THE INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN EXAMINERS' COMMENTS	
SUBJECT Business Finance Decisions	**SESSION** Certified Finance and Accounting Professional (CFAP) Examination Summer 2022

Passing %

Question-wise					Overall
1	2	3	4	5	
37%	14%	16%	47%	52%	29%

General comments

The overall passing ratio of 29% is slightly lower than to previous session's result of 31%. Better performance in the area of financial risk management and capital investment decisions were observed. However, in theory / analysis-based questions, performances were not satisfactory.

It was also observed that examinees carelessly attempted the questions and made minor errors such as missing out information provided in the questions, taking incorrect information or incorrect calculation. Such careless mistakes cumulatively resulted in significant loss of marks and it is therefore strongly advised that the examinees should be very careful in reading and selecting the information. Further, they should improve their reading skills so that the volume of information can be handled easily in examination.

Question-wise common mistakes observed

Question 1(a)

Gain computed under futures hedge was subtracted from total USD receipts instead of adding it.

Question 1(b)

- The expected USD receipts computed in part (a) of this question was not used in calculation for this part.
- Forward rate adjustment (6 months discount) was deducted from the spot rate instead of adding it.
- The USD exchange rates were quoted for Rs. 100, however it was taken as USD/PKR 1 in the computation.
- While computing profit per contract, number of ticks was not multiplied with tick size per contract.
- Gain computed under futures hedge was deducted from PKR receipts instead of adding it.

Question 1(c)

Examinees did not discuss all the hedge options and only recommended the optimal hedge option.

Question 1(d)

The reasons for uncertainty in deriving hedge outcome were not explained properly.

Question 2(a)

- Cashflows used in computing value under the free cashflow method were not inflated correctly.
- Value of debt was not deducted from present value of free cashflows.
- Cashflows were discounted using the cost of equity instead of WACC.
- Net asset value using book value of assets were not computed.
- Value under P/E ratio valuation method using earnings of 2023 was not computed.
- Value under dividend valuation method using growth rate of 3% was not computed.
- Recommendation was not explained well.

Question 2(b)

Irrelevant points were discussed and some correct points were repeated more than once.

Question 2(c)

Effect of concerns about Shalkot Industrial building and the related insurance claim was not discussed.

Question 3

- Incorrect number of years and/or incorrect discount rate was used in computation of market value of bonds.
- In computation of cost of equity using arbitrage pricing methods, examinees failed to notice that the market risk premium for different indicators were already given in the question so it was not required to deduct risk-free rate from given percentages.
- The coupon interest rate or the gross yield was taken as the cost of debt instead of the IRR of debt.
- Book value of bonds was used in computation of WACC instead of the market value.
- Revised gross yield and revised market value of bonds in case of deterioration of credit rating was not computed.
- While re-gearing the existing equity beta of CP after commencement of phase two, asset beta of CP instead of weighted average asset betas of both CP and target company was taken.

Question 4(a)

- Cost of panels and operating and maintenance costs were not multiplied with the number of panels.
- 25 years instead of 10 years were taken for computing tax depreciation on panels.
- Base case NPV was calculated using the WACC instead of ungeared cost of equity.

- It was mentioned in the question that debt arrangement fee will be financed from IP's existing cash reserves. Yet examinees incorrectly grossed up the issue cost in the value of debt.
- While calculating MIRR, incorrect present value of return phase cash flows was taken. Some examinees did not apply the formula for calculating MIRR correctly.

Question 4(b)

- Some points were repeated multiple times.
- Recommendation did not include the discussion about strategic benefits of moving into renewable energy plants.

Question 5(a)

Examinees ignored the point that Go can borrow additional capital for further capital investment at the end of the first year. Consequentially, all cash outflows were incorrectly taken as initial investment for computation of profitability index and investment plan.

Question 5(b)

- The option of replacing vehicles after one year was ignored and no computation was done for it.
- Equivalent annual cost for all the replacement cycles were not computed and the decision was made on the basis of NPV.

Question 5(c)

- IRR of convertible debt was not computed for comparison with cost of bank loan.
- Evaluation of the two debt options was not explained sufficiently.

(THE END)