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

Passing %

Question-wise					Overall
1	2	3	4	5	
39%	78%	13%	18%	30%	28%

General comments

The result in this session is slightly (i.e., 3%) lower than the previous session. One of the reasons seemed to be the selective studies, as evidenced by poor performance in the question on linear programming, which carried a weightage of 10 marks. 67% of examinees did not attempt this question.

Another contributing factor to the failures observed is the inadequate time management of examinees, leading to substantial time wastage that could have been avoided. The following observations highlight this issue:

- Workings were initiated without proper planning, resulting in duplicated efforts.
- Unnecessary and prolonged comments were provided.
- Rather than opting for a more concise approach to computations, extensive calculations were undertaken. For instance, when computing cumulative present value, examinees calculated yearly present values instead of utilizing the annuity formula.
- Examinees, instead of addressing the specific scenario presented in the question, engaged in a general discussion on the topic.

These instances of poor time management and lack of strategic planning significantly impacted the overall performance of the examinees.

Question-wise common mistakes observed

Question 1(a)

- The accounting rate of return was worked out using profit before interest, tax, and depreciation.
- While determining the sensitivity of sales volume, the contribution margin was worked out

without taking into account the cost of sale and/or variable operating costs and/or tax on operating contribution.
- No analysis was produced on sensitivity results and their probable impact on the project.
- Pay-back period was worked out incorrectly because payback completion in the nth year instead of n+1 was considered.
- Discounted payback period instead of simple payback period was calculated.
- Fixed lease cost was also increased by 4% each year, which was not required by the question.

Question 1(b)

- Detailed comments were given on financial projections but non-financial considerations were ignored.
- Suggestions were given for improving sales, cutting costs, and other operational matters, which were not relevant to the requirement of the question.
- Only a few examinees could explain or even identify the real options.

Question 2(a)

- The requirement to briefly explain the process was ignored altogether. There was no narrative explanation given regarding the impact of changes in business and financial risk on WACC.
- Incorrect formulas were used for calculating the asset beta of the garden furniture industry and the re-gearing equity beta of Malahro Limited.
- Incorrect debt-equity ratios were applied in the formulas.
- Asset Beta was used in the formula for calculating the cost of equity instead of using the equity beta of Malahro Limited.
- While computing the WACC, the cost of debt was taken as 7% i.e., without considering the tax.
- WACC was not computed and cost of equity was suggested to be used as the discount rate.

Question 2(b)

- In the case of outright purchase, the amount of depreciation was considered as tax savings.
- Lease payments were presumed in Years 1 to 5, instead of Years 0 to 4, disregarding the fact that the lease rent was payable in advance.

Question 3(a)

- The total working capital requirement of each year was taken as the outflows instead of computing the differences with the previous year.
- Working capital employed during the five years was shown as withdrawn at the end of Year 5, which was incorrect as the projects were not projected to close at the end of Year 5.
- The requirement to add further equipment as the manufacturing of X-ray machines increased, was ignored. In several instances, while considering investments, the corresponding tax relief related to the acquisition of such equipment was neglected.
- The condition that new equipment for MRI machines would be paid in three equal amounts in the first three years was ignored as the entire amount of Rs. 1,500 million was shown as an outflow in Year 0. Many examinees commenced the outflows from Year 1 instead of Year 0.
- For Year 0, the exchange rate of CNY: PKR, was taken as 35:1 instead of 1:35. Subsequent years' exchange rates were taken on the same basis.

- Terminal values were mostly ignored or in some cases were taken in Year 6 instead of Year 5.
- Additional Pakistan tax was either missed altogether or the taxable figure was not worked out correctly.

Question 3(b)

- Many examinees who attempted the question, wasted a lot of time in explaining the concept and process of linear programming.
- Wrong equations were made for the objective function and project constraints.
- Objective function and project constraints equations were plotted wrongly on the graph.
- Feasible region and optimal point were not identified on the graph.

Question 4(a)

- Future forecast was ignored and based on loss in the year 2023, it was declared that methods such as PE ratio, and cash flow valuations were not possible.
- While determining the net assets, 10% debentures were ignored.
- Asset-based valuation was done based on current results only and ignored the forecasted results.
- While computing earning-based valuation, the forecasted profit before interest and tax was taken. Moreover, profit was unnecessarily multiplied by 1.05, presumably to incorporate growth, which was incorrect.
- Walmor's data was used to calculate equity beta and cost of equity for the valuation of Xon. Commentary on the appropriateness of each method as part of the report was not entirely produced or was not up to the mark.

Question 4(b)

- In the computation of the money market hedge, the following errors were made:
  - Required investment was determined using an interest rate of 6% instead of the correct rate of 4%.
  - Borrowing cost was computed by taking an interest rate of 6% instead of 7%.
  - The fact that the investment or borrowing was limited to a quarter, was neglected.
- In the computation of OTC options, the following errors were observed:
  - While computing the total cost of the options, the premium was deducted from the strike price, instead of adding it.
  - Only one out of the two given options was considered.
  - Call instead of put options were considered.

Question 5(a)

- Only comments were provided without carrying out any working.
- While computing the IRR of convertible debentures, the share price at the time of conversion was not computed correctly.
- The analysis of practical factors which to be considered for assessing the most suitable form of debt, was missing.

Question 5(b)

- The 2% premium over SONIA was ignored in all calculations. The situation became worse when the same was considered in some calculations but ignored for the rest of the calculations.
- Incorrect rates were picked up, especially in the case of FRAs and future contracts.
- The difference between June and September futures was wrongly treated as gain or loss.
- In futures, the projected close-out price was calculated by dividing 20 basis points by 3 instead of 4.
- Gain or loss in case of options was also worked out.
- Premium for Call options instead of Put options was used.

(THE END)