

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN

EXAMINERS' COMMENTS

SUBJECT Business Finance Decisions	SESSION Certified Finance and Accounting Professional (CFAP) Examination Winter 2021
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Passing %

Question-wise					Overall
1	2	3	4	5	
47%	47%	52%	29%	9%	31%

General comments

The overall passing ratio of 31% has improved from previous session's result of 22%. It was observed that examinees performed well in numerical parts of the question but were failed to evaluate those numbers. It is again advised that 1) examinees should not limit their practice to numerical questions only; and 2) they should focus on conceptual understanding of the topics which will help them to analyse the numbers and reach to the correct conclusion.

Question-wise common mistakes observed

Question 1(a)

- The gearing ratio was computed by dividing debt with equity instead of using the formula given in the question.
- Combined equity value of the new entity was not uplifted by 7.5%.

Question 1(b)

- Equity betas of both entities were not ungeared for computing cost of equity. Ungearing and re-gearing of only Alpha's beta was done in some cases.
- Weighted average asset beta was either not computed or incorrectly computed.
- Cost of equity was computed for each entity instead of computing the combined entity's cost of equity only.
- IRR was incorrectly computed due to errors such as incorrect selection of discount rates, incorrect discount factors and incorrect cash flows.

Question 1(c)

- While calculating revised WACC, value of debentures instead of bank loan was reduced.
- Equity beta was not revised to new gearing level for computing cost of equity.
- Evaluation of the directors' view was altogether skipped or left incomplete.

Question 2(a)

- Sales volume of year 2 was not computed correctly.
- While computing lost contribution, spare capacity of 1000 units of IND100 was considered as units forgone.
- Net revenue for computation of working capital was computed by deducting contribution margin forgone instead of revenue forgone from total revenue of ChillMax50.
- Total working capital requirement was included in cash flows instead of increase in requirement of working capital.
- Inflation was not applied at the correct point of time.

Question 2(b)

Pre-tax revenue and contribution were taken for computing both the sensitivities.

Question 3(a)

- Retained profit for the year instead of the cumulative balance of retained earnings was showed as retained earnings in the statement of financial position.
- Current year's dividend instead of prior year was shown as paid in the statement of cash flows.
- Cash balance computed in the forecasted statement of cash flows was not taken in the forecasted statement of financial position.

Question 3(b)

- Loan was not taken as part of capital employed. Further, instead of taking average capital employed, the closing balance was taken.
- Most examinees failed to comment on the calculations and those who commented restricted their answers by only stating whether the objectives were met or not.

Question 3(c)

- Financing options were simply listed down without any discussion about their availability to FitOut.
- Some financing options were repeated multiple times.

Question 4(a)

- ISO-contribution line was not constructed.
- Incorrect inequality sign was used in resource constraints.
- Cost per unit of the relevant resource was used in constraints instead of per unit requirement of that resource for each service.
- Constraints for minimum and maximum services were not established and plotted on the graph.

- Feasible region was not correctly identified.
- Optimal point within the feasible region was not correctly identified.
- Maximum profit was computed using maximum services instead of the number of services at optimal point.

Question 4(b)

Most examinees seemed unclear about the concept of resource slack and computed the resource requirement at optimal point instead.

Question 4(c)

Most examinees only explained the definition of shadow price and did not compute it.

Question 5(a)

Benefits of swap were not properly explained whereas counterparty risk was incorrectly explained.

Question 5(b)

- In computation of net outcome of swap, interest rates chargeable to two entities for raising finance was taken incorrectly.
- Individual benefit to the two entities was not computed due to which it could not be identified that MC is getting more benefit as compared to CH. Consequently, the correct conclusion could not be reached.

Question 5(c)

- Benefit of swap was taken without adjusting bank charges.
- Revised swap terms were not computed correctly.

(THE END)