THE INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN EXAMINERS' COMMENTS	
SUBJECT Business Finance Decisions	**SESSION** Certified Finance and Accounting Professional (CFAP) Examination Summer 2023

Passing %

Question-wise					Overall
1	2	3	4	5	
37%	20%	65%	38%	13%	32%

General comments

The overall pass rate has shown improvement, increasing from the previous session's result of 24% to 32%. It was again noted that examinees demonstrated competence in the numerical aspects of the questions. However, they encountered challenges when responding to theory-based and analytical inquiries. It is strongly advised that examinees should not confine their practice solely to numerical questions. Instead, they should emphasize developing a strong conceptual understanding of the topics. This approach will enable them to critically analyze the scenarios presented in the questions and articulate relevant factors to be considered when formulating their responses.

Question-wise common mistakes observed

Question 1(a)

- Calculations were based on a timeframe of four years instead of five years.
- Despite the clear instruction in the question to use the free cash flow to equity method of business valuation, WACC (Weighted Average Cost of Capital) instead of the Cost of Equity was used to discount the cash flows. Likewise, interest payments were disregarded in computing free cash flows to equity.
- Cash flows related to redundancy and equipment upgrades were considered in year 1 instead of year 0.
- Tax saving on equipment upgrades was either ignored or erroneously considered in year 1.
- While calculating the terminal value, the following errors were observed:
  - A growth rate of 2% was also applied to cash flows other than operating cash flows.
  - Cash flow related to capital maintenance was ignored. Many of those who took it into account, applied a tax rate on it.
- The entire present value of free cash flows was considered a premium.

Question 1(b)

- Examinees mentioned that the market's reaction to the acquisition of information would occur, but they failed to define the concept of a semi-strong efficient market. Furthermore, they neglected to highlight the fact that PSX (Pakistan Stock Exchange) is a semi-strong efficient market, similar to most markets around the world.
- Many examinees omitted to mention that the confidential information is not currently factored into the current valuation. They overlooked the crucial point that if this information becomes public, it would lead to a change in the company's share value, potentially resulting in a decline in the premium offered compared to the market valuation.

Question 1(c)

- In the case of export sales, a significant number of examinees included information about translation and economic risks, which were not applicable and therefore, irrelevant.
- The majority of examinees merely listed the names of hedging techniques without providing any explanation.

Question 2(a)

- In the cash flows of the WTR project, the impact of the joint venture i.e., 50% portion, was overlooked.
- Incorrect discount factor was applied to determine the present value of perpetual cash flows.
- While determining the optimal investment strategy, the NPV of the surplus fund under each of the possible combinations was either ignored or computed incorrectly.

Question 2(b)

- Incorrect formula for calculating the interest cover was used.
- Number of shares to be issued was calculated incorrectly.
- Numerous examinees could provide remarks on the fluctuations of specific ratios only and they failed to provide a comprehensive analysis of both scenarios and the critical factors that should be considered while choosing one option over the other.

Question 3(a)

The debt component was ignored while calculating Mardi's equity beta, despite that it was mentioned in the question that Mardi's debt is not considered to be risk-free.

Question 3(b)

- While computing sales, volume growth was taken from year 1 instead of year 2.
- While computing costs of material, labour, and variable overhead, the impact of the increase in sales volume was ignored.
- While computing capital allowance, balancing adjustment arising from the sale of plant and machinery was disregarded.
- In computing the additional working capital requirement of each year, working capital required for a particular year was taken as the outflow, instead of taking the difference between the working capital requirements of the current and the previous years.

Question 4

- Instead of hedging the EUR payments against USD receipts, a reverse hedging strategy was implemented.
- Forward discount was incorrectly subtracted from the spot rate for deriving the forward rate.
- In the money market hedge, the wrong rates were used for investing and borrowing.
- In the future hedge, the incorrect number of contracts was computed. Further, the loss on futures was incorrectly treated. Instead of netting off the loss from USD receipts, it was erroneously added to them.
- In the option contract, the computation of the premium failed to account for the interest cost on USD borrowing.
- The surplus USD was not converted into PKR at the spot rate as per the given hedging policy. Examinees who performed this step used an incorrect exchange rate for this conversion.

Question 5(a)

- Earnings instead of dividends were used to calculate the estimated share price.
- While calculating the value of dividends from the year 2028 and onwards, the dividend figure of 2024 instead of 2027 was used.
- Despite the dividend growth rate of 4% being provided in the question, the growth rate based on the dividend history was calculated and used for dividend valuation.
- WACC instead of the cost of equity was used for discounting future dividend payments.
- The explanation regarding the disparity between the share value derived from the dividend valuation model and the current market value was insufficient.

Question 5(b)

- Most of the examinees lacked depth in their responses, as they only touched upon a few points.
- Many examinees inaccurately mentioned a share split as an alternative method of distributing cash to shareholders, which is not correct.

(THE END)