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

Passing %

Question-wise					Overall
1	2	3	4	5	24%
9%	14%	29%	15%	68%	

General comments

Performance in this session has shown a decline from the previous session’s result of 29%. It was observed that within the same topic, examinees were easily able to answer computation based-questions, however, they struggled in answering theory-based and analytical questions. It seems that examinees are clear about how to reach numerical conclusions but are unable to understand and explain the logic behind those conclusions. It is therefore advised that exam preparation should be done with a more analytical approach.

Question-wise common mistakes observed

Question 1(a)

- Inflation was not correctly applied to the revenue figures.
- Variable cost was computed by multiplying 40% of the computed revenue figures despite the fact that the rate of inflation for variable cost was different from the rate that applies to revenue.
- Terminal value was computed using the post-tax cash flow of year 5 instead of the pre-tax operating cash flow.
- Exchange rates (Rs./TRY) for five years were not computed correctly.
- Investment appraisal was done using the NPV method instead of the APV method. Examinees were unable to pick that since Malik is investing in a different market where business risks and financial risks are different therefore, the APV method is more recommended. Due to this, computation of the following items was missed which led to the loss of marks:
    - Ungeared WACC.
    - Present value of tax saving on new debt.
    - Issue costs net of tax.
    - Adjusted present value.

Question 1(b)

- Examinees discussed how a change in the debt and equity structure of the company will affect the WACC and ignored the requirement of the question which specifically asked whether the existing WACC will be appropriate for an international project.
- Few examinees wrote how the required return including the country risk premium will be computed, however, they were unable to discuss it sufficiently.

Question 1(c)

- Currency translation risk and transaction risk were not discussed.
- Examinees were unable to explain sufficiently how Malik could reduce its risk using swap agreements. Some also discussed interest rate swaps instead of foreign currency swap agreements.

Question 2(a)

Most examinees managed to explain the meaning of synergy however they were unable to give sufficient examples of types of synergies.

Question 2(b)

- Examinees seemed confused in this question and instead of discussing the steps involved in carrying out due diligence they discussed factors which will create synergies and whether this takeover will be beneficial for NPP or not.
- Most examinees failed to mention that the due diligence process will only reduce the risk and not eliminate it.

Question 2(c) & (d)

- Combined market value was incorrectly computed by adding synergies to the sum of the existing market value of both entities.
- Share exchange ratio was incorrectly computed using a total number of shares instead of new shares.
- Gain was incorrectly computed by just apportioning the synergy amount to both entities.

Question 3(a)

- Instead of taking USD, EUR was taken as a hedging currency.
- Forward premium was incorrectly added to the spot rate for deriving the forward rate.
- In the money market hedge, the borrowing cost was computed instead of the opportunity cost. The question mentioned that MTL has EUR 2 million available every month, therefore borrowing EUR funds was not required. Hence, the cost incurred by MTL would be the investment return forgone.
- In the futures contract hedge, the gain amount was incorrectly added instead of being subtracted.
- Overall cost with no hedge was not computed.

Question 3(b)

- OTC interest rate options was discussed in general and an explanation with context to the given scenario was not given.
- Examinees did not compute premium cost.

Question 3(c)

- The discussion did not cover both the options of either paying or not paying dividend to shareholders.
- The recommendation was not conclusive about whether MTL should pay dividend or not.

Question 4(a)

- Incorrect ratio of investment in terms of the market value of both entities was used.
- Portfolio risk was computed using incorrect formula.
- Some examinees did not compute the overall risk using CAPM and computed the expected return of individual entities instead of the overall return of enlarged entity under both options.

Question 4(b)

The recommendation was not well-explained.

Question 4(c)

Just yield on current debt was computed and computation of the rest i.e., the likely issue price and the amount of new debt that should be issued was ignored.

Question 5(a)

Asset beta was not re-geared to derive equity beta. Consequently, the cost of equity was computed using asset beta.

Question 5(b)

- Terminal value was computed using the cost of equity instead of WACC.
- Terminal value was discounted by using a discount rate based on 5 years instead of 4 years.

Question 5(c)

- Sensitivity was incorrectly computed by dividing NPV with initial cash outflow.
- Explanation of the sensitivity was not given correctly.

(THE END)