THE INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN EXAMINERS' COMMENTS	
SUBJECT Business Finance Decisions	**SESSION** Certified Finance and Accounting Professional (CFAP) Examination Summer 2021

Passing %

Question-wise					Overall
1	2	3	4	5	
33%	16%	35%	36%	47%	22%

General comments

The overall passing ratio of 22% is significantly lower than previous session result of 49%. Weak performances in question 1 (except part a) and 2 were noted which seemed to be attributable to selective study, lack of practice and/or conceptual understanding of the topics. Further, it has been observed that examinees spent extra time on completing any one question which affected their performance in the other questions. Many examinees secured good marks in two questions but failed to obtain reasonable marks in the remaining questions. Examinees are therefore strongly advised to move to the next question after spending reasonable time on a particular question. This would help them to attempt all questions of the paper.

Question-wise common mistakes observed

Question 1(a)

Good performance was observed in this part.

Question 1(b)

- Examinees restricted their calculations to component X only and ignored the component Y.
- While calculating unused machine hours for machine line A and B, maximum demand of components X and Y were used.
- Comment on results was not offered.

Question 1(c)

- 62% examinees either did not attempt or obtained zero mark in this part. It seems that many examinees could not comprehend how to start the solution.

- While calculating additional volume of component X to be manufactured, only additional material was considered while another constraint i.e. operating hours of machine A was ignored
- Profit margin of 20% was either altogether ignored or calculated incorrectly.

Question 2(a)

- Tax and dividend payments of 2021 were taken.
- While calculating revised receivables, the balance pertaining to 50% of customers who would not take advantage of the new discount scheme was calculated incorrectly.
- While calculating revised payables, instead of taking revised purchases, revised cost of sales excluding depreciation, were taken. Many examinees who computed the revised purchases, adjusted cost of sales by opening and closing inventories inversely.

Question 2(b)

26% examinees did not attempt this part. Those who attempted this part confined their answers to comment on impact of new working capital management policies on profitability and liquidity of the company. Discussions regarding impact on payable days and receivables days were missed.

Question 3(a)

In respect of future contracts, examinees did not discuss the hedge inefficiencies due to standardized contract terms, payment of deposit to the exchange to cover the possibility of losses and timescale. As far as interest rate options, types of options were not discussed.

Question 3(b)

- In the future hedge set-up, estimated closing futures price was calculated incorrectly.
- In the options hedge, call options were selected.
- While exercising the options, incorrect exercise price was selected.

Question 4(a)

- Incorrect inflation rates were applied on revenue and variable cost.
- Tax was shown in the same year instead of following year.
- Year-wise working capital requirement was computed incorrectly. Further, cash inflow at realization of working capital in year 5 was ignored.
- 4% additional tax on account of higher tax rate in Pakistan as compared to Turkey was ignored.
- Opportunity cost regarding loss of existing revenue by 10% was ignored.
- Proceeds from sale of factory at end of year 5 was either ignored or computed incorrectly.
- Forecasted exchange rates were calculated by applying inflation rates of both countries inversely.
- Comments on assumptions regarding cost, price and inflations were ignored.

Question 4(b)

Majority of the examinees either did not attempt this part or obtained nil marks in this part. This shows that they were unable to produce the valid method for circumventing restrictions on dividend remittance.

Question 5(a)

- While calculating SIL's cost of debt, credit risk premium was computed incorrectly.
- While calculating SIL's cost of equity, many examinees either skipped or incorrectly computed the re-gearing of industry equity beta to SIL's gearing level.
- Inflation impact was taken from year 2025 and onwards.
- Working capital requirement of Rs. 10 million was ignored in 2025 and onwards.
- In order to determine equity value of Wings Limited, debt was not deducted from net present value of free cash flows of the entity.
- While calculating capital allowances, only brought forward fixed assets were taken and capital expenditures over the period were ignored. Further, capital allowance was also computed for 2025 and onwards.

Question 5(b)

- Post-merger synergy impact was ignored.
- Post-merger new values attributable to shareholders of both companies were computed incorrectly.

(THE END)