marks. The highest score on the question was 19 out of 20 while the lowest was 4.

The question was divided into two parts. Part (a) of the question required candidates to explain how qualitative characteristics relate to financial statements while part (b) required them to prepare a partnership Appropriation Account and partners' Current Accounts.

The most common mistakes made by the candidates on each part of the question were as follows:

Part (a) of the question was reasonably well done to the extent that candidates provided basic definitions of the stated qualitative characteristics. However, few candidates provided illustrative examples of entries that would appear in the financial statements in meeting the qualitative characteristics.

In Part (b) of the question, most candidates miscalculated figures because they could not correctly identify the number of months for part of the year to which the interest would be scaled down.

QUESTION FIVE

The general performance on this question was poor with only 32.4% of the 36 candidates who attempted the question achieving more than 50% of the total marks. The lowest score was 1 while the highest 16 out of 20.

The question was the least popular with only 34 out of 66 (52%) candidates attempting it. The percentage pass on the question (scoring at least 10 out of 20 marks) was only 32% (68% fail).

Observations on the four parts of the question were as follows:

- i. Part (a) - This part required candidates to prepare a payables control account and calculate the corrected account balance after adjusting for a number of

transactions. It was clear from many scripts that students are not mastering the important principles of double entry.

A lot of candidates could not identify the relevant adjustments applicable to the payables control account and still some did not know the correct treatment even after identifying the relevant adjustments. A number of candidates simply listed all the transactions on both sides of the T account in the hope that some would be correct. This shows the extent to which students are not prepared for examinations. Control accounts are an important component of the double entry system and students should ensure they are familiar with the both the double entry mechanics and the theory behind the use of control accounts. A lack of mastery of the double entry concepts inevitably leads to poor understanding of their application at the higher levels of study.

- ii. Part (b) - This Part of the question was similar to part (a) in that it required the use of the same information to prepare a reconciliation statement of the calculated balance in (a) above to the given balance in the control account. The same weaknesses observed above were common place in this part of the question as well.
- iii. Part (c) - This was a theoretical part that required candidates to simply state the practical use of control accounts. This part was adequately answered by most students and with most of them obtaining the full marks available.
- iv. Part (d) - This part of the question was further testing candidates on double entry principles through the use of journal entries. Most candidates were unable to correctly identify the double entry and had trouble giving the correct narrative for the double entry.

QUESTION SIX

The general performance on the question was poor. Only 7 out of the 43 candidates who attempted it (16%) achieved a score of at least 50% of the available 20 marks. The highest score on the question was 18 whilst the lowest was 3%.

The question required candidates to prepare final accounts, which included the statement of profit and loss account and the statement of changes in equity in parts (a) and (b) respectively. Part (C) was a theoretical part in which candidates were simply required to define a rights issue and a bonus issue of shares. Performance on all parts of this question was poor, an indication that students are not focusing on this key area of the syllabus.

OVERALL PERFORMANCE OF CANDIDATES

- i. Highest mark obtained in this paper: 78%
- ii. Average score in this paper: 40.4%
- iii. Overall pass rate in this paper: 36.4%

SUBJECT: CA 1.2 BUSINESS STATISTICS

QUESTION ONE

This was a multiple choice question that was attempted by 54 candidates. The questions covered the entire syllabus and the general performance in this question was poor with a pass rate 42.6% being recorded. The highest mark recorded was 14 out of 20 while the lowest was 2.

This was a compulsory multiple choice question requiring candidate to solve short problems. The questions covered the entire syllabus. Some candidates lost marks on this question due to use of wrong formulae as well as lack of knowledge on some of the units covered.

QUESTION TWO

This was also a compulsory question that was attempted by all the candidates (54). The general performance in this question was excellent with a pass rate of 83.3% being recorded. The lowest score out of the available 20 marks was 3 while the highest was 20.

The question was divided into two parts. Part (a) was given as summary data and candidates were asked to present the data in a bar chart, to find the total amount obtained in the year 2018 and to find the percentage of the total income that was obtained from the interest. Most of the candidates solved the question correctly. A few candidates who did not get the whole question correctly were failing the last part.

Part (b) had ungrouped data and candidates were required to find the average, the median, range and standard deviation. A good number of candidates successfully solved this problem, except for a few who were not getting the correct standard deviation. It was also observed that candidates did not know when to calculate the sample or population standard deviations, however, candidates were not penalized for this error.

QUESTION THREE

This was an optional question that was attempted by 37 candidates. The general performance in this question was poor. A pass rate of 37.1% was recorded. The lowest score out of 20 marks was 0 while the highest was 17.

The question required candidates to estimate the trend and seasonal movements using moving averages in the first part of the question. Most of the candidates were able to compute the trend and the seasonal movements except a few who didn't know what to do.

The performance on the second part of the question was not so good due to candidates' inability to compute and use the correct totals (for the columns and rows) of data, which was required in computation of probabilities. Some candidates used the wrong row totals which were given in the question paper thus they were affected.

QUESTION FOUR

This was an optional question that was attempted by 37 candidates. The general performance in this question was also poor. The pass recorded was 32.4% with 0 and 20 marks out of 20 recorded as lowest and highest scores respectively.

The question was split in two parts. Part (a) was on descriptive statistics. Candidates did not do well on this part. Most of them failed to determine how many elements and variables the data set had.

Part (b) was based on ungrouped data and candidates were required to find the average, the median, inter-quartile range, quartile deviation and standard deviation. A good number of candidates successfully solved this problem, except for a few who were not getting the correct standard deviation.

QUESTION FIVE

The general performance on the question was fair. 24 out of the 49 candidates who attempted it (49%) achieved a score of at least 50% of the available 20 marks. The highest score on the question was 16 whilst the lowest was 0%.

The question was divided into parts (a) and (b). Part (a) had grouped data and required candidates to find the mean, the median, mode, coefficient of variation and standard deviation. A good number of candidates solved this problem correctly. Those that lost marks were using wrong formulas.

Part (b) required candidates to compute probabilities based on Normal distributions. It observed that candidates had difficulties arriving at the correct probabilities even after having used the correct procedure. Perhaps emphasis should be made on how to read probabilities on probability tables.

QUESTION SIX

The general performance on the question was fair. 20 out of the 41 candidates who attempted it (48.8%) achieved a score of at least 50% of the available 20 marks. The highest score on the question was 15 while the lowest was 0%.

Question Six was equally divided into two parts. Parts (a) of the question required the candidates to calculate coefficient of correlation and determination for the given data and interpret the result. Most of candidates managed to work out this problem correctly. Those that failed were just making minor errors when computing.

Parts (b) was on probabilities, it required candidates to compute probabilities from the given data in the table. The performance on this part of the question was generally good, except that most of the candidates did not know how to show whether the events were independent or not.

OVERALL PERFORMANCE OF CANDIDATES

- i. Highest mark obtained in this paper: 74%
- ii. Average score in this paper: 41.9%
- iii. Overall pass rate in this paper: 50%

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 34 candidates that sat for this paper. The questions covered the entire syllabus. Performance was fair with a pass rate of 58.9%. The highest mark scored was 16 out of 20 while the lowest was 0 out of 20.

QUESTION TWO

This was another compulsory question which required candidates to demonstrate understanding of the equilibrium price and quantity, as well as how to calculate price elasticity of demand. All the 34 candidates attempted the question. Overall performance on the question was below average. The pass rate was 41.2% with 16 out of 20 marks as the highest score and 0 out of 20 marks as the lowest.

The question was divided into two parts namely (a) and (b). Part (a)(i): This part asked candidates to graphically explain the effect of an outbreak of swine fever using demand and supply analysis. Common problem involved poorly drawn and labeled diagrams, failure to understand the difference between Movement along and a shift in a curve. Further, candidates must know that equilibrium is established by the interaction of demand and supply. Outbreak of swine fever shifts the demand curve to the left.

Part (a) (ii) required candidates to explain the effect on equilibrium price and quantity on pork following a fall in the price of beef. Beef as a substitute will lead the demand curve for pork to shift to the left.

Part (b) (i) of the question required candidates to calculate the price elasticity of demand for the given product using the Midpoint Formula. Performance was fair on this part of the question though weak candidates seemed not to know what the midpoint formula is! Candidates were required to calculate changes and averages of prices and quantities respectively and the substitute in the formula.

In part (b) (ii), candidates were required to explain the nature of demand for the product. The correct answer could only be arrived at from (b) (i). The demand was elastic because the price elasticity was greater than one.

QUESTION THREE

This was an optional question which required candidates to demonstrate understanding of the economic problem of unemployment. This was a very popular choice among candidates as 32 out of 34 attempted it. The pass rate was excellent at 94.1% with the highest score of 20 out of 20 marks and the lowest score at 1 out of 20 marks. Noteworthy was the fact that 29% of the candidates got 100%.

The question was divided into four parts (a) to (d). Part (a) of the question required candidates to define unemployment. Satisfactory definitions or formulae were given.

In part (b), candidates were required to explain the any four types of unemployment. Performance was very good.

Part (c) required candidates to explain any three consequences of unemployment to a country like Zambia. Some candidates performed poorly here as they gave uneconomic answers. Correct answers included lost output, loss of tax revenue, increase in social issues like crime rates, etc.

Part (d) required candidates to explain any four measures the government can use to create jobs or reduce unemployment. Performance was fair.

QUESTION FOUR

This question tested candidates on their understanding of business organizations. 27 out of 34 candidates attempted the question. Pass rate was excellent at 84.4%. The highest mark scored was 20 out of 20 and the lowest was 8 out of 20.

The question was divided into four parts (a) to (d) as follows:

(a) This part required candidates to list any five advantages of a sole trader business organization. Overall performance was satisfactory.

(b) This required candidates to list any five disadvantages of a sole trader business organization. Performance was very good with most students getting full marks.

(c) Required candidates to explain any four principal sources of short term capital for a business. Most candidates articulated their answers very well without difficulties.

(d) This part required candidates to outline any two reasons why it is important to encourage graduates to venture into entrepreneurship. This part of the question was poorly attempted.

QUESTION FIVE

This question tested candidates' understanding of government economic policies with specific reference to fiscal policy. This was the least attempted and least passed question. 13 out of 34 candidates attempted the question. The general performance was poor with a 23% pass rate. 13 out of 20 was the highest mark scored while the lowest was 2.

The question was divided into four parts namely (a) to (d) as follows:

Part (a) required candidates to explain any three negative consequences of high fiscal deficits and state the formula for measuring unemployment while part (b) required them to explain any two debt instruments issued by the government. These

are Treasury Bills and Government Bonds. Majority of candidates failed to give concrete answers.

In part (c), candidates were required to name the institution, which is in charge of issuing debt instruments. It is the Bank of Zambia and not Ministry of Finance as given by many candidates.

The final part of the question required candidate to explain any four disadvantages of high public external debt. Most candidates could not give concrete answers.

QUESTION SIX

The general performance on this question was excellent. The pass rate was very good at 83.3%. 24 out of 34 candidates attempted the question. Highest mark scored was 20 out of 20 and the lowest was 4 out of 20.

This question examined candidates' understanding of the role of the financial institutions in the country. It was the third preferred question under the optional category. It was divided into four parts from (a) to (d) as follows:

Part (a), which required candidates to distinguish between a depository and a non-depository financial institution, providing an example of each. Most candidates made correct distinctions but failed to give a correct example of each.

Part (b) which required candidates to define GDP (c) which required candidates to explain any four functions of financial intermediaries. Majority of the candidates did well on these two parts.

Part (d) of the question required candidates to outline any three ways that the Zambian consumers have benefitted from the growth in the financial sector. The performance was very good.

OVERALL PERFORMANCE OF CANDIDATES

- i. Highest mark obtained in this paper: 83%
- ii. Average score in this paper: 52.6%
- iii. Overall pass rate in this paper: 79.4%

SUBJECT: CA 1.4- COMMERCIAL AND CORPORATE LAW

QUESTION ONE

The general performance on this question was good with 97 out of the 128 (78.9%) of the candidates who attempted the question achieving more than 50% of the total marks (score 10 out of 20 and above). Though the lowest score was 0%, the highest score was 18 marks out of 20.

QUESTION TWO

The general performance on this question was good with 101 out of the 124 (78.2%) of the candidates who attempted the question achieving more than 50% of the total marks (score 10 out of 20 and above). The lowest score was 3% while the highest was 20 marks out of 20.

The question was testing the student understanding of Offer, invitation to treat as well as requiring them to discuss the four major elements that validate a contract. The few candidates that failed are encouraged to study these areas of the law. Future candidates are encouraged to address their mind to the topic in full and avoid relying too much on past papers as scenarios are not constant.

QUESTION THREE

The general performance on this question was poor. Only 35 out of the 101 of the candidates who attempted the question achieved more than 50% of the total marks (score 10 out of 20 and above). The pass rate recorded was 34.7%. The highest score recorded on the question out of the available 20 marks was 18 while the lowest was 0.

The following were noted as common mistakes made by students:

- i. Some students showed lack of knowledge in the subject, hence giving guessed answers.
- ii. On how an agency can come to an end a lot of candidates failed as they were giving or mixing the ways agency terminates with that of offer or contract generally. Prospective students must make sure to study the ways each and every relationship comes to an end like partnership, agency, master servant to mention but a few.

QUESTION FOUR

The general performance for this question was fair. 50 candidates out of the 104 that attempted the question obtained 10 and above marks out of 20. The pass rate recorded was 48.1%. The highest got 16 while the lowest got 0 out of 20.

The following was observed on the question:

Part (a) - This question focused on Volenti Non fit injurio which is defense. Roughly 90% of students attempted this part. Students were expected to apply this defense to the facts only. The question demanded that they demonstrate their understanding on the application of the defense. This could be easily achieved by understanding the elements, which qualifies the defense. The majority got it wrong. The reason could be that they did not read this topic as provided for in the ZICA manual. Students are therefore encouraged to study in full and avoid selective study. The pass rate was however beyond 50 %.

Part (b) - Most candidates who answered this question performed quite well. The question required students to identify possible defenses in tort. A full knowledge of at least 4 was sufficient. Students exhibited knowledge on the same. The performance was quite good. Future candidates are encouraged to address their mind to the full subject. Roughly 70% got this question correct.

Part (c) - Most candidates were able to deal with this question. The question just needed a definition of agency. This question recorded 100 % pass rate. A sign that students understood the subject well. The way forward for all prospective candidates is to take enough time to study the topic and be able to support their answer with legal authorities if need arises.

Part (d) - This question was based on delegated legislation. It required students to demonstrate their understanding of the same. Almost all students got this part correct. What was more impressive was the fact that they managed even to give examples of delegated legislation. Future students are encouraged to religiously go through the ZICA manual and understand each and every topic. By so doing, they will have it easy on this paper.

QUESTION FIVE

The general performance for this question was very good. 81 candidates out of the 111 that attempted the question obtained 10 and above marks out of 20. A pass rate of 73% was recorded. The highest got 17 while the lowest got 0 out of 20.

Under Part (a) the ones that did well were able to give the correct advice regarding the actions of the director while the ones who performed poorly were unable to give the correct advice as they did not display familiarity with the topic. Going forward students are advised to study the topic in depth so as to be able to give advice.

Under part (b) three quarters managed to give the correct differences between the types of winding up. Those who did do well were unable to identify the types of winding up. Going forward, students must know the different types of winding up very well as this forms an integrals part of their syllabus.

QUESTION SIX

The general performance for this question was poor. Only 11 candidates out of the 56 that attempted the question obtained 10 and above marks out of 20. A pass rate of 19.6% was recorded. The highest got 16 while the lowest got 1 out of 20.

Question 6, had two parts a, and b. The common mistakes noted were as follows:

- i. Students were explaining a breach of contract instead of frustration of contract and students were putting blame on the musicians and that they were liable to pay the directors but the entire situation was caused by unforeseen events.
- ii. Students were explaining like lay men, as a result they did not bring in the concept of agency by estoppel.

OVERALL PERFORMANCE OF CANDIDATES

- i. Highest mark obtained in this paper: 74%
- ii. Average score in this paper: 42.4%
- iii. Overall pass rate in this paper: 61.6%

SUBJECT: CA 1.5 –MANAGEMENT THEORY AND PRACTICE

QUESTION ONE

The general performance on this question was excellent. 30 out of the 36 candidates that attempted the question got 10 and above marks out of 20. The highest got 18 out of 20 while the lowest got 0. The pass rate was 83%.

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 fair. Out of 36 students that attempted it, 19 obtained 10 marks and above from the possible 20. The pass rate was 52.8%. The highest mark obtained was 20 while the lowest was 0.

This had two parts: (a) and (b). Part (a) asked the candidates to explain the determinants of culture as postulated by Schein. Most candidates did very well on this part.

Part (b) was about describing the four (4) main features of a Public Limited Company and list four (4) advantages of establishing this form of business. Majority of candidates answered this part correctly

QUESTION THREE

The general performance on this question was poor. Only 8 out of the 36 that attempted the question obtained 10 marks and above out of 20. The pass rate was 22.2%. The candidates that scored highest got 20 out of 20 while the lowest got 0.

This question had three parts: (a), (b) and (c). Part (a) required candidates to state three (3) general characteristics of a project while part (b) required them to describe the following concepts: Mission statement, organisational Goals and Objectives.

Part (c) required candidates to list five (5) benefits of the Partnership form of the business. Most candidates got this question wrong and performed very poorly.

QUESTION FOUR

The general performance on this question was poor. Only 14 out of the 35 that attempted the question obtained 10 marks and above out of 20. The pass rate was 40%. The candidates that scored highest got 16 out of 20 while the lowest got 0.

This question had two parts: (a) and (b). Part (a) was on advising on what factors will be of influence to a business as they plan to expand internationally. Also to describe five (5) of these factors.

Part (b) was on stating the Six (6) factors of the external environment. It also required candidates to mention Two (2) factors of the internal environment. Most candidates attempted this question. However, only a few candidates got good marks.

QUESTION FIVE

This was the least attempted question in the subject. The general performance on this question was fair. Out of the 6 students that attempted it, 3 obtained 10 marks and above from the possible 20. The pass rate was 50%. The highest mark obtained was 16 while the lowest was 5.

This question had two parts (a) and (b). Part (a) required candidates to identify the four (4) ethical principles outlined by the International Federation of Accountants (IFAC).

Part (b) required candidates to describe the four (4) ethical principles outlined by the International Federation of Accountants (IFAC).

This was an important question for aspiring Accountants but most candidates shunned it and those who attempted it got it wrong.

QUESTION SIX

The general performance on this question was poor. Only 8 out of the 29 that attempted the question obtained 10 marks and above out of 20. The pass rate was 27.6%. The candidates that scored highest got 20 out of 20 while the lowest got 0.

This question had two parts: (a) and (b) This question was on the Cadbury report (1992), very important for Accountants. Part (a) required candidates to explain any other five (5) principles that can be applied in an organization to enhance good governance. Part (b) required candidates to explain the Five (5) Cs of moral duties according to the Kings report (1994). Most candidates did not get this question correct.

OVERALL PERFORMANCE OF CANDIDATES

- i. Highest mark obtained in this paper: 85%
- ii. Average score in this paper: 40.1%
- iii. Overall pass rate in this paper: 38.9%

SUBJECT: CA 1.6- BUSINESS COMMUNICATION

QUESTION ONE

This was multiple-choice and was attempted by all 42 candidates present. The general performance on this question was good. 23 out of the 42 candidates that attempted the question obtained 10 marks and above out of 20. The pass rate was 55%. The candidates that scored highest got 16 out of 20 while the lowest got 4 out of 20.

QUESTION TWO

This was equally a compulsory question and the general performance on this question was average. Out of 42 candidates who attempted this question 71% managed to score marks above 10 out of 20 %.The remaining 29 % scored low marks. This can be attributed to some of the errors mentioned in the subsequent parts of this report.

This question required candidates to produce a short formal report from the scenario given in the question The candidates also had some kind of a guide on the contents to be included under the findings section of a report. The following were some of the common mistake made by students:

- i. 75 % of candidates used wrong format/layout of a report. Most of them produced essays, which was not supposed to be the case.
- ii. Inappropriate report titles were presented.
- iii. Advantages and disadvantages of using a desk top or a lap top were presented in the answer.
- iv. Repetition of findings not related to the information presented in the scenario given.
- v. Recommendation section was regarded a referee required to recommend someone for a job.
- vi. Recommendation section was presented as the role it plays generally.
- vii. Presenting two different report titles within the same report.
- viii. Sections of the report were bunched together as a paragraph.
- ix. Illogical presentation of ideas.
- x. The content on the findings were mixed with procedure and conclusions.
- xi. Most report answers had irrelevant contents such as what a mobile phone is and it's use with less focus on the advantages and disadvantages from the scenario that was given.
- xii. In most cases important information from the scenario was not provided in the answers.

QUESTION THREE

The general performance on this question was good. 23 out of the 38 candidates that attempted the question obtained 10 marks and above out of 20. The pass rate was 61%. The candidate that scored highest got 16 out of 20 while the lowest got 5 out of 20.

The following were the common mistakes noted in this question:

- i. Most candidates explained the functions of the CPU well but some candidates didn't understand the structure component of the CPU.
- ii. Most candidates answered the clock speed and size of RAM question well and could relate the two components.
- iii. Most candidates answered the anti-virus question very well.

QUESTION FOUR

The general performance on this question was good. The question was about application packages and most candidates attempted the question. 5 out of the 17 candidates that attempted the question obtained 10 marks and above out of 20. The pass rate was 29%. The candidate that scored highest got 14 out of 20 while the lowest got 01.

The following were noted in this question:

- i. The question on how to use mail merge when dealing with debtors was badly done. Most candidates seemed to have been thinking that mail merge is an email facility. Only a few candidates got the correct response.
- ii. The question on differentiating a formula and a function in excel was fairly done, though some candidates were just guessing while others swapped the meaning of the two terms.
- iii. The question on writing the format for entering a function, some candidates put up explanations while others actually showed the syntax.
- iv. The question on writing the formulae to find the answers was very easy because all candidates managed to get this answer correct.
- v. The question on writing down the steps to add a new worksheet and renaming it was a challenge to most candidates because they could not differentiate between naming a 'file' and naming a 'sheet' as required by the question. Some candidates were writing down wrong steps to take when adding a worksheet and renaming it.

QUESTION FIVE

The performance on this question was very poor. Only 13% managed to do well on this question. The failure rate was 87 %. Most of the answers that were presented were not acceptable hence the high failure rate on this question

The first part of the question required candidates to prepare a standard agenda while the last part of the question required them to explain any five examples that govern the formal meetings such as board and annual general meetings

The common errors on part (a) were as follows:

- i. Items on the standard agenda such as opening remarks, minutes of the last meeting, matters arising, any other business and closing remarks.
- ii. Explained the main items on the agenda instead of simply listing them.
- iii. Unnecessary items were included on the agenda other than what was requested in the scenario that was given in the question as a guide to the answer.
- iv. Defined the term agenda which was not supposed to be the case.
- v. Greetings / regards were presented as opening remarks.
- vi. Opening and closing remarks were also presented as an introduction and conclusion.
- vii. The issue of new printers was supposed to appear as an item under any other business, but this was not the case.

The mistakes noted on part 9b) were as outlined below:

- i. Irrelevant information such as business letters and memos were presented as answers.
- ii. Listed meeting documents such as notice for a meeting, agenda and minutes.
- iii. In some cases explanations were made on meeting documents.
- iv. Minutes were produced which was not supposed to be the case.
- v. Candidates stated the importance of minutes and meetings which was not supposed to be the case.
- vi. Some candidates produced the actual notice for a meeting which was not supposed to be the case.

QUESTION SIX

Performance on this question was good. There was a 72% pass rate out of 40 candidates who attempted this question giving the 28 % as a failure rate. Most candidates who passed were able to bring out acceptable answers. Candidates who failed had unsatisfactory answers as stated on common errors in the subsequent part of the report.

Question six required candidates to write a memo to members of staff highlighting

any five possible ways of minimizing barriers to effective communication. The common mistakes observed on this question were as follows:

- i. Misplacing of memo elements such as To, From, Subject and the date.
- ii. Opening statements were expressed in form of a greeting.
- iii. Most candidates wrote letters instead of memos.
- iv. Failure to cross out unwanted work.
- v. Generally wrong layout was used.
- vi. Salutation and complementary close appeared in most answers.

OVERALL PERFORMANCE OF CANDIDATES

- i. Highest mark obtained in this paper: 65%
- ii. Average score in this paper: 44.8%
- iii. Overall pass rate in this paper: 57.1%

SUBJECT: CA 2.1 FINANCIAL REPORTING.

QUESTION ONE

The general performance on this question was very good with 48 out of the 63 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 76.2%. The highest score on the question was 40 out of the available 40 marks while the lowest 8.

The question required students to prepare a consolidated statement of profit and loss (CSPL) and a consolidated statement of changes in equity (CSCIE). It tested students on the basics of group accounts and the principles of consolidation.

Some candidates had challenges with the basic calculation of items such as goodwill, non-controlling interest (NCI) and the treatment of profits from an associate company. This is an area commonly examined at this level and students should ensure they have thorough understanding of the techniques of consolidation. Frequent practice using examination standard questions should suffice as part of student examination preparation.

QUESTION TWO

The general performance on this question was also very good as 47 of the 59 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 79.7%. The highest obtained 19 while the lowest got 0 out of 20.

The question required candidates to prepare a statement of cashflows and to give examples of non-cash transactions and explain the usefulness of their disclosures based on IAS 7: Statements of Cash-flows.

The most common mistakes made by the candidates were as follows:

- i. Including bonus issue as a cash outflow.
- ii. Treating fair value gain on investment property as cash inflows.
- iii. Misclassification of cash items. Candidates are advised to be familiar with headings of cash flow.
- iv. Failure to transfer excess depreciation K48 (K342 –K294) from revaluation surplus account to retained earnings, hence computed the wrong amount of dividends which were paid..

QUESTION THREE

The general performance on this question was fair. 29 out of the 51 candidates who attempted the question achieved a pass (that is a score of at least 20 out of 40

marks), representing a pass rate on the question of 56.9%. The highest score on the question was 17 out of the available 20 marks while the lowest 3.

The worst attempted and performed part of the question was (d) on IAS 23. Most candidates failed to define qualifying asset. A Qualifying asset is an asset that takes substantial time to be ready for its intended use or sale

QUESTION FOUR

The general performance on this question was poor with only 6 out of the 40 candidates who attempted the question achieving a pass (that is a score of at least 10 out of 20 marks), representing a pass rate on the question of 15%. The highest score was 16 while the lowest was 1 out of 20.

Part (a) of the question required candidates to outline circumstances under which a current asset, a building, would be reclassified from non-current assets to current assets.

Part (b) of the question required candidates to explain why IAS41 Agriculture was issued and whether or not other accounting standards were applicable to businesses involved in farming.

The most common mistakes made by the candidates on each part of the question were as follows:

In part (a), common shortfalls included the failure to state the conditions as are contained in IFRS 5 Assets Held for Sale and Discontinued Operations for a non-current asset to be treated as HFS and hence reclassified to current assets. Further candidates did not state that at the time of the reclassification, the asset would be subjected to impairment review, which is required by IAS 36 before applying the IFRS 5 requirements on measurement of non-current assets HFS

Part (b) most candidates demonstrated lack of knowledge of the requirements of IAS 41 on the measurement of biological assets, treatment of expenses of managing the assets and the reporting of re-measurement gains and losses. Candidates generally stated that other standards would also be applied by businesses involved in farming but very few of them provided specific examples.

Candidates' comments on the application of IAS 20 Government Grants were not specific as to the conditions for recognizing grants. Application of the standard to farming businesses should have been clearly distinguished from the way it applies to other businesses in more specific terms. Most candidates did not earn marks on the issue of government grants.

QUESTION FIVE

The question recorded the worst performance with only 2 out of the 31 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 6.5%. The highest score was 14 while the lowest was 5 out of 20.

Part (a) of the question required candidates to explain how IFRS 15 Revenue satisfies the requirement of verifiability that supports faithful representation espoused in the IASB's Conceptual Framework. Candidates failed to allude to the weaknesses of IAS 11 and IAS 18 which IFRS 15 replaced. All candidates failed to discuss the weaknesses of the preceding accounting standards in relation to the merits and demerits of IFRS 15.

Part (b) of the question required candidates to calculate the amount of revenue to be recognized in respect of a transaction involving a sale of a machine at a price that included a fees for warranty services, applying provisions of IFRS 15. Candidates failed to calculate the amount of revenue to be recognized in respect of a transaction involving a sale of a machine at a price that included a fees for warranty services, applying provisions of IFRS 15. Candidates failed to calculate the amount of revenue to recognize in the financial statements because they treated the transaction as one with an advance payment, when in fact it was a credit transaction. For this reason they described amounts calculated and deferred income, instead of accrued income creating a receivable account balance at the end of the period.

OVERALL PERFORMANCE OF CANDIDATES

- i. Highest mark obtained in this paper: 88%
- ii. Average score in this paper: 43.6%
- iii. Overall pass rate in this paper: 61.9%

SUBJECT: CA 2.2 – MANAGEMENT ACCOUNTING

QUESTION ONE

This is a 40 marks compulsory question. The general performance on the question poor. Only 17 out of the 70 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 24.3%. The highest score on the question was 25 out of the available 40 marks while the lowest 2.

The question in part (a) required candidates to prepare a monthly production budget, a cash budget and to comment on the cash flow position. While in part (b) candidates were tasked to explain the major differences between the private and public sector organisations and to explain four (4) difficulties in measuring performance in the public organization.

The performance on this question varied from good answers to poor answers. Poorer answers failed to categorise costs that make up production costs. Further some candidates could not apply the percentage given to compute figures in the given months in the production budget. Similar cases were common when it came to cash budgets. The interpretation of the percentages given to compute the figures in solution was done incorrectly in most cases in the monthly production budget and the monthly cash budgets.

Candidates were able to differentiate between the private and public sector organisations with ease. However, some candidates could only dwell more in one part and thereby scoring lowly.

The explanations of the four (4) difficulties in measuring performance in public sector organisations were well addressed and candidates here had fewer difficulties

QUESTION TWO

The question recorded the worst performance with only 2 out of the 26 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 7.7%. The highest score was 10 while the lowest was 0 out of 20.

On part (a), only few candidates were able to compute the required overhead absorption rate well otherwise generally it was poorly answered as candidates failed to identify the appropriate basis on which absorb the overheads.

Part (b), was well attempted though a number had challenges with reapportionment of the overheads and failed to identify the costing in use.

On part (c), a number of candidates failed to mention especially on the treatment of the fixed costs and the impact that could be on the reported profit.

QUESTION THREE

The general performance on the question was fair. 34 out of the 67 candidates that attempted the question obtained 10 and above out of the available 20 marks. A pass rate of 50.7% was recorded. The highest score was 18 out of 20 while the lowest was 0.

Most candidates were reconciling budgeted variable cost of budget production instead of budgeted/ standard variable cost of actual production with actual cost of actual production.

Candidates lacked in depth understanding regarding the importance of conducting variance analysis and interdependence of variances.

Report presentation was also a challenge for the majority of the candidates.

QUESTION FOUR

The general performance on the question was poor. Only 19 out of the 51 candidates that attempted the question obtained 10 and above out of the available 20 marks. A pass rate of 37.3% was recorded. The highest score was 16 out of 20 while the lowest was 0.

This question had two parts (a) and (b). Part (a) (i), this question was poorly answered candidates were required to prepare a flexible budget at 60% level of activity but some candidates wasted time preparing flexible budgets for different levels while the question only wanted the flexible budget at 60 % level of activity almost half the candidates were able to calculate correctly the flexible budget at 60%.

Part (a) (ii)- required candidates to explain the advantages of encouraging employees of participating in budget setting. This part was well answered by all candidates and scored maximum results.

Part (b) (i) required candidates describe situation where linear programming and stating two limitation and two uses of linear programming. This part was answered by most candidates and good marks were obtained. Most candidates displayed lack of knowledge on the topic.

Part b (ii) This part was poorly answered and all candidates failed to formulate the constraints and the objective function and all candidates lost marks and most candidates did not even attempt this part.

QUESTION FIVE

The general performance on the question was also poor. Only 11 out of the 53 candidates that attempted the question obtained 10 and above out of the available 20 marks. A pass rate of 37.3% was recorded. The highest score was 14 out of 20 while the lowest was 0.

Part (a) was very poorly attempted. Only two candidates out of those who attempted this question got this part correctly. The majority of candidates used the total cost of K1,684,800 as the basis of the optimal mix decision. They split this cost in the ratios of 1:2 and 2:3 for options 1 and 2 respectively.

The K1,684,800 cost was only to be used in the calculation of sales mix break-even point, thus B.E.P sales mix =
$$\frac{TFC}{WEIGHTED\ AVERAGE\ CONTRIBUTION\ SALES\ MIX}$$

The options were to sell. So the better sales revenue generating option was required and total sales revenue under each option should have been calculated and the higher sales revenue option taken.

Part (b) was very well attempted though poor candidates gave advantages of CVP model.

Part (c) was poorly attempted. Most candidates drew a number of diagrams of cost behaviour: variable, fixed, stepped, semi-variable and explained them in greater detail even though there were only three marks. No marks were awarded for this.

This was about the importance and not describing or explaining cost behavior. They should have explained that cost behaviour appreciation is important for planning, control and decision making. E.g. those costs which vary with activity will be used for decision making whilst general fixed costs will be ignored in decision making.

Part (d) was also not very well attempted. The question was misunderstood. Candidates offloaded a myriad of answers such as the characteristics of good information (accuracy, timely, etc) and purposes of budgetary planning and control (motivation, direction, etc).

The purposes of management accounting should have been explained under decision making, planning and control.

OVERALL PERFORMANCE OF CANDIDATES

- i. Highest mark obtained in this paper: 62%
- ii. Average score in this paper: 32.2%
- iii. Overall pass rate in this paper: 25.7%

SUBJECT: CA 2.3- AUDITING PRINCIPLES AND PRACTICE

QUESTION ONE

A total of 127 candidates attempted this compulsory question. Out of this number, a total of 72 candidates scored more than 50% (20 out of 40) of the available marks.

The average score in this question was 20 marks out of the maximum 40 available marks.

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.

This was a scenario based question divided into six parts covering a range of topics and the following were observed.

Part (a)

This part of the question had three subparts requiring candidates to use the information in the scenario to:

- i. Identify and explain five deficiencies in the payroll system of Mopani Ltd.
- ii. Explain the implications of each deficiency.
- iii. Provide a recommendation to address each deficiency identified.

Most candidates scored high marks in this question. Sizeable minority performed poorly and the following were observed:

There were instances of poor presentation of the answers by some candidates. This arose because of dealing with each of the three parts separately and not addressing the deficiencies observed in the later part of the question. The best approach to dealing with such questions is to deal with them at the same time as follows:

Solution 1(a) (i) (ii) (iii)

Deficiency:

Possible implication of the deficiency:

Recommendation:

The above format saves time and ensures that all parts of the question are addressed and the examiners will clearly see that the answer relates to all the three parts and award marks appropriately.

Part (b)

This part of the question required candidates describe any six audit risks in the given scenario. Most candidates managed to identify and explain the audit risks but other lots marks for the following reasons:

- i. Some candidates gave less than the required number of risks expected and lost easy marks as a result.
- ii. Some candidates explained the elements of audit risk without making reference to the information in Mopani Ltd and this did not attract any marks.
- iii. Some candidates were able to identify audit risks but failed to describe why the identified is an audit risk.

Part (c)

This part of the question required candidates to discuss the importance of assessing risks in a client company at the planning stage of the audit of Mopani Food Manufacturers Plc. For three marks candidates were expected to give at least three valid points including:

- i. In order to identify the risk areas so that attention could be made to such areas.
- ii. To enable the allocation of suitable staff to audit such identified risk areas.
- iii. To respond appropriately by designing suitable responses in accordance with ISA 330.

Candidates lost marks because:

- i. Some candidates gave less than the expected number of valid points to attract maximum marks.

Part (d)

This part of the question required candidates to describe audit procedures to be carried out in the audit of provisions in the financial statements of Mopani Food Manufacturers Plc. Candidates performed poorly and scored low marks in this part and as it has been observed in the past candidates perform poorly in questions requiring a statement of audit procedures. The following were observed:

- i. Candidates failing to give the required number of audit procedures.
- ii. Some candidates explained some methods of obtaining audit evidence such as recalculation without explaining how they could be applied in the audit of provisions.
- iii. It was clear that many candidates did not use the knowledge on provisions acquired in financial reporting in designing audit procedures. Candidates are reminded that there is a strong connection between financial reporting and audit procedures performed to test the assertions in the figures contained in the financial statements.

Part (e)

This part of the question required candidates to describe four audit procedures for the audit of contingencies in the financial statements of Mopani Food Manufacturers Plc. The performance here was poor just like observed in part (e) above and the

same observations were made showing lack of understanding of the financial aspects of contingencies and the requirements of accounting standards.

QUESTION TWO:

A total of 118 candidates attempted question two out of which 55 scored half or more of the available marks. The average score in this question was 9 out of the maximum 20 marks available.

Part (a) of the question required candidates to explain six advantages and two disadvantages of the proposed audit committee of Hippo Plc. A majority of the candidates scored high marks in this question but there was a minority which scored low marks largely for the following reasons:

- i. Candidates giving less than the required number of advantages and disadvantages.
- ii. Candidates not explaining adequately each of the advantages and disadvantages given.

Part (b) was a knowledge based question on going concern and candidates who knew the provisions of ISA570 Going concern had no problems answering this part and they scored high marks.

Part (b) (i) required candidates to explain four reasons why auditors are concerned about the ability of client companies as going concerns. Most candidates lost marks because they explained less than the required number of reasons. Candidates should have covered the following in their answers:

- i. The historical cost basis of accounting based on the going concern ability of the company.
- ii. An alternative break up basis is appropriate if company not a going concern.
- iii. Fulfilling the requirements of ISA 570.
- iv. Could have reporting implications if company is not a going concern or there is material uncertainty with regards the ability of the client company as a going concern.

Part (b) (ii) was also a knowledge based question requiring candidates to state four examples of financial indicators of going concern problems. Most candidates scored full marks but there were others who gave less than the required four examples and scored marks in proportion to the number of examples given. Required candidate to state four examples of operating indicators of going concern problems. Candidates had difficulties recalling these and in some cases they gave financial indicators for which no marks were awarded or other indicators again for which no marks were given. The question specifically required operating indicators.

QUESTION THREE:

A total of 76 candidates attempted this question out of whom 20 scored above half the available marks. This was the least attempted optional question with an average score of 7 out of a maximum 20 marks available.

Part (a) of the question required candidates to explain four ways in which Zebra Ltd can reduce audit costs which have been increasing. Candidates lost marks by giving less than the four ways required in the question.

Part (b) required candidates to explain the meaning of the suggested review engagement clearly explaining the level of assurance in such an engagement. A majority of candidates explained the meaning of a review engagement but most could not adequately deal with the issue of the level of assurance that arises. For six marks, candidates needed to explain in detail the review engagement and include the following:

- i. An alternative to an audit usually carried out in a review of interim financial statements.
- ii. Less work carried out compared to an audit.
- iii. Usually involves the use of enquiry and analytical reviews in obtaining evidence

The assurance given:

- i. Is a lower level of assurance.
- ii. Is in a negative form where the auditor states that nothing has come to his attention to suggest that the financial statements do not show a true and fair view.

Part (c) of the question required candidates to explain the use of effective internal auditors in reducing the audit fee. For 4 marks candidates were expected to discuss matters including:

- i. Impact on effective internal controls on the financial statements.
- ii. Internal controls identified at the planning stage of the audit.
- iii. Tests of control carried out to test the effectiveness of the controls.
- iv. If tests of controls effective auditor may place reliance on them by reducing the extent of detailed tests and hence save on time and cost of the audit.

Part (d) of the question required candidates to explain four tasks carried out at the interim audit stage and explain the impact these may have on the work at the final audit.

Candidates lost marks because:

- i. Some gave less than the four tasks required in the question.

- ii. Some did not address the second part of the question requiring candidates to explain the impact on the financial audit of the interim audit work.
- iii. They included tasks that can only be carried out at the period end such as the inventory count meant to determine the inventory value at the year end.

QUESTION FOUR

A total of 88 candidates attempted this question out of which 37 candidates scored above half the available marks. The average score was 8 out of a maximum 20 marks available.

Part (a) of the question required candidates to explain the responsibilities of management and the auditors with regards laws and regulations.

In order to answer this question adequately, candidates required to fully understand the provisions of ISA 250 Laws and regulations.

Most candidates explained the responsibilities of management and the auditor and stated that the management is responsible for complying with laws and regulations and the auditor should obtain evidence that the financial statements are not misstated due to non-compliance with laws and regulations. It should be observed that for a total of six marks such an answer would not attract maximum marks.

In their explanations candidates should include matters relating to:

- i. Management putting in place suitable controls to ensure it complies with laws and regulations.
- ii. In carrying out risk assessment in accordance with ISA 315 the auditors should gain an understanding of the laws and regulations that impact the financial statement.
- iii. Reference to ISA 250 which gives guidelines should be made.

Candidates lost marks because:

- i. Giving answers which were shallow for the available marks in some cases candidates giving two points which cannot earn maximum marks. Candidates are reminded to use the marks offered as a basis of deducing the amount of work to be done.
- ii. Some candidates talked about auditor's compliance with auditing standards which clearly did not answer the requirements of the question.

Part (b) required candidates to the action that the auditors should take in the event of a suspected non-compliance with laws and regulations.

Candidates lost marks because of the level of answers for a four mark question and the following were also observed:

- i. Many candidates simply made a recommendation that such non-compliance should be reported to the appropriate authorities.
- ii. Candidates should have observed that this is a suspected non-compliance and so the auditors should investigate further whether indeed there has been a non-compliance because disclosure in other circumstances may be in breach of the ethical principle of confidentiality.

Candidates should have observed that the auditor has responsibilities to report suspected non-compliance to management and those charged with governance and also to a competent authority. The auditors may seek legal advice concerning the suspected non-compliance.

Most candidates only suggested the modification of the audit opinion which is the last resort and this does not answer the question of what to do in the event of suspected non-compliance with laws and regulations.

Others talked about what management should do such as employing an officer to ensure compliance and yet the question was considering this from the point of view of the auditor.

Part (c) was a knowledge based question requiring candidates to explain matters that the auditors may consider in evaluating the competence of the internal audit department of Chisamba Plc. a majority of candidates scored full marks.

A minority of candidates lost marks because some of them gave less than the expected number of points and for four marks at least four valid points were expected.

Part (d) of the question required candidate to explain how the existence of the internal audit department in Chisamba Plc. can help in dealing with the risk of fraud and error in the company.

Candidates who knew and understood the functions of the internal audit department had no difficulties in answering this part of the question. Internal audit department is part of the controls put in place by management and so its very existence helps prevent and detect fraud and error. Further, the internal audit department is involved in carrying out audits of financial and operations of the company in addition to making recommendations on strengthening internal controls.

Some candidates lost marks because:

- i. In some cases they gave less than the expected valid points for six marks. Candidates were expected to give at least four valid points including some of the above points.
- ii. Some candidates referred to the responsibility of the external auditor instead of the internal auditors

QUESTION FIVE

A total of 91 candidates attempted this question out of which 52 candidates scored above half the available marks. The average score was 9 out of a maximum 20 marks available.

Part (a) of the question required candidates to explain what is meant by audit documentation and also to give two examples of matters that affect the form and content of the audit documentation.

Candidates lost marks because of the following mistakes:

- i. A majority simply could not define audit documentation which is basically all the evidence that the auditors gathers.
- ii. Some candidates explained the content included in the audit documentation such as the name of the preparer, the name of the client and the objective of the work carried out.
- iii. Some candidates explained current and permanent audit files which comprise the audit documentation that they should have explained.
- iv. Others explained audit documentation but did not give the two examples of matters that affect the form and content of audit documentation which is adequately covered in the study manual.

Part (b) required candidates to advise the partner in charge of quality on how to proceed with the destruction of audit documentation. Candidates needed to state the guidance given on destruction of audit documentation and the retention period of at least five years before documentation can be destroyed. The advice to the partner would aim at ensuring that the partner complies with guidance on retention of documentation.

A majority of the candidates failed to satisfactorily answer this part of the question and the following were noted:

- i. Many had no idea about the provisions of ISA 230 and ISQC 1 which deal with retention of audit documentation. Once again candidates need to learn the provisions of International Standards on Auditing which give guidance in

various areas of auditing. The candidates are expected to quote the provisions of the standards even when they may not remember the ISA reference.

- ii. A sizeable number of candidates dealt with how audit documentation should be secured and yet the question was in relation to destruction of the audit documentation. Candidates are reminded to read the questions carefully and address the requirements of the questions.
- iii. Some candidates explained matters relating to confidentiality which had no relevance in answering this question.

Part (c) of the question required candidates to explain four ethical threats that may affect the independence of the auditors in the audit of Mungwi Ltd.

A majority of the candidates scored good marks in this part of the question. There was, however, a minority that scored low marks and the following were observed:

- i. Some candidates explained less than the required four ethical matters and got marks in proportion to the number given. Candidates should have used the information in the scenario to identify the threats.
- ii. Others simply explained the five ethical principles without making reference to the scenario for which they did not get maximum marks.
- iii. Some explanations were not correct for example the provision of excess cleaning materials to the audit team members gives rise to self-interest and there is no suitable safeguards other than rejection.
- iv. There were instances where candidates explained a threat but wrongly classified it. For example classifying the filing in of an appeal by the auditors as an intimidation threat rather than an advocacy threat.

Part (d) of the question was related to part (c) and required candidates to suggest suitable safeguards for the threats identified and explained in (c). Presentation in this type of question is important because it can save time and can also make it easier for the examiners to award marks. This could have been answered with part (c) and identified as follows:

Q5(c)/ (d) Ethical threats and safeguards:
Below each threats the safeguard can be explained.

Candidates lost marks because:

- i. For some candidates the safeguards in this part could not be matched to the threats in part (c) of the question.
- ii. Many candidates gave decline as the safeguard when it may not be applicable when this is an ongoing audit. Resignation may be appropriately

used instead because the auditors can only decline at the time of appointment as auditors.

OVERALL PERFORMANCE OF CANDIDATES

- i. Highest mark obtained in this paper: 78%
- ii. Average score in this paper: 41.6%
- iii. Overall pass rate in this paper: 48%

SUBJECT: CA 2.4 -TAXATION

QUESTION ONE

The general performance of candidates on this question was fair. Out of the 113 candidates that attempted, 63 passed. A pass rate of 55.8% was recorded. The highest mark scored was 36 while the lowest was 0 out of the available 40 marks.

This question which covered taxation of limited companies was reasonably well answered. The question was made up of three parts. In part (a) candidates were required to explain the property transfer tax (PTT) implications and to compute the property transfer tax payable arising on the disposal of assets. The following were mistakes noted on this part of the question:

- i. Failure to differentiate between chargeable property for PTT purposes and assets that falls outside the scope of PTT, resulting in candidates calculating PTT even on the disposal of assets falling outside the scope of PTT.
- ii. Using wrong rates to compute the PTT arising on chargeable property.

Part (b) (i) required candidates to compute the capital allowances claimable on buildings. and was generally poorly answered. The most common weaknesses demonstrated by the candidates in answering this part of the question included:

- i. Failure to calculate the balancing charge arising on the disposal of the old commercial buildings. This was because most candidates failed to compute the income tax value of the building and also failed to restrict the disposal proceeds to the original cost given that the building was sold for disposal proceeds which exceeded the original cost.
- ii. Inability to determine the amount of expenditure incurred on the construction of the new building qualifying to classified as expenditure on an industrial building and the amount to be classified as expenditure on commercial buildings resulting in the candidates computing the wrong amounts of capital allowances.
- iii. Using the wrong rates in computing the wear and tear allowances available on the building.

In Part (b) (ii) candidates were required to calculate the capital allowances claimable on implements, plant and machinery and was generally poorly answered. Candidates faced the following are the challenges in answering this part of the question:

- i. Using the Income Tax Values to compute the wear & tear allowances claimable instead of using the original costs of the assets.
- ii. Applying the wrong rates when computing the wear and tear allowances available.
- iii. Failure to compute the balancing charge on the disposal of equipment and Pool car.

Part (c) (i) asked candidates to calculate the final taxable profits and was reasonably answered well. The following challenges were faced by a few candidates who performed poorly on this part of the question:

- i. Failure to differentiate between allowable expenditure and disallowable expenditure when computing the taxable profit of the company.
- ii. Forgetting to make the appropriate adjustment for the personal to holder car benefit in relation to the car provided to a director on a personal to holder basis.
- iii. Omitting to deduct exempt income credited to the statement of profit or loss when computing the taxable profits.
- iv. Failure to deduct the loss brought forward from the final adjusted taxable profit.

Part (c) (ii) which required candidates to calculate the final amount of company income tax payable, was reasonably well answered with the exception of a few candidates who demonstrated the following weaknesses in answering the question.

- i. Failure to include the grossed-up amount of investment income in the company income tax computation.
- ii. Using the wrong the rates to compute the tax liability of the company. Candidates in some cases used the income tax bands for individuals instead of the company income tax rate of 35% which applies to companies.
- iii. Forgetting to deduct the withholding tax charged at source from investment income, when computing the final company income tax payable.

QUESTION TWO

The general performance on this question was good. 39 candidates out of the 64 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 question was divided into parts (a), (b), (c) and (d). Part (a) asked candidates to state the requirements to be met in for a customs and excise clearance to be granted for a motor vehicle. Most candidates demonstrated a lack of knowledge of the requirements and therefore failed to provide the required answers.

In part (b) candidates were required to state any four (4) documents which must be presented to the customs officers when clearing motor vehicles. The question was generally well answered with the exception of a few candidates failed to provide the required answers as they demonstrated a lack of knowledge of the requirements.

In part (c) candidates were required to explain any four (4) methods for determining the transaction value (VDP) of an imported motor vehicle. This part of the question was also generally well answered with the exception of a few candidates who demonstrated a lack of knowledge of the relevant methods and therefore failed to provide the required explanations.

Part (d) required candidates to calculate the customs value and import taxes paid on the importation of a coach and was generally well answered. However, a few candidates faced the following are the challenges in answering this part of the question:

- i. Failure to calculate the customs value (VDP) of the imported coach.
- ii. Failure to identify the correct exchange rate to use in converting the VDP from US dollars into Zambian Kwacha.
- iii. Failure to identify the correct amounts of customs and import duties from the duty tables arising on the importation of the bus.

QUESTION THREE

The general performance on this question was poor. Only 32 out of the 81 candidates that attempted the question got 10 and above marks out of 20 (representing a pass rate of 39.5%). The lowest score was 1 while the highest was 18 out of 20.

Part (a) required candidates to explain the reasons why the taxpayer in the question will to be regarded as a resident in Zambia and was generally answered as most candidates managed to provide the required explanations.

However, in part (b) very few candidates managed to explain the three (3) methods of giving double taxation relief to a Zambian resident individual receiving foreign income as most candidates demonstrated a total lack of knowledge of this topic.

Candidates scored poor marks in part (c) which required a computation of the amount of income tax payable by a taxpayer receiving income from foreign sources. The most common weakness demonstrated by the candidates in answering this part of the question included:

- i. Failure to differentiate between taxable and exempt income from employment. As a result, candidates included exempt benefits in computing the taxable income from Zambian employment.
- ii. Inability to differentiate between taxable and exempt income received from foreign sources. This resulted in candidates including rental income received from foreign sources which is exempt from Zambian income tax in their computations.
- iii. Use of the wrong income tax rates in computing the income tax arising. Some candidates used the company income tax rate of 35% to compute the income tax which was wrong given that the tax payer was an individual and not a company.
- iv. Failure to calculate the amount of double taxation relief arising on the income received foreign sources.

QUESTION FOUR

This question covered taxation of partnerships and was reasonably well answered. 51 out of the 91 candidates that attempted it got 10 and above out of the 20 available marks. The recorded pass rate was 56%. The highest got 20 out of 20 marks while the lowest got 0.

In part (a) candidates were required to calculate the provisional income tax paid by the partners and was reasonably well answered. The following are the challenges faced by a few candidates who scored poor marks on this part of the question:

- i. Failure to allocate the estimated taxable business profits to the partners. Candidates failed to divide the tax year into a period before admission of a new partner and a period after admission of a new partner.
- ii. Failure to allocate the salaries first to each partner and then share the balance of profits amongst the partners in order to arrive at the total taxable business profits for each individual.
- iii. Failure to use the correct income tax bands applicable to individuals. Candidates were using the company income tax rate of 35% to tax the individual, which was wrong.

In part (b) candidates were required to calculate the balance of income tax payable by the partners. This part of the question was also reasonably well answered with the exception of a few candidates who faced the same challenges already explained in (a) above in computing the final income tax payable by each individual.

QUESTION FIVE

The general performance on the question was fair. 48 candidates out of the 92 that attempted it obtained 10 and above marks (representing a pass rate of 52.2%). The highest score was 20 out of 20 while the lowest was 1.

This question which covered taxation of employment income and investment income for individuals was reasonably well answered.

In part (a) candidates were required to calculate the total withholding tax paid on the investment income received by an individual. The following weaknesses were demonstrated by candidates who scored poor marks on this part of the question:

- i. Failure to apply the correct rates of withholding tax (WHT) when computing the amount WHT deducted at source on each type of investment income received by the tax payer.
- ii. Computing WHT on the net amounts of investment income. Candidates were supposed to gross up the amounts before applying the withholding tax rates.

Part (b) asked candidates to calculate the amount of income tax payable by an employee who had been declared redundant and was fairly well answered with the exception of a few candidates who faced the following challenges in answering the question:

- i. Failure to differentiate between taxable and exempt employment income. As a result, candidates included exempt benefits in computing the taxable income from employment.
- ii. Failure to restrict the employment income to eleven (11) months up to the date when the employee was declared redundant.
- iii. Failure to differentiate between investment incomes whose withholding tax is the final and those whose withholding tax is not the final. This resulted in candidates including investment which is subjected final WHT, in their computations.
- iv. Failure to differentiate between allowable and disallowable expenses incurred by an employee.
- v. Failure to use the correct income tax bands for individuals. Some candidates were using the company income tax rate of 35% which was wrong as the tax payer was an individual and not a company.

OVERALL PERFORMANCE OF CANDIDATES

- i. Highest mark obtained in this paper: 86%
- ii. Average score in this paper: 44.1%
- iii. Overall pass rate in this paper: 56.6%

SUBJECT: CA 2.5-FINANCIAL MANAGEMENT

QUESTION ONE

The general performance on this question was slightly above average. A total of 176 students attempted this question and only 94 students passed it representing a pass rate of 53.4%. The highest mark obtained was 33 while the lowest was 0 out of the total available 40 marks.

The first part of the question required candidates to evaluate whether the firm should replace the old machine with the new machine.

Common errors included the following:

- i. Some students erroneously treated the evaluation as an asset replacement decision using equivalent annual costs (EAC) which apply to capital rationing.
- ii. When computing the NPVs of the new old machine and the new machine the cash flows were not treated as annuities by some candidates, hence they lost valuable time and marks by coming up with detailed incorrect cash flow tables.
- iii. Some candidates did not adjust cash flows for taxation correctly, resulting in incorrect NPV computations.

QUESTION TWO

The performance was very poor. A total of 115 students attempted this question and only 34 students passed representing a pass rate of 29.57%. The highest mark scored was 19 while the lowest was 1 out of the available 20 marks.

Part (a) required candidates to calculate the market value, floor value and conversion premium of a convertible bond. Part(b) required the candidates to compare the public sector and private sector primary objectives. It was noted however that most students that answered this part of the section did not answer it adequately. It appears that they did not understand what was required of them to maximize marks on this question. It was further noted that some students avoided this section altogether.

QUESTION THREE

The general performance was fair. A total of 170 students attempted this question and only 101 students passed it representing a pass rate of 59.4%. The highest score recorded was 16 while the lowest was 0 out of the total available marks.

Part (a) required candidates to explain three (3) factors that affect the length of the cash operating cycle and compute the expected values for inventory, receivables, payables and working capital.

Part (b) required candidates to Determine the company's Economic Order Quantity (EOQ). Part(c) required candidates to explain three (3) objectives of Just-In-Time (JIT) techniques and how they may be achieved.

Part (d) required candidates to explain the distinctions between the terms operating gearing and financial gearing.

Calculation of the expected values for inventory, receivables, payables and working capital was generally not well done. The working capital calculation should have been the difference between inventory plus receivables minus payables. Very few students managed to get the EOQ right. This means that the topic is overlooked or underrated.

QUESTION FOUR

The performance was poor. A total of 78 students attempted this question and only 29 students passed it representing a pass rate of 37.2%. The student with the lowest mark obtained 0 out of the total available 20 marks while the highest obtained was 15.

Part (a) required candidates to discuss the current working capital financing policies of a company, LBC.

Part (b) required candidates to prepare a 3-month cash flow forecast before and after implementing the proposal. Part (c) required candidates to comment on the change in the cash flow position of LBC and recommend the suitable course of action.

Students were unable to distinguish clearly the difference between the fluctuating current assets and permanent current assets. The matching principle was equally not well explained by most of those who answered this question. Equally students failed to explain the Aggressive policy i.e the financing of working capital where short term finance is preferred. There is need for students to read widely.

QUESTION FIVE

The performance was above average. A total of 149 students attempted this question and only 65 students passed it representing a pass rate of 46.32%. The highest mark obtained was 18 while the lowest was 0 out of the total available 20 marks.

Part (a) required candidates to explain two (2) roles financial intermediaries play in providing companies with long -term finance.

In part (b) of the question, candidates were required to discuss three (3) similarities between the financial objectives of a listed company such as Zambian Airways and the financial objectives of a not-for-profit organization.

Part (c) required candidates to explain four (4) ways the airline could use factoring and invoice discounting to manage its accounts receivables.

Part (d) required candidates to determine the size of its overdraft, the annual cost of the overdraft and its net working capital.

For those students that attempted question five, part a, b, and c., they answered relatively well. However, part (d) was not well answered. Most students were unable to calculate the size of the overdraft, the annual cost of the overdraft and its net working capital. It appears some did not understand what was meant by net working capital. As a consequence, marks were lost.

OVERALL PERFORMANCE OF CANDIDATES

- | | | |
|------|--------------------------------------|-------|
| i. | Highest mark obtained in this paper: | 67% |
| ii. | Average score in this paper: | 38.9% |
| iii. | Overall pass rate in this paper: | 49.4% |

SUBJECT: CA 3.1 ADVANCED FINANCIAL REPORTING.

QUESTION ONE

The general performance on this question was good with 90 out of the 151 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 59.6%. The lowest score was 0 while the highest was 39 out of 40.

Part (a) of the question required candidates to prepare a Consolidated Statement of Financial Position from a set of draft financial Statements as at 30 September 2019. The group comprised a parent company and two subsidiaries.

Part (b) of the question required candidates to state factors that encourage companies to disclose environmental and social information as part of the issued set of annual reports which include financial statements. They were also required to discuss whether or not such disclosure should be at the discretion of management of the company.

A good number of candidates performed reasonably well. They demonstrated understanding of processes in the preparation of consolidated statements of financial position.

In part (a), a number of cases the figure used were incorrect because candidates calculated wrong amounts of purchase consideration, and fair value adjustments. For this reason, the amounts of goodwill reported were wrong. Further, candidates failed to correctly account for the reversed provision (the liability), revaluation surpluses and deferred tax on revaluation surpluses.

Answers for Part (b) fell short in as much as the discussion on whether such disclosure should be discretionary or mandatory were poorly done. The answers were recommending one or the other, instead of discussing both and providing reasons.

QUESTION TWO

The general performance on this question was very poor with only 9 out of the 127 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 7.1%. The lowest score was 0 while the highest was 16 out of 20.

The question was on IFRS 16 Leases, specifically sale and leaseback arrangements. It had three (3) parts: Part (a) was on general accounting treatment for the sale and lease back, (b) lease and leaseback at fair value and (c) sale and lease back above fair value.

Part (a) was well answered by most candidates, however few candidates spent a lot of their time discussing issues which were not relevant to the question: e.g. giving backgrounds, providing lengthy introductions, defining irrelevant terminologies and basic rules on leases.

Part (b) was not well answered. Many candidates computed the right of use asset and gain on disposal wrongly. The right-of-use asset should have been measured as the proportion of the previous carrying amount that related to the rights retained by BMK: $(3.8\text{m}/6\text{m}) \times \text{K}2.4 \text{ million} = \text{K}1.52 \text{ million}$. The correct gain on disposal was $\text{K}1.32 \text{ million}$ ($\text{K}3.6 \text{ million} \times (\text{k}6 \text{ m} - \text{K}3.8)/\text{K}6$).

Part (c) was poorly answered by most candidates. Candidates wasted time discussing accounting treatment in subsequent years, instead of only explaining the accounting treatment on initial recognition (1st January 2019). Further, most students failed to identify that the excess sales proceeds $\text{K}0.6 \text{ million}$ ($\text{K}9\text{m} - \text{K}8.4\text{m}$), was supposed to be treated as additional financing.

The correct right-of-use asset should have been measured as the proportion of the previous carrying amount that related to the rights retained by ABC: $(5.1\text{m}/8.4\text{m}) \times \text{K}3.6 \text{ million} = \text{K}2.19 \text{ million}$.

QUESTION THREE

The general performance on this question was poor with none of the 48 candidates who attempted the question achieved a pass (that is a score of at least 10 out of 20 marks), representing a 0% pass rate on the question. The highest score was 9 while the lowest was 0.

Part (a) of the question tested candidates on the application of IFRS 9, IAS 19 and IAS 21 while Part (b) was based on a scenario in which a company offered interest free loans to its senior members of staff. Candidates were then asked to demonstrate the appropriate accounting treatment of the loan amount in the accounts of the company. Candidates were expected to show the understanding and application amortization principles in calculating the present value of the loan receivable. Further, the question required a determination of the gain or loss on the loan amount recognizable in the first year.

In part (a), a good number of candidates did not even realize the relevance of IFRS 9 to the given scenario. Even the straight forward theory part on the conditions necessary for the application of hedge accounting was poorly answered by many candidates. Most candidates who attempted this question could not correctly calculate the loss or gain on a forward currency contract (FCC). Those who could calculate the gain/loss on the FCC had difficulties identifying its correct treatment. In particular, they couldn't determine amounts to report in P/L and those to report in OCI. Students at this level should expect questions that will test their ability to apply accounting standards to given scenarios. A scenario is almost always going to require the application of more than one accounting standard. It is therefore important that students avoid topic spotting but rather cover the syllabus in full.

In part (b) of the question, most candidates failed to compute the fair value of the loan assets by discounting the future cashflows. Further, candidates could not establish that the loss on initial measurement of the loan asset to employees was an employee benefit cost to be recognized as an expense over the loan durations in accordance with IAS 19.

QUESTION FOUR

The general performance on this question was also poor with only 21 out of the 106 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 19.8%. The highest score was 15 while the lowest was 0 out of 20.

The question was based on three (3) accounting standards (IFRS 5 Non-current assets held for sale and discontinued operations, IAS 23- Borrowing costs and IAS 2 - Inventories).

Most candidates demonstrated their lack of understanding of accounting standards. Candidates are advised to have an understanding of each area of the syllabus to increase their chances of passing. Weaker answers made the decision without considering the requirements, or merely listed the requirements under IFRS 5 without applying them to the scenario. Better answers began with the requirements, and then applied this knowledge to the scenario.

Others reached a conclusion without fully relating their decision to the standard, which limited their opportunities for marks.

A number of candidates lost marks in section by failing to provide explanations to support the financial statement extracts they were asked for. Where the requirements include the verb 'explain', then marks will be given for explanations and candidates who only provide extracts will not gain full marks even if the figures in the extracts are 100% correct.

Almost all candidates failed to compute the correct capitalisation rate, due to failure to annualise K600,000.

QUESTION FIVE

The general performance on this question was very good. 105 out of the 133 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 78.9%. The lowest mark recorded was 0 while the highest was 20 out of 20.

Candidates were required to evaluate the performance of the company based on their own ratios. This question gave candidates an opportunity to score fairly easy marks through the calculation of basic ratios and many indeed took full advantage of the opportunity. Some candidates however still showed lack of full grasp of this area of the syllabus.

The following mistakes were observed in a number of scripts:

- i. Calculating an overly excessive number of ratios without the accompanying commentary as required in the question;
- ii. Inability to explain the meaning of the ratios and their relevance to the general performance of a company.
- iii. Failure to identify the relevant areas for performance assessment such as profitability, investment and gearing and working capital;
- iv. Lack of appreciation of the interconnectedness of the ratios, i.e. a deterioration in one ratio may be as a direct result of an improvement in another ratio and;
- v. Failing to present the information in a usable report format as specifically required by the question.

OVERALL PERFORMANCE OF CANDIDATES

- i. Highest mark obtained in this paper: 70%
- ii. Average score in this paper: 36.5%
- iii. Overall pass rate in this paper: 31.8%

SUBJECT: CA 3.2-ADVANCED AUDIT AND ASSURANCE

QUESTION ONE:

A total of 217 candidates attempted this compulsory question. Out of this number, a total of 147 candidates scored half or more of the available marks. The average score in this question was 22 marks.

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. It has been observed that candidates perform better in the compulsory scenario question compared to the optional questions where candidates score less than half the available marks.

Part (a) of the question required candidates to identify and explain seven audit risks in the scenario of Motor Manufacturing Ltd. Candidates were expected to show understanding of the meaning of audit risks and were expected to relate the risks identified to the financial statements.

The scenario had many audit risks out of which candidates could have explained any seven. A majority of candidates scored well in this part. The following were noted resulting in a minority scoring less than expected marks in this part:

- i. Some candidates identified and explained less than the required seven audit risks and lost easy marks for not giving the required number of risks.
- ii. Some candidates defined and explained audit risks with the three components of inherent risk, control risk and detection risk without specifically identifying and explaining the risks that could fall in any of the above. There were instances of candidates not using the information in the scenario in explaining the risks. Candidates are reminded that at this level of the examinations they are expected to use the information in the scenario. Marks are lost for not doing so.
- iii. Disappointingly it was noted that some candidates explained ethical threats in this part of the question which was not required and did not get any marks for doing so. For example, candidates explained and discussed the issue of contingent fees and the secondment of the audit senior to Motor Manufacturing Ltd.
- iv. There were noted instances of candidates explaining business risks when the question required identification and explanation of audit risks. For example, the fact that the company imports large quantities of inventory which could impact on the liquidity of the company and that this could also result in delays in receipt of imports and hence affect the operations of the company.

Candidates should be able to distinguish business risks from audit risks and when the question requires audit risks to be explained they should always relate these to what could go wrong in the financial statements.

Part (b) required candidates to identify and explain six ethical issues in the audit of Motor Manufacturing Ltd. and suggest suitable safeguards that should be applied.

Most candidates performed well in answering this part of the question. Presentation of answers is important in question such as this one. Candidates should identify by putting a short heading and explained. The safeguard should follow and be clearly labelled as such. There were a sizeable number of candidates who scored low marks largely because:

- i. Less than the required six ethical issues were given resulting in the loss of easy marks.
- ii. A few candidates did not suggest suitable safeguards to the ethical issues explained. Others suggested declining as the only safeguard which is not necessarily the case. A few simply identified the ethical matters without explaining why they are considered as ethical matters and so only scored the marks for identifying and lost the marks for explaining.
- iii. There was a minority of candidates who explained in detail the five fundamental principles without making any reference to the case and no marks were awarded because this was clearly not asked.
- iv. Although no marks were lost it was noted that some candidates put the threat as the ethical issue instead of explaining the matter that causes the threat. For example in the case of assigning Joseph as audit manager in the audit of Motor Manufacturing Ltd the candidates put self-review and familiarity as the identified threats and later explained this.

The threat is that Joseph who previously worked for Motor Manufacturing was assigned as audit manager. This situation results in a self-review and familiarity threat for which suitable safeguards should be put in place. A few candidates discussed audit and business risks in this part of the question which were not required. For example discussing the lack of internal controls and the loss of key staff referring to Joseph.

Part (c) of the question required candidates to evaluate the information in the question and explain four matters for which written representations would be required by the auditor from management.

Some candidates scored less than half the available marks because of the following reasons:

- i. Candidates explained the provisions of ISA 580 Written representations without making reference to the information in the scenario. The question did not require an explanation of written representation but rather candidates should have shown understanding of written representations by illustrating using the information in the scenario. For example, a meeting of the board of directors

concluded that the company is a going concern. Candidates should have noted that ISA 570 requires the auditor to obtain written representation from management with regards its assessment of the going concern assumption of the company.

- ii. A sizeable number of candidates explained less than the four matters resulting in the loss of marks for doing so. There are enough grounds for auditors to obtain written representations in the scenario.
- iii. A few candidates simply listed the matters for which representations will be required such as going concern, internal controls and the preparation of financial statements. For eight marks this is not enough and candidates are expected to give brief explanations for example that ISA 570 specifically requires the auditors to obtain written representations on the basis upon which the company has been assessed as a going concern.

Candidates should consider the marks available in determining the expected depth of the answers. In this case for 8 marks it suggests that there are 2 marks for each of the four matters and simply listing without explaining will not attract the maximum 2 marks.

- iv. It was noted that some candidates simply did not know the meaning of written representations and gave answers such as the ability of the company to pay back the loan and that foreign currency transactions have been properly accounted for. It is important at this level of the examinations that candidates are conversant with the provisions of International Standards on Auditing which clearly state the written representations that auditors should get from audit clients.

Part (d) of the question required candidates to discuss the request by the CEO of Motor Manufacturing Ltd that the auditors should take responsibility for enhancing internal controls in the company. Presentation of answers in this form of question is important and candidates should have dealt with the responsibilities of management separately from the responsibilities of the auditors.

Majority of candidates ably explained the management and auditor responsibilities with regards internal controls the following were noted resulting in the loss of marks:

- i. Many answers were too brief with candidates simply stating that management is responsible for internal controls in the company. Candidates should take note of the marks on offer to determine the length and depth of the answer. Candidates were expected to observe that the setting up of internal controls is management responsibility unless there is a non-audit engagement for the auditor to perform this. Candidates should have gone further and state the reliance on internal controls that the auditor may place during the audit and

conclude that the firm will not be in a position to act in accordance with the request of the CEO.

A few candidates listed the internal controls that they considered would be useful in Motor Manufacturing Ltd for example stating that goods should be paid for after receiving them and that the CEO should allow the auditors to communicate with the previous auditors which clearly were not relevant in answering the question

QUESTION TWO

This was the most attempted optional question with a total of 212 candidates attempting it. 103 candidates scored half or more of the available marks and the average score was 10 out of the maximum 20 available marks.

Part (a) was a knowledge based question on analytical procedures and was divided into two parts as follows:

This part of the question required candidates to describe analytical procedures for three marks. A majority of the candidates ably described analytical procedures and scored maximum marks. Candidates who explained the use of analytical procedures in this part did not score any marks for doing so as this was the requirement in part (i) of the question.

A few candidates described analytical procedures as one of the method of obtaining audit evidence without describing how this is done and so did not score maximum marks.

Part (ii) of the question required candidates to explain the use of analytical procedures on the three areas of auditing namely planning, substantive and review stages of the audit. Many candidates lost marks because they did not identify the three stages of the audit and merely explained the use of analytical procedures in general.

Some candidates explained the use of the analytical procedures such as comparisons with industry figures without making reference to the three main stages in an audit. Candidates should have identified the three main stages of audits namely planning, substantive audit stage and the review stages and briefly explained how analytical procedures are applied and for what purpose in each of the three stages. The question clearly referred to the various stages in an audit. Clearly those candidates who did not know the three stages gave unsatisfactory answers to this part of the question.

Part (b) was on money laundering. This was a multi requirement question requiring candidates to explain the meaning of money laundering and also give examples of

money laundering offences including those that may be committed by the accountant.

Many candidates clearly explained the meaning of money laundering and scored the maximum marks for doing so. A sizeable number of candidates did not give examples of money laundering offences or gave less than the expected number of examples. Again candidates should consider the marks available in determining how much to write.

Some candidates who scored well in this part of the question went on to explain the process of money laundering which was not asked for in this part and obtained no marks for doing so. Time is important in the examination and candidates should restrict themselves in answering the question asked.

There were also candidates who expressed no knowledge of the meaning of money laundering and gave answers such as the use of company vehicles for personal use.

The second part of the question required candidates to recommend policies and procedures that the audit firm should put in place to meet its responsibilities with regards money laundering. It was pleasing to note that most of the candidates explained the expected four policies and procedures and scored high marks.

QUESTION THREE

A total of 178 candidates attempted this question out of which 60 candidates scored half or more of the available marks and the average score was 8 out of a maximum 20 marks.

The question had parts (a) and (b). Part (a) of the question required candidates to discuss the principle of accountability and how it is achieved in listed companies for 5 marks.

The available marks should have guided candidates to note the separation of ownership and management that exists in listed companies and the need for assurance which comes from the statutory audits whereby the auditors form an opinion on the financial statements and report to the shareholders at the annual general meeting.

Candidates lost marks for giving shallow answers which did not fully explain the stewardship role of management and the need for audits.

Part (b) of the question was on reviews of working papers and audit reports and was divided into three parts. The first part required candidates to show an understanding of reviews of audit working papers in the performance of audits. Candidates were expected to show an understanding of the way the work carried out by various staff

levels is reviewed as part of quality control of the work which will form the basis of the audit opinion.

Some candidates showed lack of knowledge of the need for work carried out by the audit team members to be reviewed by their seniors. Many explained peer reviews, hot and cold reviews which are a component of the reviews of work carried out candidates should have brought out the issue of audit assistant's work being reviewed by the audit senior and also the reviews by the audit manager and the engagement partner.

The second part was a knowledge based question requiring candidate to discuss the meaning and importance of hot reviews in an audit of financial statements. Candidates lost marks for simply explaining hot reviews without stating the importance as required by the question.

On the third part of the question, candidates required to comment on the suitability of the recommended opinion by the audit seniors. Candidates were required to use the theory on audit reports and apply it to the scenario and comment on whether the proposed opinion is suitable or not and suggest suitable opinion.

A majority of the candidates could not satisfactorily evaluate the proposed audit opinions based on information in the scenario. At this level of the examinations candidates should be able to critique a proposed opinion or conclusion based on information given.

QUESTION FOUR

A total of 140 candidates attempted this question out of which only 19 candidates scored half or more of the available marks and the average score was 6 out of the available maximum 20 marks.

Part (a) of the question required candidates to explain the importance of the expectation gap. Some candidates lost marks because they explained the meaning of the expectation gap without explaining the importance of narrowing the expectation gap and so lost marks for doing so.

Part (b) of the question required candidates to evaluate five given audit procedures in the audit of related parties and related party transactions and suggest alternative procedures where necessary. To answer this question adequately candidates needed to have a clear understanding of the accounting for related parties and related party transactions. A majority of the candidates failed to evaluate and deal with the five audit procedures given in the question and so lost marks.

The following were observed:

- i. Some candidates simply stated that the procedure is either correct or not correct without any explanations to justify their conclusion. In evaluating, candidates are expected to justify their conclusion using appropriate explanations.
- ii. Other candidates gave and explained their own audit procedures which were not among the five.

Part (c) required candidates to show an understanding of the key audit matters paragraph by evaluating a proposed KAM paragraph. Most of the candidates failed to correctly evaluate the extract. Candidates lost marks because of the following reasons:

- i. Giving general answers on the provisions of ISA 701 Key Audit Matters without using the information in the extract in the question.
- ii. Some candidates explained in detail the accounting for revenue per IFRS 15 which was not necessary. Candidates should have considered the opinion in the extract and comment appropriately.

QUESTION FIVE

This was the least attempted optional question with 103 candidates attempting it. The performance in this question was very poor with only 4 candidates scoring half or more of the available marks and the average score was 4 out of a maximum of 20 available marks.

The question was on group audits and required candidate to have knowledge of ISA 600 Special Considerations – Audits of Group Financial Statements (Including the work of component auditor) in order to answer it adequately.

Part (a) required candidates to explain giving reasons which of the four subsidiaries would be considered as significant components.

Candidates should have done this by way of calculating ratios of the figures comparing with the total consolidated figures. A majority of the candidates failed to identify and explain the subsidiaries which will be considered as significant. A sizeable number used the 50% threshold to determine a subsidiary company. Candidates should have observed that all the companies in the question are subsidiaries in the context of shareholding but the significance of the subsidiary to the group financial statements is dependent on materiality in relation to the consolidated financial statements.

A calculation of the % of the individual component figures to the consolidated figures should have helped candidates to determine the significance of the components. Further, candidates should have noted that components could be considered significant because of their nature and circumstances.

On Part (b) candidates were required to explain the extent of work that would be required to be carried out by Merl & Co on Brent Ltd. Using the ratios calculated in (a) candidates should have determined whether or not Brent is a significant component which it is not. Candidates should have suggested enquiry and analytical procedures as the main sources of audit evidence for Brent Ltd. ISA 600 gives guidance on the extent of work that should be performed on significant and non-significant components. Knowledge of the provisions of the standard were necessary to adequately answer this part of the question.

Part (c) required candidates to discuss the impact of a modified opinion on the financial statements of Oil Ltd one of the subsidiaries on the consolidated financial statements audit opinion.

The issue of materiality from the group point of view should have been considered and since Oil Ltd is not material, the fact that the individual financial statements were modified may not require that the opinion of the consolidated financial statements will also be modified.

The following common mistakes were noted:

- i. Some candidates explained the meaning of modified audit opinions instead of discussing whether or not the modification of the financial statements of Oil Ltd will justify the modification of the opinion of the group financial statements. Some candidates mentioned the matter of materiality but without using supporting calculations using information given in the question.

Part (d) of the question was an ethical one and involved non audit services intended to be carried out on a non-audit client. Most candidates failed to observe that Senior Health Ltd was a non-audit client and discussed ethical issues related to audit clients.

OVERALL PERFORMANCE OF CANDIDATES

- i. Highest mark obtained in this paper: 68%
- ii. Average score in this paper: 41.3%
- iii. Overall pass rate in this paper: 41.5%

SUBJECT: CA 3.3 -STRATEGIC BUSINESS ANALYSIS

QUESTION ONE

The general performance for this question was poor. Only 11 candidates out of the 183 that attempted the question obtained 20 and above marks out of 40. A pass rate of 6% was recorded. The highest got 30 while the lowest got 0 out of 40.

This question had five parts (a),(b), (c), (d) and (e). This was a case study-based compulsory question to be attempted by all candidates; and candidates scored reasonably well. It has four (4) sub-questions with a total of up to 40 marks.

Part (a) required the candidates to use a suitable analytical tool to categorize and describe Unilever's original portfolio of businesses.

Most candidates used the wrong tool (Porter's Five Forces or Ansoff's Model) to categorize and describe Unilever's original portfolio of businesses.

Part (b) asked candidates to describe the strategy that Unilever has been using, its characteristics, benefits and risks, justifying the answer accordingly.

This part was not answered well by most candidates due to the wrong tool used in Part (a).

Part (c) required candidates to describe the source of Unilever's sustainable competitive advantage in its industry sector.

Most candidates did not fare well on this part due to the same reason as in (b).

Part (d) asked candidates to advise the newly appointed CEO in terms of the appropriate strategy to implement to ensure long-term survival of the company as a market leader.

Most candidates did not fare well on this part either.

Part (e) required the candidates to calculate the financial and operating gearing ratios for a company and to explain what these two values tell about the company.

This was the worst as only 1 candidate got the answer right. The candidates could not just use the formulas correctly to arrive at the correct answers.

QUESTION TWO

The general performance for this question was excellent. 146 candidates out of the 181 that attempted the question obtained 10 and above marks out of 20. A pass rate of 80.7% was recorded. The highest got 20 while the lowest got 0 out of 20.

This was a two-part scenario-based question on the purchase of an on-going business. It had a total of up to 20 marks. Part (a) required candidates to explain any five (5) risks involved in this undertaking of purchase of an on-going business.

Part (b) required candidates to explain discuss any five (5) positive implications of forming a partnership type of business. This question was answered correctly by many of the candidates.

QUESTION THREE

The general performance for this question was poor. Only 21 candidates out of the 157 that attempted the question obtained 10 and above marks out of 20. A pass rate of 13.4% was recorded. The highest got 20 while the lowest got 0 out of 20.

This question was on corporate strategy and winning strategies.

Part (a) required candidates to discuss any four (4) functions of corporate strategy. They did not understand what a corporate strategy was and hence they could not answer the question correctly.

Part (b) required candidates to illustrate how Three (3) tests can be used to evaluate the merits of one strategy over another and to gauge how good a strategy is.

They did not understand what winning strategies were and hence they mentioned wrong tests for strategy evaluation.

QUESTION FOUR

The general performance for this question was poor. Only 6 candidates out of the 88 that attempted the question obtained 10 and above marks out of 20. A pass rate of 6.8% was recorded. The highest got 20 while the lowest got 0 out of 20.

This question only one part. This question was about the use of the Power Bases.

It required candidates to analyze any five (5) types of power bases, which could be used to influence the followers to accept one's leadership and improve operations. Most candidates shunned this very simple question as they did not understand what a power base was and those who attempted it scored very poorly.

QUESTION FIVE

The general performance for this question was poor. Only 41 candidates out of the 112 that attempted the question obtained 10 and above marks out of 20. A pass rate of 36.7% was recorded. The highest got 20 while the lowest got 0 out of 20.

This question had two parts (a) and (b). This was a question was about coming up with a business plan for a wood buying and selling business.

Part (a) was about describing any five (5) personnel pitfalls, which should be avoided if a business plan is to succeed.

Most candidates answered this part of the question very badly.

Part (b) asked candidates to advice on financial strategy in the planned business. Also to formulate a brief assessment on any five (5) such strategies to ensure success of this business.

OVERALL PERFORMANCE OF CANDIDATES

- i. Highest mark obtained in this paper: 64%
- ii. Average score in this paper: 31.1%
- iii. Overall pass rate in this paper: 14.8%

SUBJECT CA 3.4 ADVANCED TAXATION

QUESTION ONE

The general performance for this question was poor. Only 20 candidates out of the 60 that attempted the question obtained 20 and above marks out of 40. A pass rate of 30.3% was recorded. The highest got 35 while the lowest got 1 out of 40.

This compulsory question covering tax planning for individuals involving evaluation of remuneration packages and was generally poorly answered. In part (a) (i) candidates were required to calculate the amount of income tax payable by an employee under the current remuneration package as indicated in the question. The main challenges faced by candidates in answering this part of the question, resulting in poor performance were:

Failure to identify which of the benefits under the package were taxable. Most candidates also included exempt benefits in computing the income tax arising under the package using the wrong income tax rates when computing the income tax payable.

Part (a) (i) which required candidates to compute the net income, after statutory deductions and other relevant expenditure, under the current remuneration package was also poorly answered. The most common mistakes made by the candidates in answering this part of the question included:

Computing the wrong amounts of NAPSA contributions. Most candidates were calculating NAPSA contributions using the basic salary instead of the gross emoluments.

Failing to calculate the correct amount of National Health Insurance contributions.

Part (b) (i) required candidates to calculate the income tax payable by an employee under a proposed new remuneration package and was equally poorly answered. Candidates faced the following challenges in answering this part of the question:

Including exempt benefits in the computation of the income tax arising under the proposed package as they failed to differentiate between taxable and exempt benefits accruing to the employee.

Failing to deduct the appropriate allowable deductions relating to the package

Failure to calculate the correct amount of capital allowances arising under the package.

Using the wrong income tax rates in computing the income tax payable.

Part (b) (ii) asked candidates to calculate the net income after the statutory deductions and other relevant expenditure, under the proposed remuneration package. The most common weaknesses demonstrated by candidates in answering this part of the question resulting in poor performance included:

Calculate the wrong amounts of employee's NAPSA contributions. This was because candidates in most cases were using the basic salary instead of the gross emoluments in their computations.

Failure to calculate the correct amount of National Health Insurance contributions.
Failure to deduct the relevant expenditure from the gross emoluments in computing the net income.

Consequently, most candidates failed provide the appropriate tax advice in part (c) on which of the two packages was beneficial from a taxation point of view., for the employee

In part (d) candidates were required to calculate the amount of tax savings arising for the employer and after-tax cash flow position of the company under each of the two remuneration packages. The following are the most common challenges faced by the candidates in answering this part of the question:

- i. Failure to differentiate between allowable and disallowable expenses for the employer under each package.
- ii. Calculating the wrong amount of the employer's NAPSA contributions and employer's National Health Insurance Scheme contributions under each package.
- iii. Failing to calculate the correct amount of the skills development levy.
- iv. Calculating the wrong amount of capital allowances claimable by the employer on the personal-to-holder car under the proposed new package.
- v. Failure to calculate the correct amount of the accommodation benefit to be disallowed on the employer under the proposed new package.
- vi. Using the wrong tax rates in computing the tax savings arising, with most candidates using the personal income tax bands in their computations instead of the company income tax rate of 35%.

Consequently, in part (e) candidates failed to provide the appropriate advice as to which of the two packages was beneficial for the company from a taxation point of view.

QUESTION TWO

The general performance for this question was fair. 31 candidates out of the 60 that attempted the question obtained 10 and above marks out of 20. A pass rate of 51.7% was recorded. The highest got 16 while the lowest got 1 out of 20.

This question covered taxation of mining operations and was reasonably answered well. Part (a) required candidates to explain the tax incentives available to companies carrying on mining operations and was fairly well answered with the exception of a few candidates who demonstrated a lack of knowledge of the incentives and therefore could not provide the required answers.

In part (b) candidates were required to calculate the amount of income tax payable by the mining company. The main challenges faced by the candidates who scored poor marks on this part of the question included:

- i. Failing to differentiate between allowable and disallowable expenses incurred by the mining company when computing taxable profits for the company.
- ii. Using the wrong rates when calculating capital allowances on mining expenditure.
- iii. Deducting the wrong amount of investment income when computing the taxable profits.
- iv. Failure to calculate the correct amount of the indexed mining loss to be relieved against the taxable mining profit.
- v. Including investment income whose withholding tax is final in the company income tax computation when computing the company income tax payable.
- vi. Using the wrong company income tax rate of 35% when computing the tax on mining profits instead of correct rate of 30% that applies to mining profits.

QUESTION THREE

The general performance for this question was fair. 28 candidates out of the 55 that attempted the question obtained 10 and above marks out of 20. A pass rate of 50.9% was recorded. The highest got 17 while the lowest got 1 out of 20.

The general performance on this question which covered International Aspects of taxation and cessation rules for a sole –trader was fair.

Part (a) required candidates to calculate the final taxable for a sole trader who ceased to trade and to explain the basis of assessment. The following are the challenges faced by the candidates who scored poor marks on this part of the question:

- i. Failure to explain the basis of assessment and apply the cessation rules.
- ii. Using wrong rates to calculate capital allowances.
- iii. Failure to calculate the correct amounts of balancing charge on the disposal of assets.

Part (b) required candidates to calculate the amount of income tax payable by the individual who also received income foreign sources and was generally poorly answered. The most common mistakes made by candidates made in answering this part of the question included:

- i. Failure to apportion the emoluments to the six (6) months the individual was in employment in the tax year 2020.

- ii. Forgetting to gross up investment income received from foreign sources before including it in the income tax computation. Most candidates included the net amounts in their computations which was wrong.
- iii. Failing to calculate the correct amount of double taxation relief available on income received from foreign sources.
- iv. Using the wrong tax rates to compute the income tax arising. Most candidates used the company income tax rate of 35% to compute the amount of the income tax payable instead of the graduated income tax rates for individuals given that the tax payer was an individual and not a company.

QUESTION FOUR

The general performance for this question was poor. Only 12 candidates out of the 38 that attempted the question obtained 10 and above marks out of 20. A pass rate of 31.6% was recorded. The highest got 14 while the lowest got 2 out of 20.

This question covered financial planning and arrangements was generally poorly answered by the candidates who attempted the question. The question comprised three parts.

In part (a) (i) candidates were required to explain the taxation implications of raising finance by issuing loan notes to finance the purchase of manufacturing equipment. A number of candidates demonstrated a lack of knowledge of this area of the syllabus and therefore failed to provide the required explanations. Similarly, in part (a) (ii) candidates failed to explain the taxation implications of raising finance by issuing equity shares to purchase manufacturing equipment and also failed to explain the tax implications of hedging in part (a) (iii).

Part (b) required candidates to describe the nature of a collective investment scheme and explain the taxation implications of investing in such a scheme. Only a few number of candidates managed to provide the required explanations whilst others demonstrated a lack of knowledge of collective investment schemes and therefore failed to provide the appropriate explanations.

In part (c) candidates were required to explain the nature and taxation implications associated with personal financial products which included family income benefit, permanent health insurance and critical health insurance. This part of the question was generally fairly well answered with the exception of a few candidates who demonstrated a lack of knowledge of these financial protection products and therefore failed to provide the required explanations.

QUESTION FIVE

The general performance for this question was poor. None of the 39 that attempted the question obtained 10 and above marks out of 20. A 0% pass rate was recorded. The highest got 9 while the lowest got 0 out of 20.

This question covered ethical issues in tax practice and administration of direct taxes and was poorly answered by all the candidates that attempted the question. In part (a) candidates were required to evaluate the ethical issues arising from assisting an audit client in performing tax calculations for the purposes of preparing the accounting entries in the financial statements, preparing the VAT returns and self-assessment returns and assistance in resolution of a tax dispute with the ZRA.

Candidates generally scored poor marks on this part of the question because they failed to identify the relevant ethical threats arising in each case and also failed to recommend appropriate safeguards to manage the threats in each case.

In part (b) candidates were required to compute the amount of income tax underpaid by a sole trader. The main challenge faced by the candidates in answering this part of the question failure to use the correct income tax bands for individuals in computing the amount of income tax underpaid. Candidates used the company income tax rate of 35% in their computations which was wrong given that the tax payer was an individual and not a company.

Part (c) required candidates to advise the sole trader on his exposure to penalties and interest arising from late submission of provisional income tax returns, payment of provisional income tax and underpayment of income tax and was equally poorly answered. The most common weaknesses demonstrated by candidates in answering this part of the question included:

- i. Inability to remember the correct due date for the submission of the return of provisional income resulting in a failure to compute the amounts of penalties arising on the late submission of the return.
- ii. Failure to calculate the amount of provisional income tax paid per quarter as well as well as a failure to remember the due dates for the payment of each instalment. This resulted in the candidates failing to identify which instalments were paid late by the tax payer and also ultimately, failing to compute the amounts of penalties and interest arising on the late payment of the relevant instalments of provisional income tax.
- iii. Failure to calculate the correct amount of penalties arising on the under payment of tax.

OVERALL PERFORMANCE OF CANDIDATES

- i. Highest mark obtained in this paper: 74%
- ii. Average score in this paper: 35.6%
- iii. Overall pass rate in this paper: 40.9%

SUBJECT: CA 3.5 -ADVANCED MANAGEMENT ACCOUNTING

QUESTION ONE

This is a 40 marks compulsory question. The general performance was poor with a pass rate of 15% being recorded in the question (only 3 out of 20 students that attempted the question obtained 20 and above marks out of 40). The highest mark scored was 24 while the lowest was 1 out of 40.

The question into five parts. Part (a) was reasonably attempted. Poorer candidates explained the metrics without referring to the company and the data as per the scenario – thereby not maximizing the marks. Other candidates explained the four perspectives of the balanced scorecard.

There was need to explain the importance of non-financial and financial measures to the company, i.e. separately and both (not one at the exclusion of the other).

In part (b), most candidates concentrated on the management accounting system providing the cost information for budgeting planning and control. This is what the system was doing. They needed to bring out what the current system was not doing such as the provision of strategic and tactical information as expected by a well-designed strategic management accounting system. Maximum marks were not awarded for simply focusing on the cost aspects.

As explained above, to do justice to part (c) (worth 15 marks), a flexed budget compared with the actual results was required. A line by line comment (i.e on sales units, direct material / labour, VOH , FOH , etc) then explained giving possible reasons for variances. Giving possible reasons: – this was important at this advisory level.

Part (d) was generally well attempted. However, this was not the case in part (e) candidates mostly explained ABC including its historical development (not asked for.) As per the question requirement, the answer should have addressed:

The following were the common mistakes noted:

- i. Leaving the question to the end.
- ii. Not answering the question as per the requirements.
- iii. In part (c) not calculating the variances by comparing the actual results with the fixed budget. Instead, comparing the fixed budget with the actual results. In other instances, not calculating variances at all- just commenting.
- iv. Some students provided answers that were too brief for a question worth 40 marks.

QUESTION TWO

The general performance for this question was poor. Only 8 candidates out of the 18 that attempted the question obtained 10 and above marks out of 20. A pass rate of 44.4% was recorded. The highest got 17 while the lowest got 0 out of 20.

This was theory question based on performance measurement. It was sub-divided into three parts:

Part (a): Analysis of a company's product portfolio using BCG Matrix.

Part (b): identification and explanation of key performance measure for each of the products in the company's product portfolio.

Part (c): Assessing how implementation of a balanced Scorecard approach would help company management resolve the problems in the scenario.

The following common mistakes were noted:

- i. In part (a), most candidates confused Star (D) for a Cash cow product (A). This should be based on the market share (proportion of the cash flow) and growth.
- ii. Part (b), identification of the suitable KPIs was a challenge for most of the candidates as most of them produced generic answers.
- iii. Part (c), only a handful managed to relate the Balanced Scorecard to the scenario. Candidates were expected to discuss how BSC as a performance tool would help assess performance in Asimbi Ltd.

QUESTION THREE:

The general performance in this question was poor. The question recorded a 9.1% pass rate. The highest scored 13 out of 20 while the lowest had 0.

This was one the least attempted question in the test paper. The question required candidates to do the following:

- (a) to calculate the total equity required,
- (b) to calculate the return on equity and recommend the best option and
- (c) to discuss disadvantages of using ROE.

In part(a), it was a challenge to most the candidates to the equity for the period of three years. Most candidates simply restated the equity capital invested by the venture capitalist.

Part (b), was poorly attempted, most students did not determine the three possible options hence failure to recommend. Those who calculated made wrong recommendation contrary to the findings. This being an advisory paper, students are expected to exhibit high professionalism.

Part (c), this was also poorly attempted as most students never made reference to the scenario. A number of the students were listing the disadvantages instead of discussing.

QUESTION FOUR

The general performance for this question was fair. 8 candidates out of the 16 that attempted the question obtained 10 and above marks out of 20. A pass rate of 50% was recorded. The highest got 15 while the lowest got 0 out of 20.

The question was divided into three parts. In part (a) candidates were required to discuss the disadvantages of using the IRR in evaluating the investment in a Project. Many candidates scored highly in this section but for some candidates were writing the advantages instead thereby scoring lowly.

The second part (b), requested for the calculation of the MIRR and advise management to invest in the project. Some candidates scored highly in this section and there were good solutions, however some candidates could not apply the formula for MIRR technique. Therefore, rendering an inappropriate advice.

Finally in part (c) the discussion of the suitability and acceptability of using certainty equivalents in incorporating risk when understanding project appraisals. It was poorly answered. Candidates failed to score much here.

QUESTION FIVE

The general performance for this question was excellent. All the 11 candidates that attempted the question obtained 10 and above marks out of 20. A pass rate of 100% was recorded. The highest got 20 while the lowest got 10 out of 20.

This question had two parts A and B. The candidates who attempted this question scored good marks on both parts of the questions. Some of them nevertheless lost some marks because they were not addressing the key verb in the question. In most cases, the points raised were either repeated or lacked coherence. Candidates should always measure the length of the answer to the allocated marks. In part (a), candidates should discuss the benefits of qualitative information in Fish 'N' Chips instead of generalizing

OVERALL PERFORMANCE OF CANDIDATES

- i. Highest mark obtained in this paper: 69%
- ii. Average score in this paper: 38.1%
- iii. Overall pass rate in this paper: 45%

SUBJECT: CA 3.6- ADVANCED FINANCIAL MANAGEMENT

QUESTION ONE

The performance was very poor. There were 28 candidates who attempted this question and only 3 passed representing 10.71% pass rate. The student scored highest obtained 22 marks out of the available 40 while the lowest got 2.

Part (a) required candidates to evaluate the cost of equity and weighted average cost of capital before and after implementing the first proposal for AVEN Plc. Part(b) required candidates to evaluate the financial viability of the second proposal using the Modified Internal Rate of Return (MIRR). Part (c) required candidates to discuss the views of the two directors on the validity of the assumption that the market value of equity will remain unchanged after the implementation of the first proposal.

The workings for market value of debt – before implementing the proposal were incorrectly done because the cost of debt was incorrect. The cost of debt is part of the calculation of market value of debt. The calculation of market value of equity also depended on the correctness of the cost of equity. Most students did not get the cost of equity right. This affected the market value of equity. For the WACC only a few students got this answer right. Only a few students got the market value of equity right. The problem arose from the fact that the calculation of cost of debt (kd) was initially wrong. Very few students got that answer right. The cost of equity and WACC before the proposal and after the proposal were wrongly calculated.

QUESTION TWO

The performance was very good. There were 27 candidates who attempted this question and only 20 passed representing 74.07% pass rate. The highest mark obtained was 17 out of the total available 20 marks while the lowest was 4.

Part (a) of this question required candidates to explain the difference between Adjusted Present Value (APV) and Net Present Value (NPV) as methods of investment appraisal techniques and include the circumstances under which APV might be more appropriate for evaluating capital investment projects than NPV.

Part (b) of this question required candidates to Evaluate the proposed investment in the freight and transport industry using the APV method. For part (a) good answers highlighted a number of differences and circumstances in line with the allocated marks. For part (b) the base case NPV was generally well attempted. However, students performed very poorly when it dealing with taxation and the financing side effects. Part (c) which required an explanation of other long-term financing methods was well attempted.

QUESTION THREE

The performance was poor. There were 25 candidates who attempted this question and only 7 passed representing 28% pass rate. The highest mark scored was 13 out of 20 while the lowest was 2.

Part (a) required candidates to calculate the total gains or losses to the shareholders of AKL Plc and Musa Plc of the proposed takeover. Part(b) required candidates to advise the maximum offer price that the shareholders of AKL Plc should accept and the premium offered to the shareholders of Musa Plc.

Part(b) required candidates to discuss the causes of failure of mergers and acquisitions and how the proposed takeover with Musa Plc can be successful. Some students avoided in answering Part (a) and (b) of this question. For those that attempted to answer this part of the question, a number of them failed to calculate the total gains and losses. This resulted into wrong advice.

Some responses failed to adequately discuss the causes of failure of mergers and acquisitions. The responses were not very exhaustive to attract the 10 marks allocated.

QUESTION FOUR

The performance poor. There were 25 candidates who attempted this question and only 9 passed representing 36% pass rate. The highest mark scored of the available 20 was 13 while the lowest was 4.

Part(a) required candidates to briefly explain how the company might set up its hedge to manage its foreign exchange risk using currency futures and evaluate the efficiency of a futures hedge in reducing the loss resulting from changes in exchange rates, given that the spot rate is 100 JPY/US\$ and the futures contract price is US\$0.009667/JPY on 30 June. Candidates failed to explain how to set up a futures hedge and to evaluate the efficiency.

Part (b) required candidates to describe four (4) ways governments may restrict international trade in order to protect their local industries and discuss three (3) possible consequences of removing trade barriers between countries. This part of the question was fairly attempted.

QUESTION FIVE

The performance was very poor. There were 2 candidates who attempted this question and no one passed representing 0% pass rate. The highest score was 5 while the lowest was 4 marks out of 20.

Part (a) required candidates to explain what is meant by mezzanine finance, and discuss two (2) of its merits and de-merits when used to finance a green field project such as the tractor assembly plant. Part (b) required candidates to calculate

and comment on the change in earnings per share (EPS) and share price (P) if the company enhances its production capacity immediately. Explain any assumptions which you make.

Part (b) required candidates to analyze the implications for the share price (P), if Minsk Tractor Ltd makes a rights issue at an issue price of K50.00 per share (ignore issue costs).

Few students attempted the question and performed poorly, showing very little knowledge of the topic. Students are advised that all areas included in the syllabus are examinable.

OVERALL PERFORMANCE OF CANDIDATES

- i. Highest mark obtained in this paper: 54%
- ii. Average score in this paper: 35.5%
- iii. Overall pass rate in this paper: 21.4%

SUBJECT: CA 3.7-PUBLIC SECTOR AUDITS AND ASSURANCE

QUESTION ONE

The general performance on the question was poor. Only 53 out of the 118 candidates that attempted this compulsory question scored half or more of the available 40 marks. The highest score in this question was 31 marks out of the maximum 40 marks available while the lowest was 6.

The following observations were made on the individual parts of the question:

Part (a) This part of the question required candidates to explain the objectives of carrying out a financial audit by the public sector auditor.

A majority of the candidates scored maximum marks and clearly explained the objective of financial audits.

Part (b) of the question required candidates to describe three different types of audits that can be conducted on the implementation of the computerized system

Most of the candidates described the three types of audits of financial, performance and compliance in the context of the question.

Part (c) of the question required candidates to explain the distinction between planning and performance materiality.

A majority of the candidates ably explained the distinction between materiality at the planning stage and performance materiality.

Part (d) of the question required candidates to describe the analytical procedures to be performed to meet the audit objectives given in the question.

A majority of the candidates gave general procedures such as recalculation without focusing on analytical procedures and hence lost marks.

Part (e) of the question required candidates to describe four risks that the introduction of the newly computerized systems brings to the ministries.

Most of the candidates scored maximum marks though others lost marks because they were giving less than the required number of risks getting marks in proportion to the risks described.

Other candidates lost marks because they were not using the information in the scenario in answering the question. This is very important at the professional level because candidates are expected to apply the theory to the scenario in the question.

In part (f) of the question required candidates to identify and explain six fraud risk factors in the newly introduced systems.

The majority of the candidates scored maximum marks and ably identified and explained the fraud risk factors.

The following were observed regarding candidates who scored less marks:

- i. Some candidates explained less than the required six fraud risk marks.
- ii. Some candidates explained fraud risk factors without making reference to the information in the scenario which is required in the question.
- iii. Some candidates explained risks instead of fraud risk factors indicating that they do not understand the difference between the two.

Part (g) of the question required candidates to describe the circumstances that may necessitate the modification of the opinion of the auditor. Candidates lost marks because they explained the various forms of modification of the audit opinion which was not the requirement of the question and no marks were awarded for doing so.

Some candidates quoted the wrong standard namely ISSAI 1700 instead of ISSAI 1705.

Part (h) of the question required candidates to comment on the request by the Secretary to the Cabinet that all ministries that have migrated to the new systems amounts to interference on the work of the SAI which is supposed to decide on the program that it wishes to follow.

Whereas it is correct that the OAG decided on the subjects that it will audit, a request by the Secretary to the Cabinet does not amount to interference unless he stopped the OAG from performing an audit that it intended to carry out. In this case it is within the mandate of the OAG to audit any institution using public funds and so the request assists the OAG fulfill its mandate.

Most candidates could not justify their answers with many simply saying it is interference or it is not without explaining.

Part (i) of the question required candidates to illustrate their knowledge of the use of the emphasis of matter paragraph in accordance with ISSAI 1706 using the information in the scenario.

Candidates were expected to evaluate and conclude on whether or not it would be appropriate to include the matter in the EoM paragraph. The matter at hand is one that does not qualify as a matter that should be included in the EoM paragraph. The suggestion by the Secretary to the Cabinet should therefore not be accepted.

A small number of candidates explained financial statement assertions, which were not required in answering this question. Most candidates explained the meaning of the Emphasis of Matter Paragraph without applying their knowledge to the facts in the scenario.

QUESTION TWO

This was the least attempted optional question attempted with 55 candidates out of the 119 who sat for this examination attempting it. The general performance on the question was fair with a pass rate of 54.9% (28 out of the 51 candidates that

attempted the question obtained 10 and above marks out of the available 20). The highest mark scored was 17 while the lowest was 0.

Generally candidates performed well in this question with 28 candidates scoring half or more of the available marks. The average score in this question was 10 marks.

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

The question had two parts. Part (a) required an explanation of the reason accounting estimates are considered a risky area in public sector auditing. The part also required candidates to suggest four audit procedures in the audit of provisions which are an accounting estimate in the audit of the financial statements of the utility company in the question.

Most of the candidates lost easy marks because they exhibited lack of knowledge of the necessary audit procedures that should be performed and the following were noted:

Some candidates explained provisions as specified in IAS 37 without addressing the requirements of the question to suggest suitable audit procedures to confirm whether or not the accounting for provisions has been done in accordance with the applicable standard. No marks were awarded for explaining provisions and candidates are reminded to address the requirements of the question when answering questions.

Other candidates explained management responsibilities such as to ensure that the provision is correct and ensure that the provisions is complete. Audit procedures are carried out by the auditor to ensure than the assertions in the figure of provisions are valid. Suitable procedure could have been obtain the details of the provisions and the calculations and re-perform for example.

In part (b) of the question, candidates were required to evaluate the conclusions of the four groups in the scenario each of which had to deal with a specific issue.

Candidates were expected to either agree or disagree with the group conclusion and support the argument suing the theory for each of the four areas covered.

Most of the candidates lost marks because they either agreed or disagreed with the group conclusion without giving any supporting arguments. For three marks per group candidates were expected to support their answer and simply agreeing or disagreeing did not attract maximum marks. Others merely repeated what was given in the scenario without giving a conclusion.

QUESTION THREE

The general performance on this question was poor. A total of 99 candidates attempted this question out of which 43 scored half or more of the available marks (representing a pass rate of 43.4%). The highest score in this question was 17 out of a maximum of 20 possible marks while the lowest was 3.

Part (a) (i) this part of the question required candidates to explain the importance of audit evidence in public sector auditing.

The majority of those who answered this part scored maximum marks. There were a few who lost marks because they explained audit evidence is obtained which clearly was not answering the question asked.

The second part of (a) required candidates to describe the audit evidence that is expected to be found in the working papers arising from the compliance and performance audits in the reforms in licensing of drivers.

The performance in this part of the question was bad with most candidates getting low marks. This suggests that candidates do not understand the difference between audit procedures and the evidence expected. When evaluating the evidence expected, it suggests that the work (audit procedures) has already been done and you are reviewing the working papers and for an effective review you need to know the evidence that you expect. It is clear that unless you know the audit procedures that should have been carried out it is unlikely that one would know the evidence expected.

A majority failed to understand the requirements of the question and ended up suggesting suitable audit procedures that should have been performed for which no marks were awarded.

Some candidates the processes of collecting audit evidence in the licensing of drivers.

Part (b) of the question was on ethics and was divided into two parts. The majority of the candidates scored high marks and had no problems answering this part of the question.

The first part of the question required candidates to identify and explain the ethical matters in the given scenario and also state the action that should be taken to mitigate the ethical concerns. Most candidates answered this part well but others lost marks because they explained the five fundamental principles of professional ethics which clearly did not answer the question as no reference to the scenario was made.

Others identified and explained the ethical matters but gave no suggestions of the safeguards that should be applied.

Part (ii) of (b) required candidates to explain the audit response required with regards the refusal by the management of the club to provide the public sector auditors the bank statements for review.

The majority of the candidates scored maximum marks but there were others who lost marks because they emphasized on the rights of the public sector auditors and suggested that the auditors should force their way and collect the bank statements.

Other candidates suggested that they could collect the bank statements from the bank.

Candidates should have observed that the public sector auditor should try and use other procedures to obtain the necessary evidence. If this is not possible the auditor may consider the impact this refusal will have on the audit report.

QUESTION FOUR

This was the most popular question with 103 candidates out of the 119 who sat for this examination attempting this question. The general performance on the question was fair with 51 candidates of those who attempted the question scoring half or more of the available marks (representing a pass rate of 49.5%). The lowest score was 3 out of the maximum 20 available marks while the highest was 16.

Part (a) of the question required candidates to explain the expectations of the Zambians on the work of the Auditor General.

Candidates did not perform well in this part of the question by merely mentioning the functions of the OAG without fully outlining and explaining the expectations of the citizens. Candidates scored proportionate marks for doing so but needed to explain all the three major expectations namely strengthening accountability, integrity and transparency of public sector institutions, and demonstrating its own relevance and Being a role model on how the OAG uses public funds.

Part (b) required candidates to explain the role of the National Assembly in public sector audits processes for three marks. Candidates should have dealt with the role that the National Assembly has in conferring authority to institutions receiving and spending public funds to spend according to the regulations and also confers authority to the OAG to carry out audits of these public institutions. Parliament through the Public Accounts Committee based on audit reports issued by the OAG gives oversight on the use of public funds.

Most candidates explained the role of parliament satisfactorily but there were a few who did not bring out the role of conferring authority to both public institutions and the OAG.

Part (c) had two parts which were on the independence of the SAI and the members of the SAI in parts (i) and (ii) respectively.

Most candidates lost marks because they explained the importance of the independence of the OAG and its members instead of dealing how this independence is achieved. Candidates should have noted that the OAG is required to be independent of any other government institution and should have administrative autonomy. Further, the appointment of the AG should be enshrined in the constitution and the basis for removal should also be provided for in the constitution.

Part (d) of the question requires candidates to relate compliance audits to financial audits. Candidates should have noted that when compliance audits are performed on the financial accounts the criteria will be to confirm compliance with relevant rules and regulations used in the preparation of the financial statements. For example regulations may specify the format in which the financial statements should be prepared, the compliance audit will aim at establishing whether or not this has been the case. This is contrary to the financial audit which aims at forming an opinion on the financial statements.

A majority of the candidates simply explained the meaning of financial and compliance audits without relating to the requirement of the question.

Part (e) required candidates to explain the importance of transparency and accountability to the SAI. This is in relation to how the SAI uses public funds which must be transparent and the SAI should be accountable on how it uses public funds. In other words the SAI should lead by example before it expects other users of public funds to be held accountable and be transparent on how they spend public funds.

A majority of the candidates simply explained the meaning of the principles of transparency and accountability with no further explanation.

QUESTION FIVE:

102 candidates out of the 119 who sat for this paper attempted question five. The performance was generally good with 70 candidates scoring half or more of the available marks (representing a 68.6% pass rate).

Part (a) of the question required candidates to explain the objectives of undertaking performance audits in public sector audits. Discussions should have centered on economy, efficiency and effectiveness of undertaking activities.

A majority of candidates scored high marks in this part with a few who seemed not to know the three e's and so lost easy marks.

Part (b) of the question required candidates to performance audit objective and also to propose the approach that could be used in carrying out the performance audit in the procurement of drugs. Most candidates explained the audit objective but did not propose the possible approach that could be used and so lost marks for this part.

Part (c) required candidates to illustrate the carrying out of a performance audit using the information in the scenario on the procurement of drugs by the ministry.

Candidates who simply explained each of economy, efficiency and effectiveness without illustrating using the information in the scenario did not score maximum marks.

OVERALL PERFORMANCE OF CANDIDATES

- i. Highest mark obtained in this paper: 67%
- ii. Average score in this paper: 44.8%
- iii. Overall pass rate in this paper: 63.9%