



MARCH 2022 EXAMINATIONS

CHIEF EXAMINERS REPORTS

CA ZAMBIA

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

### **QUESTION ONE**

The general performance on this question was very good. 31 out of the 40 candidates that attempted the question passed (got at least 10 out of the total 20 marks available). The pass rate recorded was 77.5%. The highest mark scored on this question was 16 out of 20 and the lowest was 4 out of 20.

### **QUESTION TWO**

The general performance on this question was excellent. 34 out of the 40 candidates that 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 85%. The lowest score was 3 out of 20 marks, whilst the highest 20 marks.

The question was divided into two parts. Part (a) required candidates to prepare a statement of Profit or Loss and other comprehensive income while part (b) required them to prepare a statement of Financial position.

The following common mistakes were noted:

- i. Candidates failed to follow IAS 1 presentation format e.g. Income tax figure was included as ordinary expense item when it should be deducted from Profit after tax.
- ii. 8% Loan note Interest was not accounted by many candidates i.e.  $8\% \times K6,400 = K512$ .
- iii. The carriage cost was not divided as per Examiner's instruction i.e. K432 to be added to Purchases and  $K2,160 - K432 = K1,728$  as ordinary expense after the gross profit.
- iv. K200 revaluation for the year was not added to existing Revaluation Opening Balance.
- v. 8% Loan note of K6,400 was not divided into Non-current Liabilities (K6,000) and current liabilities (K400).
- vi. IAS 2 Inventory valuation rule was not observed by candidates. Many candidates used the historical cost K3,800 when the Net realisable value of K3,600 was lower. Candidates should have used K3,600 under the current assets..

### **QUESTION THREE**

The general performance on this question was poor. Only 11 out of the 33 candidates who attempted the question scored 10 marks and above out of the available 20 marks, representing a pass rate on the question of 33.3%. The lowest score was 3, whilst the highest was 20 marks out of 20.

The question also had multiple parts (a, b and c). The part (a) (i) required candidates to prepare a corrected cash book from the given errors. The common error in this part was on the cheque payment which was treated as a receipt in the cash book. Candidates needed to enter it twice on the credit side of cash book.

Part (a) (ii) required candidates to prepare a bank reconciliation statement. Many candidates lost marks for not following the examiner's instruction to start with the bank statement balance.

Part (b) required candidates to calculate the amount of receivable expense to be included in the statement of Profit or Loss account and the amount of receivables to be included in the statement of financial position. Candidates lost marks mainly due to computational errors on this part.

Part (c) required candidates to explain any three advantages and two disadvantages of using cash basis of accounting by public sector organizations. Those who attempted showed lack of textbook knowledge.

### **QUESTION FOUR**

The general performance on this question was excellent. 35 out of the 39 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 89.7%. The lowest score was 2, whilst the highest scores 20 out of the available 20 marks.

### **QUESTION FIVE**

The general performance on this question was fair. 24 out of the 47 candidates that 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 51.1%. The lowest score was 0, whilst the highest was 12 out of 20.

The question was mainly theory. The lack of good performance was noted to have been as a result of candidates neglecting theory parts of the examined syllabus unit.

## **QUESTION SIX**

The general performance on this question was very poor with only 1 of the 4 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 25%. The lowest score was 0, whilst the highest 12 out of 20.

The question was divided into multiple parts. Part (a) (i) required candidates to define IAS 2 Inventories rule for valuing inventory. The rule states that inventories should be valued at the lower of cost or Net realisable value.

Part (a) (ii) required them to list four costs that would be included in the cost of inventory. This was well answered.

Part (b) required candidates to list three items which should be disclosed in the statement of Financial position while part (c) (i) required them to explain the Prudence concept. Candidates were able to give the meaning of the concept but failed to give an example where the concept applies.

Part (c) (ii) required candidates to explain the Going concern concept. This was well answered.

In part (d), candidates required to compute relevant amounts for inclusion in the financial statements for the year ended 31 March 2021. Candidates failed to compute the amounts.

### **Overall performance of candidates**

- i. Highest mark obtained in this paper: 78%
- ii. Lowest mark obtained in this paper: 25%
- iii. Overall pass rate in this paper: 62.5%

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

### **QUESTION ONE**

The general performance on this question was good with 60 of the 93 candidates who attempted the question passing (got at least 10 out of the total 20 marks available). The pass rate recorded was 64.5%. The highest mark scored on this question was 18 out of 20 and the lowest was 2 out of 20.

This was a multiple choice compulsory question. It covered the entire syllabus hence candidates had a wide range of questions to answer. In most cases, candidates lost marks for using wrong formulae when computing the required tasks.

### **QUESTION TWO**

The general performance on this question was poor. Only 36 out of the 93 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 38.7%. The lowest score was 0 out of 20 marks, whilst the highest 20 marks.

Part (a) of the question required candidates to use probability rules, the Union, intersection and complement rules. Candidate did not perform well on this question, they displayed some serious lack of preparation on such type of questions.

Part (b) required candidates use the knowledge of probability distributions to compute the value of  $d$ , and then find the mean, and standard deviation. Most candidates managed to solve correctly for the value of ( $d$ ), but struggled to compute the mean and the standard deviation due to wrong formulae or not knowing what to do.

### **QUESTION THREE**

The general performance on this question was excellent. 67 out of the 83 candidates who attempted the question scored 10 marks and above out of 20 marks, representing a pass rate on the question of 80.7%. The lowest score was 0, whilst the highest was 20 marks out of 20.

Part (a) of the question required candidates to use the given data to calculate the linear correlation coefficient and the coefficient of determination and interpret the results. Most candidates did well on this part of the question, those who failed made some errors in the computation of the summations. Others lost marks due to the use of the wrong formulae for computing the parameters  $r$  and  $r^2$ .

Part (b) required candidates to use the given information to build a distribution table and compute the expected value of the game. It was noted that almost all the candidates had problems coming up with the correct distribution and hence could not arrive at the correct mean value in their computations.

Part (c) of the question required candidates to use the knowledge of counting techniques to compute the probability of the given scenario. Equally, the performance of candidates was not good on this question, candidates struggled to come up with the correct interpretation of "at Most" mathematically that is( $\leq$ ).

#### **QUESTION FOUR**

The general performance on this question was fair with 33 out of the 60 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 55%. The lowest score was 0, whilst the highest scores 20 out of the available 20 marks.

Part (a) required candidates to compute the Median, the lower and the upper quartile of the given grouped data and comment on the result obtained. Most candidates did well on this part of the question, except a few who lost marks due to use of wrong formula.

Part (b) required candidates to compute the random probability from a scenario of colored marbles. Most candidates managed to compute the correct probability on this question. Those that failed did not know what to do.

#### **QUESTION FIVE**

The general performance on this question was also fair. 31 out of the 61 candidates that 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 51.8%. The lowest score was 0, whilst the highest was 20 out of 20.

Part (a) of the question required candidates to state clearly the measures of central tendency to be used from the given statements. It was observed that candidates didn't have enough knowledge on this topic because most of them seem to have been guessing the answers.

Part (b) required candidates to use the given data in building the frequency distribution table and compute a variety of statistical measures such as the mean, mode, median, etc. The performance of candidates was good on this part of the question, most candidates correctly computed the required measures. A few that failed used wrong formulae.

## **QUESTION SIX**

The general performance on this question was poor. Only 24 of the 69 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 34.8%. The lowest score was 0, whilst the highest 17 out of 20.

Part (a) of the question required candidates to use the concepts of probabilities to solve the given scenario. Most candidates struggled to calculate the correct probability, they displayed lack of solid probability concepts.

Part (b) of the question was on time series. Candidates were required to use the method of moving averages to estimate the trend in the data and to calculate the seasonal effects. The performance here was good, most candidates managed to answer this question correctly except for a few who made computational errors.

### **Overall performance of candidates**

- i. Highest mark obtained in this paper: 71%
- ii. Lowest mark obtained in this paper: 10%
- iii. Overall pass rate in this paper: 24.4%

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

### **QUESTION ONE**

The general performance on this question was fair. 53 out of the 92 candidates that attempted it obtained at least 10 marks out of the total available 20. A pass rate of 57.6% was recorded. The highest score out of the total of 20 marks was 18 while the lowest was 2.

This was a compulsory question made up of 10 multiple choice questions. Candidates were required to write the letter of the correct answer in the answer booklet.

### **QUESTION TWO**

The general performance on the question was poor. Only 29 out of the 92 candidates that attempted the question managed to obtain at least 10 out of a total of 20 marks available. The pass rate recorded was 31.5%. The highest score was 20 out of while the lowest was 0.

This question divided into two (2) (a and b). Part (a) required candidates to describe using demand and supply curves how excess demand and excess supply are eliminated in the market. Performance was very poor. Some candidates couldn't draw the required diagram showing the equilibrium point, surplus and shortage. Some drew the correct graphs but with no corresponding explanation. Worse still were poor graphs. Candidates are urged to ensure that every graph must be explained to gain the full marks allocated for the question or part thereof.

Part (b) required candidates to explain how (i) Public goods, (ii) Economies of scale, (iii) Merit goods and (iv) Externalities can prevent economic efficiency. Overall performance was poor. Many candidates could not demonstrate understanding of these concepts and therefore could not properly explain how they prevent economic efficiency. This indicates the problem of question spotting where some candidates decide not to study certain topics. Candidates are urged to study the entire syllabus.

### **QUESTION THREE**

The general performance on this question was excellent. 69 out of the 84 candidates that attempted it managed to obtain at least 10 marks out of a total of 20 available marks, resulting in a 82.1% pass rate. The highest score was 20 out of 20 marks while the lowest was 2.

This question divided into three (3) parts. Part (a) required candidates to explain any three differences between perfect competition and monopoly while part (b) required them to outline any two (2) advantages and any two (2) disadvantages of monopoly. Performance was fair.



Part (c) had two sub requirements. The first part required candidates to calculate the marginal cost and average cost from the given table. This part was correctly answered by majority of the candidates. Those who failed couldn't use the requisite formulae:  $MC = \Delta TC / \Delta Q$  and  $AC = TC / Q$

The second part of (c) required candidates to explain what would happen if this firm is unable to make profits in the long-run. Fairly answered but some wouldn't come out clearly that a firm incurring losses in the long run would exit the market.

#### **QUESTION FOUR**

The general performance on this question was fair. 41 of the 80 candidates that attempted it managed to obtain at least 10 marks out of a total of 20 available marks, thereby resulting in a 51.3% pass rate. The highest score was 20 out of 20 marks while the lowest was 2.

This question divided into two (2) parts. Part (a) required candidates to answer the following question from the given table:

- (i) Graph the PPC. Performance was excellent on this part of the question
- (ii) Explain why the PPC is downward sloping. Fairly done
- (iii) Explain why the PPC is concave. This was fairly done.
- (iv) Calculate the opportunity cost using the given data. This was poorly done. Many candidates failed to calculate the opportunity cost. This is clearly  $50,000(20,000 + 30,000)$  gallons of milk with a corresponding decrease of 1,000 cars ( $2,000 - 1,000$ ). Thus the opportunity cost of producing additional 20,000 gallons of milk is 1,000 cars.

Part (b) required candidates to explain how a free market economy tries to address the three fundamental economic questions. This part was fairly done although some candidates merely listed the fundamental economic questions without explaining how the free market economy addresses them.

#### **QUESTION FIVE**

The general performance on this question was also fair. 31 of the 61 candidates that attempted it managed to obtain at least 10 marks out of a total of 20 available marks, resulting in a 51.8% pass rate. The highest score was 20 out of 20 marks while the lowest was 0.

This question divided into three (3) parts namely (a), (b) and (c). Part (a) required candidates to explain how a weak kwacha affects Zambian exporters of copper as well as Zambian importers of second-hand Japanese cars. It also required them to explain how Zambian government servicing of foreign debt is affected by a weak kwacha. This question was well answered by almost all the candidates. The key

issue is that a weak kwacha hurts Zambian importers and while benefitting Zambian exporters.

Part (b) required candidates to explain any three (3) factors that influence the exchange rate in general while part (c) required them to explain any two (2) measures that the Bank of Zambia can put in place to prevent excessive depreciation of the kwacha against the dollar.

## **QUESTION SIX**

The general performance on this question was excellent. 21 of the 23 candidates that attempted the question managed to obtain at least 10 marks out of a total of 20 available marks. A pass rate of 91.3% was recorded. The highest score was 19 out of 20 marks while the lowest was 9.

This question divided into four (4) parts namely (a), (b), (c) and (d). Part (a) required candidates to explain the main purpose of a government budget. This was answered correctly by majority of the candidates. However, the key concept of resource allocation was missing from many answers given.

In part (b), the candidates were required to describe the implications of the following on the economy:

- (i) Budget surplus. Some candidates failed to describe what a budget deficit is and therefore could not articulate well the implications.
- (ii) Budget deficit. Similar to (i) above.

Part (c) required them to state any three (3) functions of taxation. Performance was fair though many candidates were guilty of repeating the same answer. The most common answer was raising revenue for funding of building schools; raising revenue for funding of road construction, etc.

Part (d) required them to list any two (2) advantages and any two (2) disadvantages of direct taxes. This was fairly done.

## **Overall performance of candidates**

- i. Highest mark obtained in this paper: 85%
- ii. Lowest mark obtained in this paper: 42%
- iii. Overall pass rate in this paper: 92.1%

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

### **QUESTION ONE**

The general performance on this question was excellent. All the 86 candidates that attempted the question managed to obtain at least 10 marks out of a total of 20 available marks. A pass rate of 100% was recorded. The highest score was 18 out of 20 marks while the lowest was 10.

### **QUESTION TWO**

The general performance on this question was fair. 48 out of the 86 candidates that attempted the question managed to obtain at least 10 marks out of a total of 20 available marks. A pass rate of 55.8% was recorded. The highest score was 20 out of 20 marks while the lowest was 0.

The question had three parts and was on vicarious liability, passing of property in the goods and dissolution of a partnership. The student seem to have failed well in parts (a) and (c) but struggled in part (b) which was based on passing of property in the unascertained goods. A good number of students seem not to have really known how property in goods pass in unascertained goods.

### **QUESTION THREE**

The general performance on this question was also fair. 34 of the 57 candidates that attempted the question managed to obtain at least 10 marks out of a total of 20 available marks. A pass rate of 59.7% was recorded. The highest score was 14 out of 20 marks while the lowest was 4.

The question demanded students to demonstrate understanding of general principles of law of contract. The question needed students to highlight key requirements/ elements for a contract such as Agreement arising from offer and acceptance, Consideration passing from the offeror to the offeree and Intention to create legal relations. It appears students did not have much problems in this regard as a good number was able to address the issues.

### **QUESTION FOUR**

The general performance on this question was excellent. 67 of the 72 candidates that attempted the question managed to obtain at least 10 marks out of a total of 20 available marks. A pass rate of 93.1% was recorded. The highest score was 19 out of 20 marks while the lowest was 2.

The question was divided into parts (a) to (d). Part (a) required the candidates to explain how liability would accrue on the entities in the given scenario. Most candidates who answered this question performed quite well though others struggled with the concepts in question. This is an indication that the candidates are

somehow not quite familiar with negligence as a topic. Future candidates are encouraged to address their mind to this topic. Those that failed to get some marks did so because they struggled with the basic concepts or what exactly the question required of them. Future candidates must apply themselves fully to this cause.

Part (b) of the question was testing student's ability to appreciate business associations in Zambia. This question required students to pick out the best mode of business association from the available ones.

In part (c), candidates were required to explain the difference between suing in contract law and tort law. Most candidates who answered this question performed quite well. Future candidates are encouraged to address their mind to both subject arrears.

Part (d) of the question required the candidates to define employment contract. The performance was good.

### **QUESTION FIVE**

The general performance on this question was very good. 43 of the 55 candidates that attempted the question managed to obtain at least 10 marks out of a total of 20 available marks. A pass rate of 78.2% was recorded. The highest score was 20 out of 20 marks while the lowest was 2.

The question was on the remedy of specific performance and damages, termination of agency relationship, and three phases of money laundering. The part on money laundering appeared to be challenging for most candidates. The performance however on the other two parts, was fairly correctly attempted. There was a general over all pass rate of about 60% on this question. As the issue of money laundering is a topical issue, there is a likelihood that it would be examined on frequently especially seeing that the performance of students in this exam was not good, examiners would want to examine students more on the same.

### **QUESTION SIX**

The general performance on this question was excellent. 59 out of the 72 candidates that attempted the question managed to obtain at least 10 marks out of a total of 20 available marks. A pass rate of 81.9% was recorded. The highest score was 19 out of 20 marks while the lowest was 2.

The question was divided into three parts. Part (a) required candidates to explain the circumstances leading to a bad precedent at law. The question threw a lot of candidates off as they failed to correctly explain what the question was asking about. Some candidates gave answers that were not related to the question. For the future, students must be encouraged to thoroughly read on the sources of law in the ZICA study guide where the topic on precedents has properly explained the point.

Part (b) was based on company law. Candidates were required to explain the different types of companies that can be formed in Zambia. There was a good performance by a good number of students on this part of the question.

Part (c) was based on the law of agency and demanded candidates to explain how an agency relationship is created. A good number of them addressed the issues raised in the question effectively as they were able to explain the circumstances that would lead to agency relationship being created.

### **Overall performance of candidates**

- |      |                                      |       |
|------|--------------------------------------|-------|
| i.   | Highest mark obtained in this paper: | 78%   |
| ii.  | Lowest mark obtained in this paper:  | 28%   |
| iii. | Overall pass rate in this paper:     | 89.5% |

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

### **QUESTION ONE**

The general performance on this question was excellent. 30 of the 35 candidates that attempted the question managed to obtain at least 10 marks out of a total of 20 marks. The pass rate recorded was 85.7%. The highest mark scored was 18 while the lowest was 2 out of 20.

### **QUESTION TWO**

The general performance on this question was good. 24 out of the 35 candidates that attempted the question managed to obtain at least 10 marks out of a total of 20 available marks. A pass rate of 68.6% was recorded. The highest score was 20 out of 20 marks while the lowest was 0.

This was a scenario based compulsory question which was attempted by all the candidates and had three parts: (a), (b) and (c). Part (a) asked the candidates to explain the 5 characteristics of good leadership. Most candidates did very well on this part.

Part (b) was about the triggers of change and asked the candidates to state the three internal change agents. Majority of candidates answered this part correctly.

Part (c) asked candidates to explain the term organizational culture. Most of the candidates got this right.

### **QUESTION THREE**

The general performance on this question was very good. 17 out of the 23 candidates that attempted the question managed to obtain at least 10 marks out of a total of 20 available marks. A pass rate of 73.9% was recorded. The highest score was 20 out of 20 marks while the lowest was 1.

This question had two parts: (a) and (b). Part (a) had also two parts: (i) and (ii). Part (i) required candidates to define an organization. Part (ii) asked candidates to explain the three types of interpersonal roles of a manager identified by Mintzberg.

Part (b) required candidates to explain the motivational theory according to Abraham Maslow. Most candidates performed well on this question but a few scored very low marks.

### **QUESTION FOUR**

The general performance on this question was fair. 16 out of the 31 candidates that attempted the question managed to obtain at least 10 marks out of a total of 20 available marks. A pass rate of 51.6% was recorded. The highest score was 15 out of 20 marks while the lowest was 5.

This question had two parts: (a) and (b). Part (a) required candidates to draw a generic organizational structure.

Part (b) required candidates to explain the meaning of three words in terms of management and had three parts: (i), (ii) and (iii). Part (i) was centralized organization structure. Part (ii) was decentralized organization structure. Part (iii) was matrix functional structure.

Most candidates attempted this question. Half of the candidates got low marks, hence they failed.

### **QUESTION FIVE**

The general performance on this question was excellent. 34 out of the 35 candidates that attempted the question managed to obtain at least 10 marks out of a total of 20 available marks. A pass rate of 97.1% was recorded. The highest score was 20 out of 20 marks while the lowest was 4.

This question had two parts (a) and (b). Part (a) required candidates to discuss four of the main influences from the external environment on a company using PEST or PESTLE.

Part (b) required candidates to list four advantages of the limited company as compared to the sole trader. All the candidates attempted this question and the majority even got the maximum marks of 20.

### **QUESTION SIX**

The general performance on this question was very poor. Only 5 out of the 16 candidates that attempted the question managed to obtain at least 10 marks out of a total of 20 available marks. A pass rate of 31.3% was recorded. The highest score was 19 out of 20 marks while the lowest was 1.

This question had three parts: (a), (b) and (c). Part (a) asked candidates to define the informal organization. Most got confused here and just stated an organization.

Part (b) asked candidates to state the benefits of the informal organization to a manager.

Part (c) asked the candidates to state any four of the mechanisms embraced by informal organization.

### **Overall performance of candidates**

- i. Highest mark obtained in this paper: 85%
- ii. Lowest mark obtained in this paper: 25%
- iii. Overall pass rate in this paper: 80%



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

### **QUESTION ONE**

The general performance on this question was excellent. 35 of the 36 candidates that attempted the question managed to obtain at least 10 marks out of a total of 20 marks. The pass rate recorded was 97.2%. The highest mark scored was 18 while the lowest was 6 out of 20.

This is was a multiple choice question. Most candidates who failed to do well on this question selected on answers that were wrong, some few candidates were close to the best answer options. However most candidates were able to select the best answers, hence the high pass rate on this question.

### **QUESTION TWO**

The general performance on this question was very poor. Only 7 out of the 36 candidates that 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 19.4%. The lowest score was 0 out of 20 marks, whilst the highest 16 marks.

The question was about explaining six items of a good computer security policy, four point to consider as you shop around for a computer and explaining the word processing skills. The common mistakes were as follows:

- i. Most students were writing about security threats instead of the computer security policy.
- ii. Most students were writing on computer specifications only and ignored other considerations.
- iii. Most students answered the footnote word processing skill poorly.

### **QUESTION THREE**

The general performance on this question was good. 13 out of the 21 candidates that attempted the question managed to obtain at least 10 marks out of a total of 20 available marks. A pass rate of 61.9% was recorded. The highest score was 17 out of 20 marks while the lowest was 2.

The question was about different types of business technologies, eight types of data that could be included in AIS of an organization and two disadvantages of videoconferencing. The following were the common mistakes noted in this question:

- i. Some students were failing to give examples of business technologies after explaining them or justifying the explanation.
- ii. Most students answered AIS wrongly since they didn't know what it was.

## **QUESTION FOUR**

The general performance on this question was fair. 12 out of the 26 candidates that attempted the question managed to obtain at least 10 marks out of a total of 20 available marks. A pass rate of 46.2% was recorded. The highest score was 18 out of 20 marks while the lowest was 1.

The question was about two methods of data processing, defining CD-ROM and three advantages it has over floppy storage medium and explaining the accounts officer's duties. The following were the common mistakes noted in this question:

- i. Some students were explaining manual data processing as batch processing, while electronic data processing was being explained as on-line processing
- ii. Some students did not compare CD-ROM with floppy storage when writing the advantages of the CD-ROM.
- iii. Some students were mixing the accounts officers with the duties they have to carry out.

## **QUESTION FIVE**

The general performance on this question was fair. 15 out of the 59 candidates that attempted the question managed to obtain at least 10 marks out of a total of 20 available marks. A pass rate of 51.2% was recorded. The highest score was 19 out of 20 marks while the lowest was 1.

The question required candidates to visually present it in form of a pie chart from the statistic of a given scenario as part (a) of the question. part (b) required them to Interpret the information that was presented in the pie chart drawn from part (a) of the question. Part ( c) required the candidates to briefly explain the purposes of using Gantt chart, Bar charts and Line graphs. The following were some of the common errors that were observed:

- i. Raw figures were presented on the pie charts from the table without converting appropriate portions.
- ii. No appropriate titles were included.
- iii. Wrong charts were presented.
- iv. Pie charts with wrong estimates were presented.
- v. Untidy pie charts.
- vi. Failed to calculate or convert the raw data into correct percentages.
- vii. Wrong interpretations. In some cases the interpretations were repeated and not clear.
- viii. The purposes of the given charts in the question were not indicated at all.
- ix. Wrong content provided on each chart.

- x. Concentrated on the description of a particular chart.
- xi. In some cases indicated types of bar charts such as simple bar chart and component bar chart.

## **QUESTION SIX**

The general performance on this question was excellent. 28 out of the 31 candidates that attempted the question managed to obtain at least 10 marks out of a total of 20 available marks. A pass rate of 90.3% was recorded. The highest score was 19 out of 20 marks while the lowest was 5.

Part (a) of the question required the candidates to briefly explain the 7Cs of effective communication, while part (b) required them to state any six (6) barriers to effective communication. The common mistakes observed on this question were:

- i. Mixing the 7C's e.g identifying a correct C, but with wrong content.
- ii. Inadequate answers provided.
- iii. Identifying words which start with C without necessarily being in the class of the 7C's required, e.gcare, cost, comfort and so on.
- iv. Identified wrong barriers.
- v. Barriers were presented as factors that affect the choice of medium.

### **Overall performance of candidates**

- i. Highest mark obtained in this paper: 83%
- ii. Lowest mark obtained in this paper: 20%
- iii. Overall pass rate in this paper: 77.8%

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

### **QUESTION ONE**

The general performance on this question was fair. 27 out of the 51 candidates that 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 52.9%. The lowest score was 3, whilst the highest was 38 out of the available 40 marks.

The question was divided into four (4) parts. Part (a) – for 30 marks - required the preparation of a consolidated statement of financial position for a parent with one subsidiary. As well as the standard consolidation procedures, the question required candidates to consider a number of accounting issues that primarily related to the financial statements of the parent entity.

The most common mistakes made by the candidates:

In part (a) most candidates performed well. However, some candidates did not show all the workings for them to score highly on this part. Others simply showed consolidated figures for property, plant and equipment and other items of the statement of financial position without showing how they were arrived at. Marks were lost especially where their consolidated figures were incorrect.

More particularly, most candidates did not perform well in the following areas:

- i. The initial calculation of goodwill, especially the calculations of fair value adjustments and the deferred tax on them. The goodwill calculation is a fairly typical calculation that should be practiced in advance of the exam.
- ii. Including subsidiary's share capital in consolidated statement of financial position. Candidates should bear in mind that only parent's share capital is part of consolidated statement of financial position.
- iii. The computation of unrealized profits on intra-group sales, many did not appreciate the implications of the sale being originated by a parent, rather than the subsidiary. Further, unrealized profits in inventory was calculated as 25% (i.e. as a mark-up on cost) rather than 20 % (25/125) (a profit margin).
- iv. Many candidates seemed unsure of the treatment of deferred tax liability, development project (An in-process development project of the subsidiary) and due diligence costs. According to revised IFRS 3, business combinations, all assets, liabilities and contingent liabilities must be recognized at fair value.
- v. A minority of candidates proportionally consolidated the subsidiaries. This has arisen in a number of past examinations. Candidates and tutors should take note of this issue.
- vi. Most student candidates did not split the equity component and liability component of the convertible loan.

Part (b) of this question had 4 marks. It required candidates to explain 'control' as commonly used in IFRS 10 consolidated financial statements and briefly outline how it is determined. This part of the question was answered very well by most of the students.

Part (c) of this question had 4 marks and required candidates to describe four (4) circumstances in which a parent entity may not be required to present consolidated financial statements under International Financial Reporting Standards. This part was not generally well answered and a significant number of candidates omitted it altogether.

Part (d) of this question had 2 marks and required candidates to explain why consolidated financial statements are useful to the users of financial statements (as opposed to just the parent company's separate (entity) financial statements). This part of the question was answered very well by most of the students.

## **QUESTION TWO**

The general performance on this question was very good. 28 of the 38 candidates that attempted the question managed to obtain at least 10 marks out of a total of 20 available marks. A pass rate of 71.8% was recorded. The highest score was 19 out of 20 marks while the lowest was 4.

This question was a company accounts question in which financial statements were required to be prepared from a trial balance and additional notes.

The most common mistakes noted were as follows:

- i. Candidates failed to correctly reverse revaluation loss of building of K20 million against previous revaluation gain of K30 million hence the loss was wrongly expensed by most candidates.
- ii. While the total fraud amount was correctly used to reduce receivables, candidates failed to account for the split amount into current year and previous year amount and so were incorrectly accounted for.
- iii. The discontinued operation results were generally either not accounted for or wrongly added instead of being subtracted from revenue and operating expenses.
- iv. The dividends were declared during the year but candidates failed to appreciate this and did not recognize dividends payable..

## **QUESTION THREE**

The general performance on this question was very poor. Only 5 out of the 28 candidates that attempted the question managed to obtain at least 10 marks out of a total of 20 available marks (representing a 17.9% pass rate). The highest score was 16 out of 20 marks while the lowest was 1.

The question had three (3) parts. Part (a) required candidates to explain and calculate both basic and diluted Earnings per share, including comparative basic Earnings per share for the previous year.

Part (b) required candidates to explain and ascertain the amount at which the inventory should be valued in accordance with IAS 2 Inventories and IAS 10 Events after the reporting period.

Part (c) required candidates to explain and compute the amount at which assets in the cash generating unit will be recognized after the impairment review.

Overall, the question was less popular and was poorly performed. It appeared that many candidates had little or no knowledge of the standards which were tested. The Financial Reporting examination requires a deep understanding and knowledge of the Conceptual Framework and IFRSs. Questions at application level will challenge the candidate to show this knowledge and then to apply it to a particular scenario, and this requires extensive preparation.

Future candidates are advised to study all areas of the syllabus as the exam is not going to discriminate syllabus areas. Candidates are advised to have an understanding of each area of the syllabus to increase their chances of passing. CA 2.1 syllabus is extensive but good exam (and exam preparation) techniques are just as important as learning the key elements of International Standards, with preparation and analytical skills.

Candidates are, once again, reminded of the importance of reviewing past papers to identify the skills required in applying their knowledge in the examination. Covering the entire syllabus is a must as the exam is not going to discriminate syllabus areas.

#### **QUESTION FOUR**

The general performance on this question was very poor. None of the 19 candidates that attempted the question managed to obtain at least 10 marks out of a total of 20 available marks. A 0% pass rate was recorded. The highest score was 7 out of 20 marks while the lowest was 1.

This question had three situations (1), (2) and (3). First situation involved tax losses of a particular year that could be carried backwards and be offset against profits of a previous year and additional temporary differences arising from revaluation of items of PPE. The question was just fairly attempted but not so well articulated by the few candidates who attempted it.

Second situation on financial instrument loan note was fairly attempted with few candidates expressing ignorance on the required accounting treatment. Third situation proved pretty straight forward to candidates that attempted this question.

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## **QUESTION FIVE**

The general performance on this question was fair. 32 out of the 54 candidates that attempted the question managed to obtain at least 10 marks out of a total of 20 available marks. A pass rate of 59.2% was recorded. The highest score was 17 out of 20 marks while the lowest was 1.

The question was in three parts. Part (a) required candidates to explain the accounting treatment of revaluation gains and losses while part (b) required candidates to account for revaluation of two properties.

Part (c) required candidates to explain three conditions that must be met in order for borrowing costs to be capitalized.

Most candidates could not explain in detail when revaluation gains/losses must be reported in SPL or in OCI.

Almost none of those that attempted the question corrected accounted for the revaluations in part (b). Most candidates had a good attempt at part (c).

### **Overall performance of candidates**

- i. Highest mark obtained in this paper: 73%
- ii. Lowest mark obtained in this paper: 03%
- iii. Overall pass rate in this paper: 19.6%

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

### **QUESTION ONE**

The general performance on the question was very poor. Only 14 candidates out of 58 that attempted it managed to obtain at least 20 out of the total available 40 marks, representing a 24.1% pass rate. The highest score out of 40 was 28 marks while the lowest was 6.

The question examined the following

- (a) Preparation of a budgetary control statement.
- (b) Materials price planning, labour rate operational and market share operational variances.
- (c) An explanation of why planning and operational variances are operated.
- (d) An explanation of why employee participation in budget preparation is essential.

Good candidates did well on parts (a) and (d). There was generally poor performance on parts (b) and (c).

Common errors were encountered as follows:

- (a) Direct calculation of variances from the budget and actual results, i.e. a flexed budget was not prepared.
- (b) Calculation of variances from actual and original standard instead of variances from revised standard and original standards (planning variances) and revised standard and actual results (operating variances).
- (c) Hardly any candidate explained this part well. Most answers well on general planning. Good answers should have mentioned that planning variances are uncontrollable and budget holder should not be held accountable while operating variances are controllable and operating budget officers should be held accountable.
- (d) This was well answered. A few candidates showed that they did not understand the question.
- (e) It was well answered. Some candidates failed to appreciate the participation of employees in the budgetary process.

### **QUESTION TWO**

The general performance on this question was also very poor. Only 1 out of the 47 candidates that attempted the question managed to obtain at least 10 marks out of a total of 20 available marks. A pass rate of 2.1% was recorded. The highest score was 20 out of 20 marks while the lowest was 0.



Part (a) required candidates to define a cost unit. The majority of candidates got this simple question wrong. Instead of defining a cost unit, the majority defined a unit cost card/sheet. This shows the level of laziness from the candidates.

Part (b) required students to suggest a suitable cost unit. As in part (a) above, this question was equally not answered well. The question requires an understanding of a cost unit to be able to suggest a suitable cost unit.

Part (c) was about calculating an OAR and calculating Over or Under absorption of overheads. The following problems were noted:

- i. The majority of candidates failed to re-apportion maintenance department (service cost centre) overheads to Assembly department (production cost centre) so as to accumulate total overheads for the assembly department before calculating the OAR.
- ii. A good number of candidates failed to even write the correct formula for calculating over or under absorption of overheads.
- iii. Part (d) was also not well answered by the candidates. The noted problem in part (i) was candidates failed to re-apportion maintenance department (service cost centre) overheads to machining department (production cost centre) so as to accumulate total overheads for the machining department and then divide by the production OAR to calculate the budgeted machine hours. In part (ii) students could not calculate the actual overheads incurred because the majority could not calculate the production overheads absorbed.
- iv. Part (e) was well answered by the majority of candidates though for some responsibility centre was misconstrued to functional departments.

### **QUESTION THREE**

The general performance on this question was also very poor. Only 10 of the 48 candidates that attempted the question managed to obtain at least 10 marks out of a total of 20 available marks. A pass rate of 20.8% was recorded. The highest score was 14 out of 20 marks while the lowest was 1.

Part (a) required candidates to calculate the break-even point. This question was fairly answered as candidates were able to calculate the contribution per unit and thus, the BEP.

Part(b) was badly answered as students failed to calculate the new contribution per unit as a result of hiring a new machine. Others failed to calculate the annual increment in fixed costs.

As for part (c), only about 5% of candidates got this question correct. Candidates did not understand the question and ended up calculating the BEP to achieve a target profit.

Part (d) fairly answered and the performance was average.

## **QUESTION FOUR**

The general performance on this question was equally very poor as only 6 out of the 28 candidates that attempted the question managed to obtain at least 10 marks out of a total of 20 available marks. A pass rate of 21.4% was recorded. The highest score was 15 out of 20 marks while the lowest was 1.

The question was on limiting factor analysis in decision making.

The performance was below average. The common mistakes in this question were as follows:

- i. In Part (a), agreeing with the marketing manager instead of basing the decision on contribution.
- ii. In part (b), failure to identify the limiting factor and calculate wrong contribution per unit.
- iii. In part (c), most of the candidates used the selling price instead of the contribution per unit.
- iv. In part (d), most of the candidates rightly identified that general fixed costs were not relevant for decision making but ignored the fact that specific fixed costs are relevant for decision making.

## **QUESTION FIVE**

The general performance on this question was fair. 23 out of the 51 candidates that attempted the question managed to obtain at least 10 marks out of a total of 20 available marks. A pass rate of 45.1% was recorded. The highest score was 20 out of 20 marks while the lowest was 0.

The question was divided into two parts. Part (a) required candidates to explain the objectives of management accounting while part (b) explain the problems with performance measurement in the public sector.

In part (a) most of the candidates were able to explain objectives of management accounting hence scored the maximum marks. A few candidates were repeating the same points in different wording. Candidates should note that the examiner reads all that they write in the answer booklet.

In part (b) the performance was very poor as most the candidates were stating the value for money as the problem.

### **Overall performance of candidates**

- |   |       |
|---|-------|
| i. Highest mark obtained in this paper: | 65%   |
| ii. Lowest mark obtained in this paper: | 11%   |
| iii. Overall pass rate in this paper:   | 32.8% |

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

### **QUESTION ONE**

The general performance on this question was good. 65 out of the 104 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 62.5%. The lowest score was 7, whilst the highest was 37 out of the available 40 marks.

The question was divided into parts (a) to (d). Part (a) of the question required candidates to identify and explain audit risks in the audit of the financial statements of Chavuma Chemicals Plc and to suggest suitable responses for each of the audit risk. To obtain full marks, candidates were expected to relate the audit risks to what could go wrong in the financial statements. This is what distinguishes audit risks from business risks and must be explained in answering questions on audit risk.

Over the past five years risk questions have been examined in almost every examination in the same format and candidates are not expected to perform poorly in answering these questions.

The following observations were made:

- i. It was disappointing to note candidates who confused audit risks with ethical matters and explained ethical matters that were not asked for in this part. No marks were awarded and this was a waste of valuable examination time.
- ii. Many candidates simply stated the audit risks they identified without explaining what could go wrong in the financial statements which is what distinguishes audit risks from business risks.
- iii. A few candidates failed to give the required number of audit risks and so getting marks in proportion to the correct audit risks explained.
- iv. Some of candidates either did not know the correct audit response or simply did not attempt to give suitable audit responses.
- v. Some candidates discussed internal control weaknesses in this part which is clearly incorrect and obtained no marks.

In part (b) of the question, candidates were required to identify and explain ethical issues faced by Banda & Associates Chartered Accountants. and for each ethical matter to suggest a suitable response by the firm. The following observations were made:

- i. Candidates confused audit risks with ethical matters. Candidates should read the questions carefully and address the question requirements.
- ii. In a number of cases the explanations of ethical issues were poor with candidates simply repeating information in the scenario.
- iii. A few candidates did not give sufficient ethical matters as required and lost easy marks.

Part (c) was a knowledge based question requiring candidates to explain the meaning of tests of control and substantive tests. Candidates should have noted that the major distinction is in relation to the objective of each of the two tests. This part of the question was well answered with most candidates scoring maximum marks.

It was observed that a number of candidates wrote far too much for a maximum of 3 marks and so wasting valuable examination time. Candidates should be guided by the marks on offer to decide how much to write.

Part (c) also required candidates to recommend a suitable audit approach that Banda and Associates should take in view of the conclusion that internal controls in Chavuma Chemicals Plc were poor. A number of candidates did not attempt to answer this part of the question signifying lack of knowledge of the use of internal controls in an audit.

Part (d) required candidates to identify and explain internal control weaknesses in the purchases system of Chavuma Chemicals Plc. In order to answer this question satisfactorily candidates were expected to be familiar with a typical purchases system of a company including the documentation requirements. This was a multi requirement question requiring the candidates to suggest suitable improvements to the internal control weaknesses identified and explained. A majority of the candidate scored well in this question.

The following observations were made on the few candidates who scored low marks:

- i. Candidates gave less than the required five weaknesses and scored marks in proportion to the number of correct weaknesses and responses given.
- ii. Some candidates did not address the second part of the question that required them to suggest suitable recommendation resulting in the loss of easy marks.
- iii. Some candidates gave poor explanations and in some cases no explanations at all resulting in the loss of easy marks.
- iv. A number of candidates explained audit risks instead of internal control weaknesses as required by the question.

## **QUESTION TWO**

The general performance on this question was very poor. Only 4 out of the 57 candidates that attempted the question managed to obtain at least 10 marks out of a total of 20 available marks. A pass rate of 7% was recorded. The highest score was 14 out of 20 marks while the lowest was 0.

The question was divided into parts (a) and (b), with their sub requirements. Part (a) required candidates to explain, giving examples, the written representations that auditors needed to obtain under the three circumstances given in the question.

Candidates needed to know the provisions of ISA 580 Written representations and other standards such as ISA 240 which require auditors to obtain written representations which form part of the audit evidence.

The following were observed:

- i. Some candidates did not give examples of the written representations as required and so lost the marks allocated to doing so.
- ii. Some candidates simply left the part unanswered suggesting lack of knowledge of the relevant auditing standards.

The second part of (a) required candidates to comment on the reliability of written representations obtained from the Finance Director. The key in answering this part of the question was on the date on which these were obtained. Candidates should have noted that written representations form part of the evidence used in concluding on the audit and making a decision on the opinion. As such to be of use written representations require to be obtained before the audit report is issued which was not the case here. Many candidates gave general answers and made no reference to the representation by the Finance Director and when these were obtained.

Part (b) (i) required candidates to state the use of the emphasis and other matter paragraphs in accordance with relevant auditing standards in this case ISA 706. The following observations were made:

- i. A number of candidates simply repeated what was included in these two paragraphs in the question signifying lack of knowledge of the two paragraphs in the auditor's report.
- ii. Many candidates could not explain the use of the emphasis and other matter paragraphs and lost marks as a result. This has been examined in the past in a similar manner and it was disappointing to see the lack of understanding that is there.
- iii. Some candidates had no idea and explained modified opinions instead of addressing the question requirement and lost easy marks.

The second part of (b) required candidates to explain the use of the emphasis of matter paragraph and the other matter paragraph as suggested in the audit of Magoye Plc. General answers explaining the meaning of the emphasis and other matter paragraphs did not earn maximum marks because this did not state the appropriateness of their use as required by the question. The majority of candidates showed the lack of understanding of the situations when an emphasis of matter and other matter paragraphs can be used. A good number of simply left this part of the question not answered.

In part (b)(ii), candidates needed to know what audit risk is in order to answer this part of the question which required them to explain the audit risk with regards other information. Further, to answer this question satisfactorily, candidates needed to know what other information in an audit is and also the provisions of ISA 720

because this is the only way they could have concluded on what could go wrong in the financial statements.

It was shocking to note that candidates confused the Other information paragraph with the Other matter paragraphs which are different. This shows lack of knowledge of the provisions of ISA 720 The Auditor's Responsibility Relating to Other Information in Documents Containing Audited Financial Statements.

The question also required candidates to explain matters that should be included in the other information paragraph of the auditor's report. The objective of the question was to establish whether candidates knew the provisions of ISA 720.

Many candidates showed lack of understanding of the auditing standard and gave examples of other information instead of brief contents of the other information paragraph as required by the question. For example giving a summary of key statistics on performance. Auditors do not include such in the other matter paragraph.

### **QUESTION THREE**

The general performance on this question was also very poor. Only 3 out of the 55 candidates that attempted the question managed to obtain at least 10 marks out of a total of 20 available marks. A pass rate of 5.5% was recorded. The highest score was 14 out of 20 marks while the lowest was 0.

The question also had multiple requirements. Part (a)(i) required candidates to explain the meaning of seeking direct assistance of internal auditors by the statutory auditors.

Most candidates discussed relying on the work of internal audit instead of seeking direct assistance of internal audit. In seeking direct assistance the external auditors require work that they should have performed to be performed by the internal auditors under the supervision of the external auditors.

In (a)(ii) candidates were required to explain the situations where auditors are prohibited to seek direct use of internal audit in accordance with ISA 610 Using the work of Internal auditors. Candidates should have noted that this is the case where the internal auditors will be used to evaluate their own work and also where the element of subjectivity is high.

Most candidates had no idea of the guidelines in ISA 610 and instead explained the criteria used to evaluate the internal audit function which was not addressing the question requirement.

Part (b) (i) required candidates to explain the meaning of the expectation gap in the audit of the financial statements of Manzi Ltd. For four marks it was not enough for candidates to simply explain the meaning of the expectation gap without making reference to the information in the scenario.

The following observations were made:

- i. Weak candidates failed to explain the meaning of expectation gap.
- ii. Those who explained the expectation gap did not use the information in the scenario to score maximum marks. Candidates should apply the theory they have learnt to the information in a given scenario.

Part (b)(ii) required candidates to explain the objective of a letter of weakness issued by the auditor. Most of the candidates ably answered this part of the question.

A few candidates confused a letter of weakness with a representation letter and lost the available marks.

In (b)(iii) candidates were required to describe the information that should be included in the letter of weakness under the main headings.

A sizeable number of candidates simply stated the main headings in a letter of weakness without describing using the information in the scenario the information that should be included in each heading.

#### **QUESTION FOUR**

The general performance on this question was poor. Only 28 out of the 93 candidates that attempted the question managed to obtain at least 10 marks out of a total of 20 available marks. A pass rate of 30.1% was recorded. The highest score was 16 out of 20 marks while the lowest was 1.

Part (a)(i) was a knowledge based question requiring candidates to explain the procedure that should be followed by the firm when resigning from an audit engagement. In order to obtain maximum marks, candidates needed to give four valid points. Majority of the candidates were able to explain the resignation procedures and were awarded marks in proportion to the correct points made.

Part (a)(ii) required candidates to explain two rights of the auditor after resigning as auditors. It was noted that candidates explained the rights of the auditor and not necessarily the rights after resigning which were asked for.

In part (b)(i) of the question required candidates to state the impact of the misstatement of inventory in the financial statements of the client company. This could have a material misstatement of the financial statements and candidates needed to bear their knowledge of financial reporting in answering this question.

A majority of the candidates answered this part satisfactorily and scored maximum marks.

In (b)(ii), candidates were to explain the audit procedures that should be performed to test the assertion of cut off in the audit. The performance in this part of the question was poor indicating that candidates have little knowledge with regards audit procedures. The following observations were made:

- i. There were candidates who simply did not attempt to answer this part of the question thereby losing all the available marks.
- ii. There others who gave less than the required number of procedures. For 3 marks candidates should have explained at least three valid audit procedures.

Part (b)(iii) of the question was knowledge based requiring candidates to explain the duties of the auditors during the inventory count. The performance in this part was not satisfactory with many candidates scoring less than half the available marks.

The following observations were made:

- i. Candidates failing to give the required 5 duties thereby scoring marks according to the correct duties explained.
- ii. Some candidates explained the duties of staff of Mweru Ltd instead of the auditors as required by the question.

In part (b)(iv) of the question, candidates were required to state matters that should be contained in the audit working papers arising from attendance in the inventory count by the auditors. The performance in this part of the question was poor with many candidates scoring very few marks. The following observations were made:

- i. Most candidates did not know what should be contained in the audit working papers regarding work done on the inventory count.
- ii. The majority of the candidates did not even attempt to answer this part of the question.
- iii. Others made reference to the effect that the value of inventory will have on the audit report which does not address the question requirements.

## **QUESTION FIVE**

The general performance on this question was very poor. Only 15 candidates out of the 99 that attempted it managed to obtain at least 10 marks out of a total of 20



available marks. A pass rate of 15.2% was recorded. The highest score was 13 out of 20 marks while the lowest was 1.

Part (a)(i) was a knowledge based question requiring candidates to state six matters that should be included in the engagement letter. It was disappointing to note that a most candidates scored poorly in this knowledge based question.

A large number of candidates stated elements of an auditor's report for which no marks were awarded e.g. Auditor's address, Partner's name and Partner's signature. The second part(ii) This part of the question required candidates to explain 2 factors that may necessitate the revision of the engagement letter using the information in the scenario. General answers without making reference to the information in the scenario did not attract maximum marks.

Whereas a majority of the candidates scored maximum marks, a few candidates only explained one factor and only got half the available marks.

Part (b) (i) required candidates to identify and explain examples of financial and operational indicators of going concern problems using information in the scenario. General answers not using the information in the scenario did not attract maximum marks. A majority of the candidates scored high marks in this question. The following observations were made for those who scored low marks:

- i. Candidates simply listed the examples without classifying them as either financial or operational. The objective of the question was to establish whether candidates could identify financial from operational indicators.
- ii. There were candidates who stated examples that were not in the scenario despite the fact that the question required candidates to state examples in the scenario.

Part (b)(ii) required candidates to explain four audit procedures on the going concern ability of the client company. Knowledge of the provisions of ISA 570 was required in order to answer this question satisfactorily. A majority of candidates scored poorly in this question. The following observations were made:

- i. Many candidates focused on how to deal with the financial and operational events casting doubt on the ability of the company as a going concern.
- ii. Many candidates gave answers that were not related to audit procedures signifying lack of knowledge of the provisions of ISA 570.

In (b)(iii), candidates were required to explain the impact on the audit report of the existence of material uncertainty with regards the ability of Mpongwe Plc as a going concern. Most of the candidates scored maximum marks in this question. The following observations were made on those who did not score maximum marks:

- i. Some candidates explained specific events and discussed their impact on the audit report not considering material uncertainty as stated in the question.
- ii. Some candidates suggested forms of opinion that should be given where there is material uncertainty without explaining the circumstances the suggested opinion should be used.

### **Overall performance of candidates**

- i. Highest mark obtained in this paper: 71%
- ii. Lowest mark obtained in this paper: 17%
- iii. Overall pass rate : 26.9%

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

### **QUESTION ONE**

The general performance on this question was fair. 45 out of the 89 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 50.6%. The lowest score was 3, whilst the highest was 33 out of the available 40 marks.

The question examined taxation of unincorporated businesses and employment income and was reasonably well answered. In part (a) candidates were asked to explain the basis period and basis of assessment for profits of a business in the first year of trading.

The general performance on this part of the question was poor as candidates demonstrated a general lack of knowledge of basis periods and basis of assessments and therefore failed to provide the required explanations.

Part (b) required candidates we to calculate capital allowances on buildings, implements, plant and machinery. The most common challenges faced by candidates included:

- i. Classifying the staff canteen as a commercial building when computing allowances on the buildings instead of classifying it as an industrial building, resulting in computing the capital allowances available using the wrong rates.
- ii. Not to capitalizing the expenditure on the repairs incurred to put the Isuzu Double Cab van, when computing wear and tear allowances on the vehicle.
- iii. Using the wrong rates to compute the wear and tear allowances on the implements plant and machinery.

Part (c) candidates required to calculate taxable business profits and was reasonably well answered. However, some students faced the following changes in answering the question:

- i. Disallowing all of the pretrading expenditure when computing the taxable, instead of just adding back expenditure of a capital nature.
- ii. Failing to identify the other relevant expenditure to be added back when computing taxable profits

In part (d) of the question candidates were required to compute the final income tax payable. The most common mistakes made by candidates who scored poor marks on this part the question included;

- i. Including exempt benefits when computing the taxable emoluments for the tax payer

- ii. Forgetting to time apportion the salary and allowances to determine the amounts the tax payer actually received in the five months when he was in employment.
- iii. Using the wrong tax rates to compute the income tax payable. A number of candidates used the company income tax rate of 35%, instead of the graduated personal income tax rates for individuals.

## **QUESTION TWO**

The general performance on this question was also fair. 25 of the 53 candidates that attempted the question managed to obtain at least 10 marks out of a total of 20 available marks. A pass rate of 47.2% was recorded. The highest score was 17 out of 20 marks while the lowest was 1.

This question examined taxation of farming operations. In part (a) candidates were required to calculate the amount of provisional income tax paid by the company and to state the due dates when the tax was paid. The most common mistakes made by candidates included:

- i. Using the tax rate of 10% on farming profits instead of 5% given that the company qualified for a 5% discount as 40% of its shares were held by indigenous Zambians.
- ii. Using the original estimated provisional taxable profits of K21600,000 instead of the revised estimated provisional taxable farming profits of K17,500,000, to compute the provisional income tax paid by the company.

Part (b) required candidates to calculate the final taxable profits for the company and was generally well answered. However, a few candidates used the wrong rates to compute the capital allowances available and also forgot to restrict the disposal proceeds to the original cost when calculating the balancing charge on disposal of the Toyota Fortuner.

In part (c) candidates were required to compute the final amount of income tax payable by the company. The most common mistake was to use the tax rate of 10% on farming income instead of the discounted rate of 5%.

In part (d) candidates were required to calculate the interest and penalties arising on the late submission of the self-assessment income tax return and on the late payment of the final income tax. Most candidates failed to calculate the amounts of the penalties and interest arising as they did not know the correct due dates for the submission of the return and payment of the tax.

### **QUESTION THREE**

The general performance on this question was poor. Only 25 out of the 66 candidates that attempted the question managed to obtain at least 10 marks out of a total of 20 available marks. A pass rate of 37.9% was recorded. The highest score was 16 out of 20 marks while the lowest was 1.

The question which covered VAT. In part (a) candidates were required to explain how the basic tax point is determined and the importance of the tax point for VAT purposes. The performance was poor on this part of the question, as candidates demonstrated a lack of knowledge of the meaning of the tax point and therefore failed to provide the required solutions.

Part (b) asked candidates to explain the circumstances under which the tax point can be changed and was equally poorly answered.

Part (c) which required candidates to explain any three (3) advantages and two (2) disadvantages of voluntary VAT registration, was reasonably well answered.

In part (d) candidates were asked to calculate the VAT payable by the company  
The most common mistakes made by some candidates were:

- i. Not indicating using a Zero (0) items on which VAT is not chargeable or recoverable.
- ii. Claiming input VAT on expenditure on which VAT is irrecoverable.
- iii. Using the wrong formula/ percentage to compute output and input VAT on the individual transactions

Failing to apply the partial exemption rules to determine how much of the non-attributable input tax on the overheads was recoverable.

### **QUESTION FOUR**

The general performance on this question was fair. 38 of the 78 candidates that attempted the question managed to obtain 11 marks out of a total of 20 available marks. A pass rate of 48.7% was recorded. The highest score was 17 out of 20 marks while the lowest was 1.

The question covered international aspects of taxation, customs and excise duties. In part (a) of the question candidates were required to explain the reasons why Rashid will be regarded as being resident and ordinarily resident in Zambia in the tax year 2021. The most common mistakes made by candidates who performed poorly on this part of the question included:

- i. Assuming that since Rashid's parents had Zambian citizenship then he will be regarded as resident in Zambia from the date of arrival.

- ii. Failing to state the correct number of days an individual is required to be physically present in Zambia for them to be regarded as resident in Zambia for tax purposes.

Part (b) required candidates to compute the amount of income tax payable by Rashid for the tax year 2021. The most common challenges faced by candidates in answering this part of the question included:

- i. Not grossing up the income from foreign sources before including it in the income tax computation.
- ii. Including rental income from foreign sources which is exempt from tax in the income tax computation.
- iii. Failure to compute double taxation relief on foreign dividends and foreign fixed deposit interest.
- iv. Using the wrong tax rates to compute the income tax arising.

In part (c) candidates were required to calculate the customs value for duty purposes and the import taxes paid on the importation of a used motor car and a new motor vehicle. This part of the question was fairly well answered; however, a number of candidates faced the following challenges in answering this part of the question:

- i. Including costs of transportation and other incidental costs from the border to Lusaka in computing VDP. These are supposed to be excluded.
- ii. Using the wrong rates to compute the import taxes arising. Student in some cases used that duty rates for used motor car to determine the import taxes on the brand-new vehicle and vice versa.

## **QUESTION FIVE**

The general performance on this question was very good. 47 out of the 64 candidates that attempted the question managed to obtain at least 10 marks out of a total of 20 available marks. A pass rate of 73.4% was recorded. The highest score was 19 out of 20 marks while the lowest was 4.

The question covered ethical issues and the framework for taxation in Zambia. In part (a) required candidates to prepare notes for a workshop explaining the application of the principles of integrity, objectivity and confidentiality in the provision of tax services. This part of the question was generally well answered with the exception of a few students who demonstrated a lack of knowledge of the ethical principles and therefore failed to provide the required explanations.

Part (b) which required candidates to prepare notes for a workshop explaining the three threats to compliance with the fundamental principles outlined in the IESBA code of ethics was equally well answered.

Parts (c) and (d) which required candidates to prepare notes for a workshop explaining the three consequences of tax evasion and the main responsibilities of the Zambia Revenue Authority, were also generally answered well.

### **Overall performance of candidates**

- i. Highest mark obtained in this paper: 76%
- ii. Lowest mark obtained in this paper: 11%
- iii. Overall pass rate in this paper: 53.9%

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

### **QUESTION ONE**

The general performance on this question was very poor. Only 18 out of the 124 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 14.5%. The lowest score was 3, whilst the highest was 33 out of the available 40 marks.

The question was a combination of ratios as part of working capital measures and financial statement forecasting. The question was divided into parts (a), (b), (c) and (d). Part (a) required candidates to outline the limitations of ratios in analyzing the financial statements. Candidates performed exceptionally well here.

Part (b) required candidates to prepare a forecasted income statement and statement of financial position. The key challenges on this part include inability by candidates to use the ratios that were provided to calculate the forecasted figures. Candidates could not calculate the missing figures or perform minor reverse calculations. In extreme cases, candidates could not present the elements of the financial statements correctly. Candidates had difficulties to compute the amounts for inventory, receivables, payables and the worst calculation on which almost all candidates could not get it right was overdraft which ordinarily was a balancing figure.

Part (c) required candidates to analyze the trend in the accounting ratios. Candidates averagely performed well though they had challenges to determine which figures to use for 2021 and 2020. Common mistakes included taking the 2020 figures to be 2021 and analysis was reversed. Some weaker candidates discussed generic ratio analysis rather than focusing on the working capital ratios thereby losing their time. Worse still, the analysis was merely descriptive without any mention of the likely contributing factors or implications.

Part (d) required candidates to evaluate the changes in the company's policy for financing working capital for the two years. This was the worst performed part of question one. Candidates could not even make mention of working capital policies of conservative, moderate and aggressive. Due to candidates' inability to identify the policies, they could not even relate to the company specific context.

Part (e) required candidates to how the capital asset pricing model can be used to calculate the project specific discount rate and the limitation of using it in the investment appraisal. The explanatory part was poorly performed as the candidates focused on the why it is used rather than the how part. The candidates were required to provide key steps including finding the proxy, the de-gearing and re-gearing and the use of the formula. The limitation part was well covered as most of the candidates centered their discussion around the unrealism of the assumptions of CAPM.



## **QUESTION TWO**

The general performance on this question was also very poor. Only 11 out of the 72 candidates that attempted the question managed to obtain at least 10 marks out of a total of 20 available marks. A pass rate of 15.3% was recorded. The highest score was 15 out of 20 marks while the lowest was 0.

Part (a) required candidates to evaluate whether to lease or discontinue the business operations. The common mistakes for the candidates regarding this question was that some did not correctly determine the yearly projected cash flow from year 1 to year 4 of HY Supermarkets which was calculated by adding back the depreciation charged to the operating profit every year. The reason could be that they did not recall that the Operating profits amounts were net of depreciation and hence the depreciation charged should then be added-back because it is a non-cash expense when preparing a cash-flow statement.

Some candidate's responses did not provide for the proceeds forfeited as a result of the immediate disinvestment of the machinery (i.e. in the initial period. This amount was K0.03 million). The amount of sub-lease income forgone (K0.095) due to the continuation of the operations, was not adjusted on the cash-flow. The reason could be that those candidates that committed this mistake did not understand the requirement of the question as examined.

Responses from some candidates wrongly calculated the tax (30%) on the operating profits and not on the cash flows (after adding back the depreciation amount). Due to the mistakes of omission and commission as stated in the earlier comments, the Net Present Value (NPV) calculated was incorrect. In some cases, a wrong discount rate was used instead of the 10% and in other cases, the Net Present Value (NPV) was not even calculated.

Part (b) required the candidates to explain other factors the directors might take into account before making the final decision. Some of the candidates who failed to correctly answer failed to identify the other factors that could have influenced the final decision on the timing of the closure of HY Supermarkets. In some instances, only inadequate responses were made (i.e. only one point).

## **QUESTION THREE**

The general performance on this question was also very poor as only 7 of the 82 candidates that attempted the question managed to obtain at least 10 marks out of a total of 20 available marks. A pass rate of 8.5% was recorded. The highest score was 13 out of 20 marks while the lowest was 0.

The question was a company valuation. The question was divided into parts (a), (b), (c) and (d). Part (a) required candidates to calculate the value of the given company using discounted cash flow model. This part was poorly performed. Candidates had challenges to calculate the projected cash flows and some lost time in computing the forecasted cash flows for all the years rather than using the last cash flow and adding back depreciation. Candidates could not correctly calculate the growth in cash flows and those that did correctly used dividends figures which was wrong. The other aspect that presented a huge challenge was the calculation of the market value of debt as students could not distinguish between cost of debt and market value of debt.

Part (b) required candidates to calculate the value of the company using net asset value on a liquidation basis. Few candidates did manage to compute the current net asset value. However, computation of decrease in value of non-current assets on liquidation basis presented a huge challenge. Candidates could not also be able to compute the increase in value of inventory on liquidation basis as well as decrease in receivables.

Part (c) required candidates to calculate the value of the company using P/E ratio. The key challenge on this part was inability by candidates to calculate the profit after tax. Surprisingly, candidates could not even apply the P/E ratio formula correctly.

Part (d) required candidates to calculate the value of the company using dividend valuation model. Candidates averagely performed well though few candidates had challenges with substitution of correct dividend figures. Some weaker candidates could not distinguish between cash flows and dividends figures to use in the formula. A good number of candidates applied the dividend growth formula wrongly.

#### **QUESTION FOUR**

The general performance on this question was fair. 46 out of the 115 candidates that attempted the question managed to obtain at least 10 marks out of a total of 20 available marks. A pass rate of 40% was recorded. The highest score was 18 out of 20 marks while the lowest was 0.

Part (a) asked candidates to calculate the after-tax weighted average cost of capital. Candidate incorrectly calculated the Weighted Average Cost of Capital (WACC). This was due to the fact that some candidates incorrectly determined the after-tax cost of debt. Further candidates were unable to obtain the sum of the market values of equity and debt. This statistic was necessary to be correctly calculated as it was the factor used in the WACC formula.

Part (b) required candidates to advise the financial viability of the proposed investment using the NPV method. Some candidates applied an incorrect discount

rate for the Net Present Value (NPV). The discount rate that was supposed to be used in discounting the Net Cash Flow was the Weighted Average Cost of Capital (WACC) obtained under 2(a) which was 10%, if it was correctly worked out.

The other common mistake was that some candidates failed to identify the correct initial investment in year (0) which was K2 million and the working capital figure of K240,000.

As a result of the incorrect discount rate and failure to calculate the after tax cash flows, the Net Present Value (NPV) was not correct which resulted into wrong advice given.

In some instances, the candidate's response failed to factor in the incremental capital allowances in determining the Net Cash flows in the projection. This omission resulted into a wrong Net Cash-flows which was then to be discounted.

Some candidates failed to calculate the capital allowance tax benefit based on a straight line method.

Some candidates completely failed to answer this part of the question. They left it blank. This implies that such candidates did not fully prepare for the examinations and particularly this aspect of the syllabus.

Part (c) asked candidates to discuss the methods that LTC could use to improve the cash flow position. Some candidates were unable to state the three(3) methods Lusaka Times Corporation(LTC) would have come up to improve its cash flow as per the requirement of the question.

## **QUESTION FIVE**

The general performance on this question was good. 55 out of the 88 candidates that attempted the question managed to obtain at least 10 marks out of a total of 20 available marks. A pass rate of 68.8% was recorded. The highest score was 17 out of 20 marks while the lowest was 0.

The question required candidates to advise Management of Ubuntu Ltd of the external factors and threats that should be considered before undertaking the investment in spite of the positive financial appraisal report. The candidates were required to carry out a PESTEL analysis in responding to this question. It was noted that most of them that wrongly responded were unable to determine, identify and explain the PESTEL factors.

### **Overall performance of candidates**

- i. Highest mark obtained in this paper: 58%
- ii. Lowest mark obtained in this paper: 4%
- iii. Overall pass rate in this paper: 16.9%

## **SUBJECT: CA 2.6 -STRATEGIC BUSINESS ANALYSIS**

### **QUESTION ONE**

The general performance on this question was very poor. Only 37 out of the 152 candidates that attempted the question managed to score at least 20 out of the 40 available marks. The recorded pass rate on the question was 24.3%. The highest score was 33, whilst the lowest was 0 out of the available 40 marks.

This question had five parts: (a),(b), (c), (d) and (e). Part (a) required the candidates to draw a fully labelled value chain based on the information given and describe its parts. The majority of the candidates got this answer right.

Part (b) asked candidates to explain the source of the competitiveness for the given organization. Almost all the candidates got this answer right as the case study had pointed out most of the sources of competitive advantage.

Part (c) required candidates to describe how Information Systems (IS) can support the company's generic business (competitive) strategies. Few candidates got this answer right as they failed to state how the application of IS can support the company's strategies as they did not understand it. Candidates must read the questions carefully to answer them properly. Most of them merely used common knowledge and thus lost marks.

Part (d) required candidates to draw the E-market value chain and also compare it with the traditional value chain. But most candidates could not understand the E-market value chain and just replicated the original value chain. Many candidates didn't even know what E-market value chain was all about.

Part (e) required candidates to calculate earnings per share and dividend cover and then analyse the results to assess the position of the company.

Only very few candidates who could remember the formulas got the full answer correct.

The performance on this question was very good as some few candidates even got more than 30 out of 40 marks.

### **QUESTION TWO**

The general performance on this question was excellent. 107 out of the 132 candidates that attempted the question managed to obtain at least 10 marks out of a total of 20 available marks. A pass rate of 81.1% was recorded. The highest score was 19 out of 20 marks while the lowest was 0.

This question had four parts: (a), (b), (c) and (d). Part (a) asked candidates to describe any seven of the corporate governance principles that were mentioned in the passage given.

Part (b) required candidates to describe the merits and disadvantages of institutional investors investing in a company.

Part (c) asked candidates to describe how institutional shareholders can save their investments in the organization if it started performing badly in terms of making losses and losing market share.

Part (d) required candidates to distinguish between corporate governance and corporate social responsibility and their similarities. The majority of the candidates understood the question and the concepts used, hence a large number of them performed very well.

### **QUESTION THREE**

The general performance on this question was fair. 35 out of the 81 candidates that attempted the question managed to obtain at least 10 marks out of a total of 20 available marks. A pass rate of 43.2% was recorded. The highest score was 20 out of 20 marks while the lowest was 0.

This scenario based question had two parts (a) and (b). Part (a) required candidates to state and comment on what would be involved in the steps that are to be taken in strategic analysis of their company.

Only a few candidates gave the correct answers to this part. A number of them did not follow the prescribed solution in the manner it was presented but instead followed the generic mode from strategic formulation to implementation and evaluation.

Part (b) required candidates to describe the three tests that can be used to evaluate the merits of one strategy over another and to gauge how good a strategy was. Most candidates did not respond well to the question as they wrongly thought they were suitability, feasibility and acceptability. The performance on this part was very poor.

### **QUESTION FOUR**

The general performance on this question was excellent. 86 of the 105 candidates that attempted the question managed to obtain at least 10 marks out of a total of 20 available marks. The pass rate recorded was 92.2%. The highest candidate scored 20 out of 20 marks while the lowest scored 0.

This question was in two parts: (a) and (b). Part (a) required candidates to explain five reasons why a firm enters into a strategic alliance. Part (b) asked candidates to discuss the five benefits of joint ventures.

### **QUESTION FIVE**

The general performance on this question was also excellent. 86 out of the 105 candidates that attempted the question managed to obtain at least 10 marks out of a total of 20 available marks. A pass rate of 81.9% was recorded. The highest score was 20 out of 20 marks while the lowest was 0.

This was a three-part question concerned with the effect of the Internet on businesses. Part (a) asked candidates to describe how the Internet was changing businesses and how they conducted their operations. The majority of the candidates answered this correctly.

Part (b) required candidates to explain how the new companies can assess how they were using their resources. The majority of the candidates failed to give the correct answer.

Part (c) asked the candidates to describe the benefits and drawbacks of Internet-based procurement. The majority answered this part correctly.

### **Overall performance of candidates**

- |   |       |
|---|-------|
| i. Highest mark obtained in this paper: | 81%   |
| ii. Lowest mark obtained in this paper: | 18%   |
| iii. Overall pass rate in this paper:   | 71.7% |

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

### **QUESTION ONE**

The general performance on this question was good. 50 of the 81 candidates who attempted the question managed to score of at least 20 out of 40 available marks. The recorded pass rate on the question was 61.7%. The lowest score was 0, whilst the highest was 38 out of the available 40 marks.

The question involved a parent (Lusaka), subsidiary (Ndola), sub-subsidiary (Mansa). A greater number of the candidates were not able to solve this question on complex groups (D-shaped acquired through piece meal acquisition). The Performance of candidates in this question was generally good. Whereas the few candidates who were well prepared scored high marks, the ill prepared candidates scored low marks due to the following mistakes:

- i. Failure to compute the group effective interest in the sub-subsidiary company Mansa Ltd 56% ( $14\% + (60\% \times 70)$ ). Therefore, the Non-Controlling Interest in Mansa Ltd was 46% ( $100\% - 56\%$ ). Wrong effective interest computation, had affected computation of consolidated Retained Earnings, Other component of equity, Non-controlling Interest and Consolidated Goodwill.
- ii. Showed consolidated figures for property, plant and equipment and other items of the statement of financial position without showing how they were arrived at. Marks were lost especially where their consolidated figures were incorrect.
- iii. Getting parent's share (proportionate) of subsidiary's assets and liabilities for consolidation. This is very disappointing at advisory level, candidates should take note that 100% of subsidiary's assets and liabilities should be consolidated (full consolidation).
- iv. Including subsidiary's share capital in consolidated statement of financial position. Candidates should bear in mind that only parent's share capital is part of consolidated statement of financial position.
- v. Failed to reverse gains of K15 million that had arisen since the date control was achieved.
- vi. Many candidates had challenges in dealing with the acquisition of office accommodation, the restructuring plans and the group pension plan. These areas were either attempted poorly or not attempted at all.

### **QUESTION TWO**

The general performance on this question was very poor. Only 9 out of the 42 candidates that attempted the question managed to obtain at least 10 marks out of a total of 20 available marks. A pass rate of 21.4% was recorded. The highest score was 14 out of 20 marks while the lowest was 0.



This question had three parts (a), (b) and (c). Part (a) required candidates to calculate basic earnings per share from consolidated financial statements. Part (b) was generally well articulated part of this question with few candidates expressing ignorance.

Part (c) had two components (i) and (ii). Part (i) required candidates to discuss main principles of fair value measurement as set out in IFRS 13. Part (a) was very poorly attempted by the candidates that selected the question as they could hardly calculate the correct weighted average number of shares. Secondly, the candidates generally used total loss for the year instead of the loss attributable to owners of the parent company.

Part (b) was generally well articulated part of this question with few candidates expressing ignorance.

Part (c) was fairly attempted though not so accurately discussed by the few candidates that attempted this question. Part (ii) required the candidates to describe the three level hierarchy for fair value measurements used in IFRS 13 Fair Values. This part was equally fairly attempted by the candidates.

### **QUESTION THREE**

The general performance on this question was also very poor. Only 15 out of the 64 candidates that attempted the question managed to obtain at least 10 marks out of a total of 20 available marks. A pass rate of 23.4% was recorded. The highest score was 16 out of 20 marks while the lowest was 0.

This question had three (3) theory parts. Part (a) (i) required candidates to explain two (2) factors which motivate companies to disclose social and environmental information in their financial statements. Part (a)(ii) required candidates to explain identify three (3) specific difficulties in recognizing and measuring the financial effects of environmental matters.

Part (b) required candidates to explain primary reasons why the IASB believed it was necessary to revise its conceptual framework and state what has changed in this revised document.

(c) Required candidates to discuss the potential impact of the main accounting choices permitted by IAS 16 Property, Plant and Equipment and IAS 20 Accounting for Government Grants and Disclosure of Government Assistance and discuss the potential impact of these on investors' analysis of financial statements. The most common mistakes made by the candidates on each part of the question:

- i. Failure to conclude that the first transaction (part a) was on non-financial reporting issues.
- ii. Demonstrated ignorance of the revised (march 2018) conceptual framework.
- iii. Failure to discuss the potential impact of the main accounting choices permitted by IAS 16 and IAS 20.

iv. Poor presentation of answers for part (c).

Overall, the question was less popular and was poorly performed. It appeared that many candidates had little or no knowledge of non-financial information and conceptual framework.

The poor performance on the question has been attributed to inadequate preparation for examinations by the students. Candidates could have used their general knowledge in answering this largely knowledge based question. Candidates are advised to have an understanding of each area of the syllabus to increase their chances of passing. The reason for not correctly responding to this question could have been as a result of inadequate preparation by the candidates.

For future examinations, candidates are advised to study all examinable standards and pay attention to the standards and topics which are only examinable at advisory level..

#### **QUESTION FOUR**

The general performance on this question was very poor. Only 2 out of the 58 candidates that attempted the question managed to obtain at least 10 marks out of a total of 20 available marks. A pass rate of 3.4% was recorded. The highest score was 18 out of 20 marks while the lowest was 1.

The question had four parts (a), (b) (c) and (d). Part (a) was based on IFRS 15 Revenue from contracts with customers in which two scenarios requiring candidates to calculate amounts to go to financial statements were given. On first part, most candidates failed to appreciate the fact that revenue could not be recognized on the units of food packs not yet delivered as control had not moved to buyer and hence explained wrongly that revenue on all packs needed to be recognized. In the second scenario, performance was fair as most candidates correctly articulated amounts of revenue eligible for recognition.

Part (b) of this question required candidates to explain appropriate accounting treatment of a debt instrument. This was fairly attempted with few candidates expressing ignorance on required accounting treatment.

Part (c) of this question was drawn from IFRS 5 non current assets held for sale and discontinued operations. The question required candidates to state two conditions to be present in order to present results as a discontinued operation. Almost all candidates that attempted this question were explaining conditions for classification as held for sale and hence lost out on all the required marks. Future candidates are reminded to thoroughly understand basics of each accounting standard.

Part (d) was on loan note issued at a discount and wrongly accounted for and so candidates needed to justify necessary accounting treatment of the above transaction. The most common mistakes made by the candidates on each part of the question:

On Part (a), most candidates failed to appreciate the fact that revenue could not be recognized on the units of food packs not yet delivered as control had not moved to buyer and hence explained wrongly that revenue on all packs needed to be recognized. In the second scenario, performance was fair as most candidates correctly articulated amounts of revenue eligible for recognition.

Part (b) was fairly attempted with few candidates expressing ignorance on required accounting treatment.

Almost all candidates that attempted part (c) of the question were explaining conditions for classification as held for sale and hence lost out on all the required marks. Future candidates are reminded to thoroughly understand basics of each accounting standard.

### **QUESTION FIVE**

The general performance on this question was also very poor as only 9 out of the 65 candidates that attempted the question managed to obtain at least 10 marks out of a total of 20 available marks. A pass rate of 13.8% was recorded. The highest score was 17 out of 20 marks while the lowest was 1.

The question was in three parts. Part (a) required candidates to briefly explain corporate governance and its benefits while part (b) required candidates to account for revaluation of two properties. Part (c) required candidates to state the elements of Management Commentary and to discuss for each element, the needs of primary users of the commentary.

It was evident that most candidates are not aware of the non mandatory Statement of Management commentary.

### **Overall performance of candidates**

- i. Highest mark obtained in this paper: 81%
- ii. Lowest mark obtained in this paper: 1%
- iii. Overall pass rate in this paper: 23.5%

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

### **QUESTION ONE**

The general performance on this question was good. 83 out of the 138 candidates that attempted the question managed to score at least 20 out of 40 available marks. The recorded pass rate on the question was 60.1%. The lowest score was 9, whilst the highest was 33 out of the available 40 marks.

Part (a) of the question required candidates to explain the purpose of inspections carried out by the ZiCA Inspectorate team of audit firms. Whereas the majority of the candidates that attempted this question scored maximum marks there were some that did not know about regulation of auditors and in most cases gave less than the expected number of points to score maximum marks.

Part (b) (i) was a question on ethics requiring candidates to identify and explain four ethical matters in Ndeke Chartered Accountants. Most candidates were only able to discuss the matter of the Senior Audit Manager and no other ethical matters were identified and discussed.

Part (b)(ii) required candidates to suggest suitable safeguards for the threats identified and explained in (i). Arising from the observation in (i) most candidates failed to score marks in proportion to the number of ethical matters identified & explained.

In part (b)(iii), candidates were required to discuss matters that the audit firm in the scenario should consider when opting to provide non audit services to Chiwala Plc. a listed company. Most candidates lost marks because they assumed that the firm would still continue as auditor of Chiwala Plc. Many candidates did not know the provision of non-audit services to a client that is a public limited company and as a result lost marks.

Part (c) required candidates to identify and explain audit risks in the audit of the financial statements of Chiwala Plc. To score maximum marks, candidates were expected to not only explain the audit risks but also state clearly the assertions that may be misstated as a result of the audit risk. It was noted that candidates lost marks due to failure to relate the audit risks to the assertions in the financial statements. Others failed to identify and explain the required number of audit risks. All that candidates require to do is to be skeptical and critically analyse the information in the scenario and they should be able to identify the audit risks.

In part (d), candidates were required to analyse issues regarding the computerization of the accounting system of Chiwala Plc. in the first part and an explanation of two audit procedures relevant to the computerized payroll system.

The following were observed:

- i. A majority of the candidates did not attempt answering this part of the question and therefore losing all the available marks.
- ii. Some candidates discussed how computerization will affect the client company instead of looking at it from the point of view of the auditor.

Part (e) of the question required candidates to recommend three audit procedures that should be performed in the audit of the actuarial assumptions in the audit of the financial statements of Chiwala Plc.

The performance in answering this part of the question was poor and the following observations were made. Most candidates failed to answer this question and ended up giving general audit procedures on actuarial valuations instead of audit procedures on the actuarial assumptions as per question requirement. For example suggesting to recalculate the valuation even to auditing assumptions.

## **QUESTION TWO**

The general performance on this question was very poor. Only 14 out of the 128 candidates that attempted the question managed to obtain at least 10 marks out of a total of 20 available marks. A pass rate of 10.9% was recorded. The highest score was 12 out of 20 marks while the lowest was 1

This was a multi-requirement question. Part (a)(i) was a knowledge based, requiring candidates to explain the regulatory requirements for accountants regarding money laundering and also to give three examples of money laundering risk indication in the given scenario. The performance was poor and the following observations were made:

- i. Some candidates did not address a part of this multi requirement question by for example not giving the examples as required by the question.
- ii. Candidates discussed money laundering activities instead of discussing risk indicators i.e. those suggesting the existence of money laundering in a client company.

Part (a)(ii) required candidates to explain why the risk of detecting material misstatements arising from fraud is much higher than that from detecting errors in an audit. Some candidates lost marks because they discussed the impact of not detecting fraud on the financial statements which did not address the question requirements. Others made no mention of error in answering this question signifying that candidates did not understand the question requirement.

In part (b)(i), candidates were required to discuss the quality control implications of the failure to detect fraud that has occurred in the valuation of financial instruments. The performance on this part of the question was poor. The majority of the candidates mistook quality control to relate to the client company as against the audit firm and so they discussed the impact of poor quality control on the financial statements.

Part (b)(ii) require candidates to explain the responsibility of Oba Associates for fraud. Candidates should have noted that Oby Associates are auditors and also required to know the guidelines in ISA 240 to be able to answer this question satisfactorily. A majority of the candidates scored maximum marks but there was a minority who scored poorly.

Candidates who did not know the provisions of ISA 240 The auditor's responsibilities relating to fraud in an audit of financial statements took management responsibilities for responsibilities of the auditors. Candidates are reminded that they are expected to answer examination questions according to the provisions of auditing standards.

The final part of (b) required candidates to suggest suitable audit procedures in the audit of financial instruments in the audit of the financial statements of Ndinawe Ltd. The performance in answering this question was poor as few candidates having been able to suggest suitable audit procedures. Most of the audit procedures suggested did not relate to the audit of financial instruments such as review the board minutes of the financial instruments purchase and physical inspection of assets.

### **QUESTION THREE**

The general performance on this question was poor. Only 46 out of the 133 candidates that attempted the question managed to obtain at least 10 marks out of a total of 20 available marks. A pass rate of 34.6% was recorded. The highest score was 19 out of 20 marks while the lowest was 0.

The question was divided into three parts. Part (a) required candidates to discuss a statement made by the managing partner with regards adherence with the provisions of ISQC 1 by small firms. This part of the question was poorly performed. Most candidates failed to discuss the statement by the Managing Partner and instead discussed the requirement of ISQC 1 which were not asked for and earned no marks.

Part (b) required candidates to explain the reason why the audit of going concern claim by management is difficult for auditors. The following common mistakes were noted:

- i. Some candidates wrote far too much for 2 marks and so wasting valuable examination time. Two valid points on subjectivity and judgement could have earned candidates maximum marks.
- ii. Weak candidates defined going concern without any reference to why auditing this area could be difficult for the auditors.

In part (c)(i), candidates were required to explain the matters that should be considered in the audit of three matters in the audit of the financial statements of the financial statements of Kafue Ltd. The performance in this question was generally poor due to the following mistakes:

- i. Majority of the candidates simply repeated the details in the question without making reference to matters that should be considered.
- ii. In some cases materiality was incorrectly determined resulting in the loss of easy marks.
- iii. Candidates showed clear lack of knowledge of the accounting for the matters in the question.

Part(c)(ii) required candidates to state the audit evidence expected in the review of the working papers for each of the three matters. At this level of the examinations, candidates should understand the role of reviews of the working papers of work performed by someone else. The performance was nevertheless also poor. Candidates explained audit procedures instead of explaining the expected evidence in the working paper file following q review.

#### **QUESTION FOUR**

The general performance on this question was fair. 42 out of the 105 candidates that attempted the question managed to obtain at least 10 marks out of a total of 20 available marks. A pass rate of 40% was recorded. The highest score was 16 out of 20 marks while the lowest was 0.

The question was divided into parts (a) to (d). Part (a) required candidates to explain the objectives of group auditors in auditing group financial statements. Candidates lost marks because they gave less valid points than expected signifying lack of understanding of the provisions ISA 600. Candidates are required to consider the requirements of auditing standards when answering examination questions.

Part (b) required them to explain changes that would impact on the group engagement's team ability to obtain sufficient appropriate audit evidence in the audit of the group financial statements. The performance in this part of the question was poor with many candidates having misunderstood the question requirements to be the matters to be considered before accepting appointment as auditors.

In part (c), the candidates were required to suggest audit procedures for the figure of goodwill arising on consolidation in the audit of the financial statements of Kariba Group of Companies. It was observed from the answers that some candidates did not know the assertions for the figure of goodwill in the financial statements and so could not suggest suitable audit procedures as required. A few candidates gave less than the required 4 procedures resulting in the loss of easy marks.

Part (d) of the question required candidates to analyse one factor that may limit the corporation of the component auditors in the audit of group financial statements. This part of the question was satisfactorily done with a majority of the candidates scoring maximum marks.

## QUESTION FIVE

The general performance on this question was very poor. Only 12 out of the 89 candidates that attempted the question managed to obtain at least 10 marks out of a total of 20 available marks. A pass rate of 13.5% was recorded. The highest score was 13 out of 20 marks while the lowest was 0.

Part (a) required candidates to explain the need for assurance with regards the risk assessment systems of Gede Ltd. to answer this part of the question satisfactorily, candidates needed to understand risk assessment systems carried out by client companies and also the reason why assurance may be required of the reports arising from the risk assessment systems. A majority of the candidates scored poorly in this question and the following were observed:

- i. A majority of the candidates defined risk management systems without addressing the question requirement of why an audit for assurance will be required. No marks were awarded for explaining risk management systems without addressing the question requirement.
- ii. A number of candidates simply did not attempt to answer this part signifying the fact that they do not understand other assurance engagements which include the assurance on risk management systems.

Part (b)(i) required candidates to evaluate whether a standard unmodified audit report does improve understandability of the users of audit reports. A majority of the candidates performed poorly in answering this question. The following mistakes were noted:

- i. A sizeable number of candidates simply did not attempt to answer this part of the question resulting on the loss all the available marks.
- ii. Some candidates simply listed the basic elements of an unmodified audit report which did not address the question requirements.
- iii. A sizeable number of candidates explained modified opinions, emphasis of matter paragraphs and other matters paragraphs which were not the question requirements. Answers should have been centered on the clarity of information in the audit report to the users of the audit report.

Part (b)(ii) required an evaluation of the suggested opinions in each of the three situations in the question. Most candidates repeated information in the scenario and gave no comment on the suitability of the suggested opinions. Others could not suggest suitable opinions signifying lack of knowledge of the topic on audit reports.



### **Overall performance of candidates**

- i. Highest mark obtained in this paper: 65%
- ii. Lowest mark obtained in this paper: 19%
- iii. Overall pass rate in this paper: 25.4%

## **SUBJECT CA 3.4 ADVANCED TAXATION**

### **QUESTION ONE**

The performance on this question was poor. Only 27 out of the 79 candidates that attempted the question passed it, representing a pass rate of 34.2%. The highest score was 32 out of 40 while the lowest was 4.

This question examined tax planning involving evaluation of alternative remuneration packages. It was divided into four parts with sub requirements. Parts (a) (i) and (ii) required candidates to compute the income tax payable by the employee under each alternative package and were fairly well answered. The following are the challenges faced by the candidates who performed poorly on these parts of the question:

- i. Including exempt benefits when computing the taxable emoluments under each offer.
- ii. Failure to calculate the correct amount of capital allowances and deductible motor car expenses under package 1.
- iii. Using the wrong rates to compute the tax payable under each offer.

In part (b) candidates were required to advise the employee on which remuneration package was more beneficial by computing the net income after deducting tax and other relevant expenses from the gross emoluments under each remuneration package. The most common weaknesses demonstrated by candidates who performed poorly on this part of the question included:

- i. Using the wrong figure for gross earnings to compute the employee's NAPSA contributions arising under each package.
- ii. Failure to calculate the correct amount of employee's National Health Insurance Scheme Contributions (NHISC) arising under each offer.
- iii. Failure to identify other relevant expenses to be deducted from gross emoluments to determine the net income under each offer.

Parts (c) (i) and (ii) required candidates to compute the amount of the annual tax savings and net after tax cash flow position arising for the employer under each package and was generally poorly answered. The following are the challenges faced by the candidates:

- i. Failing to identify the relevant benefits which are allowable for the company under each package
- ii. Using the wrong figure for gross earnings to compute the employer's NAPSA contributions and skills development levy arising under each package.
- iii. Failure to calculate the correct amount of the employer's allowable NHIMA payable on behalf of the employee under each package.

- iv. Using the wrong rates to calculate the amount of capital allowances claimable on the motor car under package two
- v. Failure to calculate the correct amount of the free accommodation benefit to be disallowed under package two
- vi. Forgetting to include the canteen expenses under package two which are disallowed.
- vii. Failure to calculate the correct amount of tax savings and net after tax cash flow position of the employer.

Due to the mistakes noted above, candidates also failed to provide the appropriate advise in part (d), which required them to advise on which package will be beneficial for the company.

## **QUESTION TWO**

The general performance on this question was very poor. Only 14 out of the 72 candidates that attempted the question managed to obtain at least 10 marks out of a total of 20 available marks. A pass rate of 19.4% was recorded. The highest score was 13 out of 20 marks while the lowest was 2.

The question covered international aspects of taxation. In part (a) candidates were required to calculate the amount of income tax payable by the Chief Executive Officer who held shares in both the Zambian company and the company resident in a foreign country. The most common mistakes made by candidates on this part of the question resulting in poor performance included:

- i. Not grossing up the taxable income from foreign sources before including it in the personal income tax computation.
- ii. Failing to calculate the correct amount of double taxation relief available on foreign income.
- iii. Using the wrong tax rates to calculate the income tax liability.

Part (b) required candidates to compute the amount of income tax payable by the Zambian resident company receiving income from foreign sources and was equally poorly answered. The following are the challenges faced by the candidates:

- i. Failure to make the appropriate transfer pricing adjustments on the intra-group sale of goods and on the interest on the intra-group loan.
- ii. Not grossing up the taxable income from foreign sources before including it in the company income tax computation.
- iii. Failing to calculate the correct amount of the disallowed interest expense using the 30% Tax EBITDA rules.
- iv. Failing to calculate the correct amount of double taxation relief available on the income from foreign sources.
- v. Using the wrong rates to compute the amount of income tax payable.

### **QUESTION THREE**

The general performance on this question was equally poor. Only 17 out of the 54 candidates that attempted the question managed to obtain at least 10 marks out of a total of 20 available marks. A pass rate of 31.5% was recorded. The highest score was 12 out of 20 marks while the lowest was 2.

Question three examined taxation of financial institutions and personal financial planning. It was divided into parts (a) and (b). In part (a) candidates were required to calculate the taxable income and the total company income tax payable by the bank. The following are the challenges faced by the candidates:

- i. Failing to identify the relevant disallowed expenses incurred by the bank to add back in computing the taxable income.
- ii. Including investments income on which WHT is final when computing the company income tax payable.
- iii. Using the wrong rates of wear and tear allowances when computing capital allowances on buildings, implements, plant and machinery.
- iv. Using the wrong tax rates to compute the company income tax payable.

Part (b) required to explain the nature and income tax implications arising from financial protection products which included family income benefit and Term assurance. Candidates demonstrated a general lack of knowledge of the protection products and therefore failed to provide the relevant explanations.

### **QUESTION FOUR**

The general performance on this question was very poor. Only 6 out of the 58 candidates that attempted the question managed to obtain at least 10 marks out of a total of 20 available marks. A pass rate of 10.3% was recorded. The highest score was 13 out of 20 marks while the lowest was 1.

Question four covered ethical issues, tax audits and administration of taxes. In part (a) asked candidates to explain the ethical issues concerning the non-disclosure of the sole trader's nominal salary and how to deal with a token of appreciation offered by the client. Candidates failed to apply the relevant ethical principles to explain how this ethical dilemma should be dealt with.

Part (b) which asked candidates to explain the difference between tax audits and tax investigation, was fairly well answered, with the exception of a few candidates who failed to provide the required explanations.

In part (c) candidates were required to advise the client of the amounts of penalties and interest on overdue taxes and late submission of tax returns. Candidates demonstrated a general lack of knowledge of the operation of the self-assessment system and provisional income tax. As a consequence, they failed to identify the

relevant dates on which the instalments of provisional income tax was paid late and when income tax returns were submitted late. Candidates further demonstrated a lack of knowledge of how penalties and interest on late payment of income tax and on late submission of income tax returns are computed and therefore failed to make the relevant computations.

## **QUESTION FIVE**

The general performance on this question was fair. 26 out of the 44 candidates that attempted the question managed to obtain at least 10 marks out of a total of 20 available marks. A pass rate of 59.1% was recorded. The highest score was 16 out of 20 marks while the lowest was 1.

This question was examined various taxation issues including taxation of employment income and investments planning. Part (a) required candidates to explain the meaning of a permanent establishment and to advise the directors as to whether the new company would qualify to be classified as a permanent establishment. It was reasonably well answered.

Part (b) required candidates to compute the amount of income tax payable and the net income for the tax payer and was reasonably well answered, with the exception of a few candidates who faced the following challenges:

- i. Failure to identify the relevant taxable benefits in determining the gross taxable emoluments of the employee.
- ii. Failure to calculate the correct amount of allowable deductions.
- iv. Using the wrong rates to compute the tax payable.
- v. Failure to calculate the correct amount of employee's NAPSA contributions.
- vi. Failure to calculate the correct amount of employee's National Health Insurance Scheme Contributions (NHISCs).

In part (c) candidates were required to advise on the tax implications of investing in shares of an LuSE listed company and tax implication of the sale of properties. A few candidates demonstrated a lack of knowledge of the taxation implications and therefore failed to provide the required answers.

Part (d) required candidates to explain the nature and income tax implications of collective investment schemes and was poorly answered as candidates demonstrated a lack of these schemes and therefore failed to provide the required explanations. .

### **Overall performance of candidates**

- |      |                                      |       |
|------|--------------------------------------|-------|
| i.   | Highest mark obtained in this paper: | 65%   |
| ii.  | Lowest mark obtained in this paper:  | 6%    |
| iii. | Overall pass rate in this paper:     | 31.6% |

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

### **QUESTION ONE**

The performance on this question was fair. 6 out of the 14 candidates that attempted the question passed it, representing a pass rate of 42.9%. The highest score was 26 out of 40 while the lowest was 12.

Part (a) (i) required candidates to calculate the NPV. This question was fairly answered as candidates knew what they were doing but failed to apply certain concepts. Noted problems were as follows:

- i. Some candidates did not know how to treat working capital at the end of the investment even though the question stated what they were expected to do.
- ii. Candidates had problems calculating marketing refund costs.
- iii. Some students were bringing in non-relevant costs such as depreciation as they were calculating cash flows.

Part (a) (ii) required candidates to explain how shareholder wealth maximization can be achieved. The performance was bad as candidates seemed not to know how shareholder wealth is maximized. This was pretty a straight forward question at advisory level.

Part (b) (i) required candidates to evaluate the use of the balanced scorecard. The majority of candidates were able to explain the balanced scorecard and its purpose. Only a few candidates went deep to explore the advantages of the balanced scorecard and problems associated with the balanced scorecard.

Part (b) (ii) required candidates to explain how a balanced scorecard could be implemented. Candidates performed badly in this question..

### **QUESTION TWO**

The general performance on this question was fair. 7 out of the 12 candidates that attempted the question managed to obtain at least 10 marks out of a total of 20 available marks. A pass rate of 58.3% was recorded. The highest score was 17 out of 20 marks while the lowest was 4.

This question examined the evaluation of three budget styles, the criticism of traditional management accounting and how strategic management accounting helps in managing performance.

This question was popular among the candidates. However, the evaluation of budget styles was poor. Most candidates did not know that the sub-question was about budget styles. They focused on explaining customer satisfaction and product quality. Good answers should have mentioned that budget styles could be based solely on accounting style (costs and revenues), a mixture of costs, revenue and quantitative but non- financial; and non-financial/non-quantitative (no targets, e.g beyond

budgeting). Thereafter, the impact of these styles on budget holders in terms of motivation and performance needed to be discussed.

Criticisms of traditional management accounting were well explained. However strategic management accounting (SMA) was discussed as ordinary management accounting.

### **QUESTION THREE**

The general performance on this question was very poor. Only 1 of the 4 candidates that attempted the question managed to obtain at least 10 marks out of a total of 20 available marks. A pass rate of 25% was recorded. The highest score was 11 out of 20 marks while the lowest was 5.

Question three examined divisional transfer pricing and the importance of return on investment (ROI) in assessing the performance of division.

This question was extremely unpopular suggesting that students are avoiding this topic.

Performance on transfer pricing was very poor and future candidates are advised to consult the questions and answers published by ZICA for guidance as to the approach which was expected.

The importance of ROI in assessing performance was explained well but this accounted for only three marks.

### **QUESTION FOUR**

The general performance on this question was very good. 11 out of the 14 candidates that attempted the question managed to obtain at least 10 marks out of a total of 20 available marks, resulting in a 78.6% pass rate. The highest score was 11 out of 20 marks while the lowest was 6.

This question required candidates to discuss the financial performance of outlet S using the ROI and any other relevant measures as well as how the manager was manipulating the results to gain bonuses. It also required them to calculate revenues, gross profit, net profit and ROI for outlet M over four years.

The question was more popular than question three and produced mixed performance.

Parts (a) and (b) were answered well but calculations on part (c) were poorly done..

### **QUESTION FIVE**

The general performance on this question was poor. Only 4 candidates out of the 12 that attempted the question managed to obtain at least 10 marks out of a total of 20

available marks. A pass rate of 33.3% was recorded. The highest score was 12 out of 20 marks while the lowest was 0.

This question had three (3) parts examining the area of information in performance management. Part (a) required candidates to explain the characteristics of three (3) types of information required to assist in decision-making at different levels of management and on differing timescales within IL, providing two examples of information that would be appropriate to each level.

Most of the candidates could not address the question as most of them were unable to explain the characteristics of information and later on failed to give appropriate examples.

Part (b) candidates were expected to identify and explain three (3) approaches that the directors of IL might apply in assessing the qualitative benefits of the proposed investment in a new information system.

Clearly most candidates failed to initially identify three approaches and therefore their answers were off tangent.

Part (c) required the candidates to identify two (2) qualitative benefits that might arise as a consequence of the investment in a new information technology system and explain how to assess them. Again the failure to identify the qualitative benefits meant that the candidates could not link the answer to the scenario. At this level (advisory), candidates are tipped to respond to questions within the context given in the case study.

### **Overall performance of candidates**

- i. Highest mark obtained in this paper: 67%
- ii. Lowest mark obtained in this paper: 31%
- iii. Overall pass rate in this paper: 50%



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

### **QUESTION ONE**

The general performance on this question was very poor. Only 6 out of the 16 candidates that attempted the question managed to score at least 20 out of 40 available marks. The recorded pass rate on the question was 18.8%. The lowest score was 4, whilst the highest was 24 out of the available 40 marks.

The question was an NPV including the use of Black Scholes Model in estimating the value of the option to delay the start of the project. The question was divided into parts (a) and (b). Part (a) required candidates to evaluate the investment opportunities in two brand cars using the NPV and prepare a report. This part was not well done. Firstly, candidates wasted their time in the computation of the cash flows by using the present values rather than annuities. Candidates could not correctly compute the asset and equity beta and those that did, end up using asset beta in the CAPM formula. Weaker candidates still went on to subtract risk free rate from the risk premium. The computation of the cost of debt was fairly done well even though there were inaccuracies. The significant challenge was the timing of the cash flows. Candidates could not figure out the cash inflows were to start in year 2 thus affected their NPV computations. In some cases, the basic format of the NPV computation was lacking.

Part (b) required candidates to estimate the value of the option to delay the start of the project by three years using the Black Scholes Model. This part was either not attempted or badly answered. It appeared the candidates were unprepared for such a question in the exam. Candidates that had a go at experienced difficulties in identifying variables and to perform the calculations. It was surprisingly that most candidates failed to just identify the variables from the question to use in the model which is expected of the candidates at this level.

### **QUESTION TWO**

The general performance on this question was also very poor. Only 1 of the 11 candidates that attempted the question managed to obtain at least 10 marks out of a total of 20 available marks. A pass rate of 9.1% was recorded. The highest score was 19 out of 20 marks while the lowest was 1.

The question was divided into parts (a) and (b).

Part (a) required candidates to evaluate the views of some board members concerning the need to manage currency risk. Few candidates performed fairly well here though they lacked the candidness in their evaluation. It appears candidates did not understand that evaluation verb meant giving both arguments for and against.

Part (b) required candidates to show how the given company could have hedged the foreign currency risks using currency option. This part was either not attempted or badly answered. Those that did well managed to pick easy marks on required number of contracts, amount covered and premium costs. Few candidates had presentation problems.

### **QUESTION THREE**

The general performance on this question was good. 9 out of the 15 candidates that attempted the question managed to obtain at least 10 marks out of a total of 20 available marks. A pass rate of 60% was recorded. The highest score was 16 out of 20 marks while the lowest was 1.

Part (a) required candidates to identify which of the given three key policy decision the public sector would have least involvement and the Treasury department of would be most involved and the reason. Some students were unable to identify and explain the role of treasury management involvement in the financing decisions in private sector.

Part (b) asked candidates to describe each of the key policy decision and the importance to each shareholder. Inadequate response by some candidates in terms of clearly explaining the importance to shareholders of the investment, financing and dividend decisions. Some candidates superficially explained without a detailed analysis to express understanding and knowledge of the subject matter.

Part (c) asked candidates to describe the main methods of raising new equity finance on the securities market, recommending the most appropriate method for the healthcare company. Some candidates did not clearly explain as to how either the healthcare company listed on the Lusaka Securities Exchange and the Public Sector Health Service would raise new equity.

The responses for some of these candidates showed that they were not able to clearly differentiate the two scenarios as stated in the question and respond accordingly.

### **QUESTION FOUR**

The general performance on this question was very good. 10 of the 13 candidates that attempted the question managed to obtain at least 10 marks out of a total of 20 available marks. A pass rate of 76.9% was recorded. The highest score was 18 out of 20 marks while the lowest was 0.

The question had Macaulay Duration and Cost of Capital elements. The question was divided into parts (a) and (b). Part (a) (i) required candidates to determine the yield to maturity for the given bonds. Candidates were able to calculate the yield to maturity using the IRR methods.

Part (a) (ii) required candidates to compute the Macaulay Duration and advise the given company on the bond to invest in. Candidates performed well in this section with some candidates almost getting every allocated marks.

Part (b) (i) required candidates to compute the WACC with the maintained capital structure. Candidates faced challenges in un-gearing and re-gearing such that some candidates used the asset beta in the calculation of the cost of equity. This part of the question is heavily examined at lower-level papers thus having challenges at this stage is quite surprising.

Part (b) (ii) required candidates to determine the WACC if the capital structure was to change to the given figures. The candidates faced the same change as in part (b) (i) whereby they used the asset beta in the calculation of the cost of equity.

## **QUESTION FIVE**

The general performance on this question was very poor. Only 1 out of the 5 candidates that attempted the question managed to obtain at least 10 marks out of a total of 20 available marks. A pass rate of 20% was recorded. The highest score was 14 out of 20 marks while the lowest was 8.

Part (a) asked candidates to discuss the reasons DUMBO HYDRO Plc may prefer the use of asset backed Sukuk to conventional bonds when financing the investment in the hydroelectricity plant. The first part of this question expected at least the candidates to clearly express their understanding of what is meant by the Sukuk which are the Islamic Bonds. However, some candidates were unable to define and identify clearly the characteristics associated with this kind of long-term financing strategy as a comparison to the conventional Eurobonds.

Part (b) asked candidates to discuss reasons FADAR Bank may consider providing the finance that LWANGWA HYDRO Plc requires based on a Musharaka contract instead of a Mudaraba contract, and the key concerns DUMBO HYDRO Plc may raise because of the management between LWANGWA HYDRO Plc and FADAR Bank. The response to this part of the question required a comprehensive analysis of the characteristics and difference of a Mudaraba and a Musharaka contracts and how these contracts could be applicable and implemented in arrangements in a joint venture between LWANGWA HYDRO Plc and FADAR Bank.

Some candidates failed to clearly identify and comprehensively explain the various roles and specific performance of both parties in the stated arrangement. Marks were forfeited as a result of this inability. The consequences of such inadequate explanation was the loss of marks.

Part (c) asked candidates to discuss the key disadvantages of Islamic Finance as a source of finance for public sector and private sector companies. Most responses and common mistakes for those candidates that responded to this part of the question is that they failed to identify the commercial risks involved in utilization of Islamic Financing as a source of long-term financing as opposed to other conventional funding sources. Some candidates avoided to answer this part of the question altogether.

## **Overall performance of candidates**

- i. Highest mark obtained in this paper: 61%
- ii. Lowest mark obtained in this paper: 23%
- iii. Overall pass rate in this paper: 37.5%

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

### **QUESTION ONE**

The general performance on the question was fair. 40 out of the 84 candidates attempted it managed to score at least 20 marks out of the available 40, representing a pass rate of 47.6%. The highest score was 31 marks out of 40 while the lowest was 3.

The question was divided into five parts. Part (a)(i) required an explanation of performance auditing in public sector auditing. A majority of the candidates scored more than half the available marks in this part of the question. A few lost marks because while explaining performance auditing, they did not bring out the issue of value for money and its elements of economy, efficiency and effectiveness.

In (a)(ii), candidates were required to explain forensic auditing in public sector auditing. A few candidates had difficulties explaining forensic audit and lost easy marks. These seemed not to know the meaning of forensic audits giving explanation such as 'application of technical competence in the affairs of accountancy' and 'it's a form of litigation in accounting'.

Part (a)(iii) required an explanation of Information Technology (IT) audits in public sector auditing. Some candidates lost marks because they did not relate their answers to the IT system of the client and some definitions were clearly incorrect such as defining IT Audit as 'the application of technological system in teh performance of audit using technical applications'.

Part (b) of the question required a discussion of the problem oriented approach in performance auditing and an explanation of its relevance to the performance audit in Ngosa Municipal Council. The following observations were made:

- i. Some discussed systems and result oriented approaches which were not asked for. Candidates are reminded to follow the question requirements in answering questions.
- ii. Many candidates did not relate their answers to the information in the scenario as expected in the question. At this level of the examinations candidates should be prepared to apply their knowledge to information in the question scenario to gain maximum marks.
- iii. Some candidates discussed risk assessment process of an audit which was not addressing the requirements of the question as a result lost marks.

Part (c) required candidates to recommend 6 audit procedures that should be performed in the performance audit regarding the use of the constituent development fund of Ngosa Municipal Council.

The following common mistakes were noted:

- i. Most candidates discussed procedures related to economy to the exclusion of audit procedures for the other two components of efficiency and effectiveness.
- ii. A sizeable number of candidates gave general audit procedures in auditing while others focused on the audit of ghost workers and fictitious suppliers which had no relevance in the performance audit.

Part (d) required candidates to identify and explain six ethical threats in the forensic audit regarding the fraudulent payments and to suggest suitable safeguards that must be applied. Though this part of the question was satisfactorily attempted with most candidates scoring high marks, some lost marks due to the following:

- i. They explained self-interest, self-review, intimidation etc. without relating them to the information in the scenario and no marks were awarded for doing so. Candidates should identify the ethical matters in the scenario and in the explanation can state the type of threat as self-interest or self-review etc.
- ii. A few candidates identified and explain ethical matters but did not suggest suitable safeguards as per question requirement. Candidates are reminded to address all parts of questions in multi requirement questions.
- iii. Some candidates identified ethical issues but could not satisfactorily explain why they were considered ethical matters.
- iv. The question required six ethical matters which suggests that these matters were contained in the scenario. Some candidates centered their answers on one matter of either the issue to do with the area Member of Parliament or the Audit Manager

Part (e) of the question required the relevance of the suggested audit procedures recommended in the forensic audit in the scenario. The performance in this part was poor with only a few candidates getting it correct. The following observations were made:

- i. Most candidates repeated the information in the scenario without addressing the requirement of the question to evaluate the relevance of the suggested audit procedures.
- ii. Some gave other audit procedures instead of evaluating the relevance of the audit procedures given in the question.
- iii. Others simply did not attempt to answer this part of the question suggesting that they did not understand the question requirement. This question should have been approached from the point of view of reviewing working papers that have been prepared in which case the reviewer should know the audit procedures that should have been performed in order to assess their appropriateness.

## **QUESTION TWO**

The general performance on the question was excellent. 70 out of the 84 candidates attempted it managed to score at least 10 marks out of the available 20, representing a pass rate of 83.3%. The highest score was 18 marks out of 20 while the lowest was 2.

The question was divided into two parts. Part (a) required candidates to explain the reasons why the government continues to fund the OAG when there are internal auditors in public institutions as well as the relationship between parliament, the OAG and the executive. Candidates should have explained the distinction between internal and external auditors and that the OAG is the external auditor of public institutions. They also needed to explain the role of each of the three and how they help hold the custodians of the public purse accountable on how they use public funds.

In part (b), candidates were required to show their understanding of the concepts of the Lima declaration. It required an evaluation of the Motswana SAI of compliance with the Lima declaration concepts. The following common mistakes were observed:

- i. A number of candidates did not know the purpose and contents of the Lima declaration and so could not adequately evaluate the adherence with the Lima declaration by the SAI.
- ii. In some cases candidates wrote far too much for the marks for each relevant points thereby wasting valuable examination time.

## **QUESTION THREE**

The general performance on the question was very poor. Only 4 out of the 16 candidates attempted it managed to score at least 10 marks out of the available 20, representing a pass rate of 25%. The highest score was 13 marks out of 20 while the lowest was 2.

Part (a)(i) required an explanation of cause and effect in performance auditing while (ii) required a discussion of the importance of understanding the nature of the relationship between cause and effect in the performance audit of Impala General Hospital.

Most candidates appear to have misunderstood the question and repeated what is in the question without relating their answers to the performance audit of Impala General Hospital.

Part (b) of the question required candidates to describe from the given information the ethical threats in the performance audit of Impala General Hospital. This part of the question was well answered with most candidates scoring maximum marks.

Part (c) was a knowledge based question requiring candidates to explain the main features of a balanced audit report in the context of performance auditing. It was noted that some candidates simply did not attempt to answer this part of the question which is poor examination technique. Others lost marks because they repeated information in the scenario without dealing with the main feature of a balanced audit report which is one of the features of a good report.

#### **QUESTION FOUR**

The general performance on the question was also poor. Only 28 out of the 73 candidates attempted it managed to score at least 10 marks out of the available 20, representing a pass rate of 38.4%. The highest score was 14 marks out of 20 while the lowest was 1.

Part (a) of the question required candidates to explain how the operations of the OAG complies with the principles of economy, efficiency and effectiveness in its operations.

Some candidates seemed not to understand the provisions of ISSAI 20 to the SAI. They could not clearly explain the need for the SAI to be transparent and be accountable for the use of public funds appropriated to it.

Part (b)(i) required candidates to evaluate the suggested forms of opinions for the two situations in the scenario and to suggest any alternatives. The performance in this part of the question was poor. The following were common mistakes noted:

- i. Some candidates demonstrated lack of knowledge of the different types of audit opinions and hence lost easy marks. These are fully covered under financial audits in the CA 3.7 syllabus.
- ii. Other candidates could not give valid arguments in accordance with relevant auditing standards in their evaluation of the two audit clients.

Part (b)(ii) of the question required candidates to explain the impact on the audit report of the suggested opinions. The following observations were made:

- i. Only a few candidates attempted to answer this part of the question with the majority leaving it unanswered.
- ii. Those who attempted to answer this part did not know the impact of modifying the opinion on the elements of the audit report.

In part (b)(iii) candidates were required to explain the need to communicate the intended modification of the auditor's opinion to those charged with governance. Most of the candidates scored maximum marks in answering this part of the question.

#### **QUESTION FIVE**

The general performance on this question was also fair. 46 out of the 78 candidates that attempted the question managed to obtain at least 10 marks out of a total of 20



available marks. A pass rate of 59% was recorded. The highest score was 20 out of 20 marks while the lowest was 0.

Question five was divided into three parts. Part (a) required a definition of transparency and an evaluation of the extent to which the SAI of Bangweulu was transparent in its operations. The general performance in answering this question was good with many candidates scoring more than half the available marks. The following observations were made with regards those who had challenges answering this part:

- i. Some did not make reference to the information in the scenario in answering the question. This was an application question with specific reference to the information related to Bangweulu.
- ii. Others made reference to transparency with regards the operations of Racecourse General Hospital instead of the SAI. Candidates should distinguish transparency and accountability of the custodians of public funds and transparency and accountability of the SAI required by ISSAI 20.

Part (b) of the question required candidates to describe the professional guidance regarding communication and correction of misstatements. This required candidates to have knowledge of the provisions of ISA 450. The performance in this part of the question was average. The following observations were made:

- i. Some candidates focused on the situations related to Racecourse Hospital and the non-disclosures that were not made. Matters of uncorrected misstatements relate to the work of the SAI and the answers given suggest lack of knowledge of the relevant standard by candidates. Candidates are reminded that financial audits form 20% of the syllabus and it deals largely with auditing standards and so candidates should ensure that they understand the relevant standards because they are likely to feature in every examination.
- ii. A number of candidates answered the question from the point of view of the hospital instead of the SAI.

Part (c) was an application question requiring candidates to evaluate four fraud risk factors in the forensic investigation at the Ministry of Home Affairs. This part of the question was well done with most candidates scoring high marks. Candidates who scored less marks either explained less than the required number of fraud risk factors or their explanations were not detailed enough to warrant maximum marks.

### **Overall performance of candidates**

- i. Highest mark obtained in this paper: 68%
- ii. Lowest mark obtained in this paper: 15%
- iii. Overall pass rate in this paper: 65.5%

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

### **QUESTION ONE**

The general performance on the question was fair. 2 of the 5 candidates that attempted it managed to score at least 20 marks out of the available 40, representing a pass rate of 40%. The highest score was 27 marks out of 40 while the lowest was 13.

The question was divided into five parts. Part (a) required calculation of Internal Rate of Return (IRR) and make recommendations. Part (b) required the explanation of the differences between capital investment appraisal in private sector and public sector. Part (c) required explanation of what to include in the capital budget planning process. Part (d) required identification of the non-financial criteria to be considered before undertaking a project. Part (e) required description of the steps to be taken by the Government to ensure that the project is implemented effectively.

In calculating the Internal Rate of Return (IRR) and Net Present Value (NPV) as required by the question in part (a), the candidate needed to identify the Discount Rate to be used to discount the cash flows for the four year period of the project of the parastatal company involved in the manufacturing of plastics. Some were unable to calculate both the Internal Rate of Return (IRR).

Some of the common mistakes for those that answered this part (b) of the question was the fact that they could not clearly state the three (3) main differences between capital investment appraisal in the public sector and capital investment appraisal in the private sector.

The responses part (c) from some of the students merely ended by explaining generally what capital budgeting process is all about and not specifically address the response to the specific requirement of the question as per examiner's expectations.

### **QUESTION TWO**

The general performance on the question was very good. 3 out of the 4 candidates that attempted it managed to score at least 10 marks out of the available 20, representing a pass rate of 75%. The highest score was 12 marks out of 20 while the lowest was 7.

The question was about the PFM frameworks. The question was divided into parts (a) and (b). Part (a) required candidates to explain the six (6) other frameworks apart from the PEFA used in assessing the PFM systems. On average, candidates were able to identify PETS, SIGMA and CIPFA. However, other candidates were limited in the depth of their explanations thereby scoring very limited marks.

Part (b) required candidates to explain the essential outcomes of the PFM measurement framework. Candidates did not answer the question requirement as they misinterpreted the question to mean essential outcome of PFM and they

explained their answers around fiscal discipline, allocation and service delivery rather than reform planning and an overview.

### **QUESTION THREE**

The general performance on the question was good. None of the 2 candidates that attempted it managed to score at least 10 marks out of the available 20, representing a pass rate of 0%. The highest score was 19 marks out of 20 while the lowest was 7.

The question was about the PFM frameworks. The question was divided into parts (a), (b) and (c). Part (a) required candidates to discuss three fiscal budgetary outcomes. On average, candidates were able to identify aggregate fiscal discipline, strategic resource allocation and efficient service delivery. However, weaker candidates were limited in the depth of their explanations thereby scoring very limited marks.

Part (b) required candidates to explain the benefits of undertaking assessments on the PFM systems. This part was poorly answered as candidates lacked ideas to discuss. The examiner expected the answer to be centered on reform planning and overview of PFM systems.

Part (c) required candidates to explain the limitations of the PEFA framework. This part was well attempted and candidates were able to identify weaknesses of PEFA framework such as limited touch on institutional capabilities.

### **QUESTION FOUR**

The general performance on the question was excellent. All the 5 candidates that attempted it managed to score at least 10 marks out of the available 20, representing a pass rate of 100%. The highest score was 19 marks out of 20 while the lowest was 12.

Part (a) required the explanation of reasons for government undertaking public expenditure while part (b) required the examination of the functional classification of the table provided and the purpose of each functional category in public expenditure as per Zambian context.

Part (c) asked candidates to define the market failure and the explanation of the four types of market failure that can lead to government expenditure. The question was fairly attempted as indicated by the pass rate for this question.

## **QUESTION FIVE**

The general performance on the question was good. None of the 2 candidates that attempted it managed to score at least 10 marks out of the available 20, representing a pass rate of 0%. The highest score was 13 marks out of 20 while the lowest was 8.

The question was about the PFM frameworks. The question was divided into parts (a), (b), (c) and (d). Part (a) required candidates to calculate the expected value. On average, candidates performed exceptionally well on this part.

Part (b) required candidates to explain the best possible that a decision maker might select for investment. This part was well answered as candidates were able to arrive at the right and correct decision.

Part (c) required candidates to explain the three (3) ways of determining probability for a situation or event. A good number of candidates were able to identify the priori, objective and subjective probabilities. However, weaker candidates went on to discuss frequencies and likelihoods.

Part (d) required candidates to advise management on how to improve risk management at a parastatal. This part was poorly answered as most candidates lacked the structural approach to the question. Some discussions were generic such as stakeholder consultations and project abandonment. The examiners expected the answers to be centered on building risk capacity, routine processes and periodic activities.

### **Overall performance of candidates**

- i. Highest mark obtained in this paper: 75%
- ii. Lowest mark obtained in this paper: 40%
- iii. Overall pass rate in this paper: 80%