

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN
Certified Finance and Accounting Professional Stage Examination
Business Finance Decisions

Examiners' Comments

Winter 2025

PASSING %

Question-wise					Overall
1	2	3	4	5	
46%	34%	19%	15%	49%	31%

GENERAL COMMENTS

The result has declined slightly in this attempt, from 34% to 31%. The lower performance can partly be attributed to the Interest Rate Hedge question, which involved the use of a collar strategy with traded options and showed below-average performance.

It was observed that examinees lacked the required knowledge of Excel. Consequently, they either used incorrect formulas or attempted to perform calculations in several steps when a single step was possible. Many examinees also made errors in feeding data, which often resulted in such absurd figures that made it impossible to carry out further calculations.

QUESTION-WISE COMMON MISTAKES OBSERVED

Question 1(a)

- The increase in sales volume was ignored.
- Tax savings on depreciation were taken from year 1.
- Tax savings on balancing charge on disposal were ignored or computed incorrectly.
- Terminal value was computed as four times the post-tax operating profit instead of post-tax operating cashflows.
- The terminal value was computed with the growth formula.
- Ungearing and re-gearing of beta were carried out without considering the debt beta.
- Asset beta instead of re-gearred beta was used for calculating the cost of equity.
- The country risk premium was either incorrectly computed or altogether ignored in the computation of the cost of equity.
- Pre-tax cost of debt was used in the computation of WACC instead of post-tax cost of debt.
- A recommendation to accept the project was not given.

Question 1(b)

- The risks involved in debt financing in general were discussed.
- The risk of not being able to secure a loan from banks in Pakistan was discussed.
- Futures, forward rate agreements, and/or options were recommended as a hedging strategy.

Question 2(a)

- While computing the share price, the P/E ratio was not considered. Moreover, the discount % was not applied to the current share price.
- Legal terms and conditions of the right issue were mentioned, such as the shareholders' approval of the rights issue, the issuance of right shares to only existing shareholders, exercising the option to subscribe to rights within the specified time period, etc.

Question 2(b)

- While computing net profit, many examinees incorrectly increased gross profit by 1% instead of improving the gross profit margin by 1% in absolute terms.
- Existing debt was ignored in the calculation of the cost of interest and the debt equity ratio.
- An increase in the number of shares was included in the debt financing option. Similarly, the amount of new debt was also considered in the equity financing option.
- The required information was calculated for one year only, ignoring the requirement of the question.

Question 2(c)

- The IRR was calculated, which was already given in the question as 11%.
- Since the new debt is convertible, the estimated share price at the end of 2029 was not calculated.

Question 3(a)

- Interest on deposit with AA Bank was computed @ 4% instead of 3.5%.
- In futures and traded options, the number of contracts was computed as 20.
- In futures, instead of calculating the basis for the March close-out price, it was directly taken at 4%.
- In futures, the gain on futures was considered a loss.
- In the case of traded options, a put option was used instead of a call option.
- In the case of traded options, the premium was computed incorrectly.
- The effective interest rate was not calculated.

Question 3(b)

- The highest effective interest rate derived in part a was not used for calculating the effective exchange rate on the money market hedge as required in the question.
- The interest rates per annum were used directly instead of adjusting them for six months.

Question 4(a)

- FH Holding's equity beta was used for computing the cost of equity.
- Asset beta of FH Holdings was computed on the basis of equity beta only, whereas part of the formula related to debt beta was not considered. Similarly, debt beta was also ignored during the process of re-gearing.
- Instead of re-gearing, to compute the equity beta of Alfatine Limited, the asset beta was used in the computation of the cost of equity.
- Pre-tax cost of debt was used in the computation of WACC.
- Additional investment in non-current assets was taken from year 0.
- Working capital investment was taken as the differential value.
- Terminal value was computed based on cash flows of Year 4 instead of Year 3. Further, the terminal value was computed based on 4% growth instead of 2% growth.
- In order to compute the value of equity, the value of debt was not deducted from the value of the entity.

Question 4(b)

- A premium of 30% was not added.
- Suitable terms for the share exchange were either not calculated or incorrectly calculated.
- Examinees treated the acquisition of shares as a merger of the two entities and consequently arrived at an incorrect conclusion.

Question 4(c)

- Other alternative valuation methods were not discussed.
- Suitability of the valuation methods in the given situation was not discussed.

Question 5(a)

- Errors were made in applying the formulae of the standard deviations.
- While calculating the expected portfolio return, incorrect weightages of the existing portfolio and portfolios A and B were used.

Question 5(b)

- While considering both ratios, it was not realized that TIL has investments in a very limited number of technology start-up companies and, therefore, its portfolio is not diversified.
- The choice between the Sharpe ratio and the Treynor ratio was recommended without providing any supporting justification.

(THE END)