Certificate in Accounting and Finance Stage Examination

Business Insights and Analysis

22 August 2026
100 marks
3 hours and 15 minutes (including 15 minutes' reading time)

ICAP

Instructions to examinees:
(i) Answer all **NINE** questions.
(ii) Answer in **black** pen only.
(iii) Use the first page of the answer script to answer the Multiple-Choice Questions.

SECTION A

QUESTION 1

Select the most appropriate answer from the options provided for each of the following Multiple-Choice Questions.

(i) A strategy consultant has mapped competitors in Pakistan's private education sector along two strategic dimensions: geographic reach (local vs. national) and programme breadth (specialist vs. comprehensive). The consultant identifies three strategic groups:

- Group 1: Single-city institutions offering only professional accounting qualifications.
- Group 2: National universities offering diverse undergraduate programmes across multiple cities.
- Group 3: Local institutions offering a diverse range of programmes.

A well-funded new entrant announces plans to establish a national network of campuses offering exclusively professional accounting qualifications.

Which type of institution is likely to face the greatest competitive threat from the new entrant?

(a) A national university in Group 2, because both institutions operate nationally, despite their substantially different programme portfolio.
(b) A local comprehensive institution in Group 3, because geographic expansion by the new entrant will eliminate the importance of differences in programme breadth.
(c) Institutions in all three groups equally, because geographic reach and programme breadth have an equal influence on the intensity of competition.
(d) A single-city professional accounting institution in Group 1, because the new entrant will offer the same specialist qualifications and compete for the same target students in cities where their operations overlap. **(02 marks)**

(ii) A company has 10% redeemable preference shares in issue having a par value of Rs. 20 each. The current cum-dividend market price of each preference share is Rs. 23. Preference shares are redeemable at par in four years' time. The company's corporate income tax rate is 30%.

What is the approximate cost of the redeemable preference shares?

(a) 5.6% (b) 5.9% (c) 8.5% (d) 10.0% **(02 marks)**

(iii) A Pakistani bank upgrades its existing mobile banking application by improving its user interface, adding biometric login and increasing transaction speed. At the same time, a fintech startup launches a platform that allows unbanked rural customers to access microloans, savings accounts and insurance entirely through a feature phone without internet access or a visit to a bank branch.

Which of the following options correctly classifies the two technological developments?

(a) Both are disruptive.
(b) The bank's upgrade is non-disruptive, whereas the fintech platform is disruptive.
(c) The bank's upgrade is disruptive, whereas the fintech platform is non-disruptive.
(d) Both are non-disruptive. **(1.5 marks)**

(iv) A consumer electronics company launched a foldable smartphone two years ago at a premium price. Since then, five additional manufacturers have entered the market, prices have begun to decline, and total sales are growing by 35% annually. The company's finance director notes that working capital requirements are increasing significantly as inventory and receivables expand to support the rapid growth in sales.

Which option correctly identifies the product life-cycle stage and explains the increase in working capital requirements?

(a) Growth stage; rapid sales growth increases the funds tied up in inventories and receivables.
(b) Growth stage; increasing working capital indicates that sales growth is slowing and cash is being released from operations.
(c) Maturity stage; rapid market expansion and the entry of new competitors cause working capital requirements to increase.
(d) Maturity stage; accelerating sales volumes require substantial additional investment in inventories and receivables. **(1.5 marks)**

(v) A listed company has an equity beta of 1.4. This most likely indicates that:

(a) the return on company's shares is expected to be 40% higher than the market return each year.
(b) the return on company's shares is expected to be 40% more sensitive to market movements than the returns on the market portfolio.
(c) the company's shares have 40% more unsystematic risk than the market portfolio.
(d) the return on company's shares will always outperform the market during periods of economic expansion. **(01 mark)**

(vi) An investor holds all 30 shares included in the KSE-30 Index in the same proportions as their weight in the index. Which type of risk cannot be substantially reduced through such diversification?

(a) Systematic risk (b) Unsystematic risk
(c) Concentration risk (d) Business risk **(01 mark)**

(vii) Under a normal yield curve, which of the following securities would generally offer the lowest yield?

(a) 15-year government bond (b) 10-year government bond
(c) 12-month treasury bill (d) 6-month Treasury bill **(01 mark)**

QUESTION 2

SteelMax Rolling Mills Limited (SRML) is the largest domestic producer of long steel products in the country. It supplies construction-grade steel bars and structural sections exclusively to major infrastructure contractors under long-term supply agreements.

Steel production requires specialized production facilities, continuous casting and rolling equipment, a highly skilled workforce and substantial working capital. SRML holds approximately 52% of the domestic long-steel market, with the remainder shared between two established producers of comparable size. These three entities have maintained stable market shares for more than a decade, without any significant price competition. During this period, SRML has consistently reported above-average operating margins relative to comparable regional steel producers.

To support the domestic steel industry, the government has imposed a 35% regulatory tariff on imported long steel products. Large infrastructure contractors, which include SRML's primary customers, are subject to government procurement rules that require minimum purchase volumes and multi-year fixed-price supply agreements. These agreements generally restrict customers from renegotiating prices or switching suppliers during the contract period.

SRML obtains its raw materials from over 200 small, independent suppliers located throughout Pakistan. No single supplier contributes more than 8% of SRML's total raw-material requirements. Furthermore, construction engineers and regulatory standards confirm that no viable substitute exists for construction-grade steel in large-scale infrastructure projects.

Required:

(a) Analyse SRML's competitive position using Porter's Five Forces framework. For each force, classify its intensity as High or Low and justify your classification using the information provided in the scenario. **(10 marks)**

(b) Based on your analysis in part (a), explain why SRML consistently reports above-average operating margins. Also, identify and explain the single external factor described in the scenario whose removal or reversal would most likely weaken SRML's overall competitive position across the five forces. **(03 marks)**

QUESTION 3

TasteMax Foods Limited (TMFL) manufactures and markets packaged snack foods across Pakistan, distributing its products through general retail stores and its own online sales channel. Management is reviewing TMFL's product portfolio to determine which products should be maintained, invested or divested.

The following information is available:

Product	TMFL's market share	Largest competitor's market share	Market growth rate	Additional information
Crunch Bite	34%	22%	21%	A long-standing product supported by strong retailer-loyalty programmes.
Zest Chips	11%	29%	18%	Recently launched. Initial consumer trials indicate a strong likelihood of repeat purchases.
Munch Bar	38%	17%	5%	TMFL's highest volume product and the largest contributor to its annual cash surplus.
Snap Corn	9%	27%	3%	TMFL's first product, launched when the company was founded. It has a strong emotional association with this corporate brand.
Spice Pop	16%	15%	19%	Achieved its current market share following a highly successful six-month promotional-pricing campaign, recently concluded.

Required:

(a) Classify each product in the appropriate quadrant of the BCG Matrix. **(03 marks)**
(Note: Market growth rate above 10% is considered high)

(b) Based solely on the BCG Matrix, recommend an appropriate strategy for each quadrant. **(04 marks)**

(c) Identify and explain **two** products for which the strategy indicated in part (b) may not be appropriate in light of BCG Matrix limitations, and considering the additional information provided. **(03 marks)**

QUESTION 4

Stakeholders increasingly expect organisations to demonstrate responsible business practices and provide transparent information about their sustainability performance. Consequently, sustainability reporting has become an important aspect of corporate reporting.

Required:

(a) Define sustainability reporting and explain **two** internal benefits and **two** external benefits of sustainability reporting. **(04 marks)**

(b) Briefly discuss the **three** pillars of the ESG framework. For each pillar, give **two** examples of positive indicators and **two** examples of negative indicators. **(06 marks)**

QUESTION 5

PrimeBuild Construction Ltd (PBCL) is a mid-sized construction company that has recently been awarded a government contract worth Rs. 180 million to build a public school in a low-income district. The contract specifies a strict completion deadline tied to the commencement of the academic year.

During the procurement process, QuickBuild Associates (QuickBuild) was selected for the work after submitting the lowest bid for the structural subcontracting work. However, Mr. Tariq, PBCL's Senior Procurement Manager, later discovered that QuickBuild's structural engineers were not registered with the Pakistan Engineering Council (PEC). Under the applicable legal and contractual requirements, structural engineering work on government projects must be performed by engineers registered with PEC.

Mr. Tariq reported the matter to PBCL's COO, who instructed him to proceed with QuickBuild without disclosing the engineers' non-registration to the government client. The COO justified this instruction on the following grounds:

- QuickBuild has a strong record of successfully completing similar work;
- Appointing another subcontractor at this stage would delay the project by approximately six weeks and expose PBCL to substantial financial penalties;
- The PEC registration requirement is merely procedural, and the likelihood of the non-compliance being detected is low; and
- Disclosing the matter would reflect adversely on PBCL's procurement and due diligence procedures.

Mr. Tariq is not comfortable with the justification provided by the COO and is therefore seeking guidance on the ethically appropriate course of action.

Required:
Determine the most appropriate course of action, using the following steps of the American Accounting Association's (AAA) ethical decision-making model:

- Identify all possible courses of action
- Match norms and principles to each option
- Assess consequences of each option
- Make the decision **(10 marks)**

SECTION B

QUESTION 6

(a) ABC Textiles Limited (ABC) exports finished textile products to Europe. ABC plans to purchase large quantities of cotton in the coming months. It finances part of its working capital through floating-rate bank borrowings and makes a significant proportion of its export sales on credit. To ensure uninterrupted operations, ABC also seeks to maintain adequate liquidity to meet its short-term obligations as they fall due.

One of the directors has proposed the following measures to manage ABC's financial risks:

- Purchase a currency call option to hedge expected export receipts.
- Purchase a lender's option to manage floating-rate bank borrowings.
- Tighten the company's credit approval procedures.
- Arrange standing credit lines with commercial banks.

Required:
For each measure:

(i) identify and explain the financial risk it is intended to manage; and
(ii) assess its suitability and, where appropriate, recommend a more suitable risk management technique. **(05 marks)**

(b) ABC expects to receive EUR 2 million from a European customer in three months' time. To manage its foreign exchange exposure, the treasury department has obtained the following market information on three-month currency options:

	Exercise price (PKR per EUR)	Premium per contract (PKR)
Call options	315	600,000
Put options	316	550,000

Each option contract (whether put or call) covers EUR 250,000 and carries an exercise fee of PKR 20,000, payable only if the option is exercised.

The current spot exchange rate is PKR 316.80 per EUR, while the spot exchange rate in three months is expected to be PKR 314.20 per EUR.

Required:
Recommend whether ABC should use currency options to hedge its foreign exchange exposure. Show all necessary computations. **(05 marks)**

QUESTION 7

Harvest Valley Foods Limited (HVF) manufactures two premium breakfast cereal products, Granola and Muesli. The company is preparing its budget for the year ending 31 August 2027. The following information is available:

Sales forecast prepared by the marketing department

	Granola	Muesli
Forecast sales (units)	180,000	240,000
Selling price (Rs. per unit)	900	600

Standard production data per unit

	Granola	Muesli
Ingredient A at Rs. 350 per kg	0.40 kg	0.25 kg
Ingredient B at Rs. 200 per kg	0.30 kg	0.40 kg
Packaging	Rs. 30 per unit	Rs. 25 per unit
Direct labour at Rs. 500 per hour	0.25 hour	0.2 hour
Machine hour	0.20 hour	0.15 hour

Additional information:

(i) The available production capacity is 66,000 machine hours for the budget period. This capacity is insufficient to satisfy the sales forecast prepared by the marketing department for both products. Management intends to use the available production capacity to maximize HVF's budgeted operating profit.

(ii) Budgeted sales are expected to be made through the following sales channels:

	Granola	Muesli
Retail outlets	35%	30%
Supermarkets	45%	50%
Online	20%	20%

(iii) Sales through supermarkets are subject to a trade discount of 8% on the selling price, while sales through online channel are subject to a discount of 5% on the selling price.

(iv) Variable manufacturing overhead is absorbed at Rs. 250 per machine hour.

(v) Budgeted fixed manufacturing overhead amounts to Rs. 26.4 million and is absorbed on the basis of machine hours available during the budget period.

(vi) Advertising expenses relating to sales through retail outlets are budgeted at Rs. 8 million.

(vii) The estimated selling cost for online sales is Rs. 18 per unit.

(viii) Budgeted administrative expenses amount to Rs. 22 million.

(ix) There will be no opening and closing inventories of either product.

Required:
Using absorption costing method, prepare the budgeted statement of profit or loss of HVF for the year ending 31 August 2027. Show all relevant workings, including the determination of the optimal sales mix.
(14 marks)

QUESTION 8

Prime Tissue Limited (PTL) manufactures premium facial tissues under its well-established brand and distributes them through wholesalers and retail chains across Pakistan. In view of the age and declining operating efficiency of its existing production facility, management is reviewing the company's manufacturing strategy for the next four years.

Management is considering the following mutually exclusive alternatives:

Option 1: Enter into a take-or-pay manufacturing agreement with a specialist manufacturer.
Option 2: Replace the existing production facility with a new automated production line.

Annual demand in Year 1 is expected to be 600,000 cartons and is forecast to increase by 10% per annum thereafter. The selling price in Year 1 is estimated at Rs. 4,800 per carton and is expected to increase by 6% per annum.

The existing production facility has a written-down value of Rs. 30 million and can be sold immediately for Rs. 45 million, irrespective of the option selected.

Option 1: Take-or-pay manufacturing agreement

Under this option, PTL will outsource its entire production to a specialist manufacturer, Shamoon Tissue Limited (STL). A non-refundable contract implementation fee of Rs. 20 million will be payable immediately.

Under the agreement, PTL will be required to pay for a minimum of 700,000 cartons per annum, irrespective of the number of cartons actually purchased. Where the number of cartons purchased exceeds 700,000, PTL will pay for the actual cartons purchased. STL will charge Rs. 3,200 per carton in Year 1.

Option 2: New automated production line

Under this option, PTL will purchase and install a new automated production line immediately at a cost of Rs. 210 million. The production line will have a maximum manufacturing capacity of 650,000 cartons per annum. To meet annual demand in excess of this capacity, PTL will enter into a four-year capacity reservation agreement with a different specialist manufacturer, Lux Tissue Limited (LTL). A non-refundable capacity reservation fee of Rs. 10 million will be payable immediately. Under the agreement, LTL will supply only the number of cartons by which annual demand exceeds the manufacturing capacity of the new production line.

LTL will charge Rs. 3,400 per carton in Year 1. The cash manufacturing cost of cartons produced by PTL is estimated at Rs. 2,900 per carton in Year 1. The production line is expected to have a residual value equal to 25% of its original cost at the end of Year 4.

Additional information
Unless otherwise stated, all manufacturing and outsourcing costs are stated at Year 1 prices and are expected to increase by 5% annually. PTL operates in a Special Economic Zone and is exempt from corporate income tax. PTL depreciates plant and machinery using the reducing balance method at 40% per annum.

PTL's cost of capital is 15%. Unless otherwise stated, all cash flows occur at the end of each year.

Required:
Using the net present value (NPV) technique, evaluate each of the above options and recommend the option that PTL should adopt. **(15 marks)**

Notes:
- ***Ignore any working capital requirements.***
- ***For Option 1, ignore any inventory implications arising from the minimum 700,000-carton commitment where actual demand is below 700,000 cartons.***

QUESTION 9

Nopa Pharmaceuticals Limited (NPL) is a listed company engaged in the manufacture and sale of pharmaceutical products. Since incorporation, NPL has financed its operations entirely through equity.

As at 31 July 2026, NPL has ordinary share capital of Rs. 1,000 million, comprising ordinary shares of Rs. 10 each.

The following information has been obtained from management and other relevant sources:

(i) The current ex-dividend market price of NPL's ordinary shares is Rs. 98 per share.
(ii) NPL's current cost of equity is 17.86% per annum.
(iii) Dividends are expected to grow at 5% per annum in perpetuity.
(iv) The applicable corporate tax rate is 30%.

Proposed expansion
NPL is considering establishing a new manufacturing facility for a specialised range of pharmaceutical products requiring an investment of Rs. 900 million. The proposed project is expected to offer attractive long-term growth opportunities.

The directors are evaluating the following alternatives.

Option 1 – Financing through a rights issue
The entire investment will be financed through a rights issue at Rs. 60 per ordinary share. Under this option, the dividend per share for the next financial year is expected to remain the same as the dividend declared for the current financial year. Thereafter, dividends are expected to grow at 5.8% per annum in perpetuity.

If this option is exercised, the ex-right price of NPL's ordinary shares is expected to be Rs. 93.

Option 2 – Financing through surplus cash
The entire investment will be financed from surplus cash available with NPL. Under this option, the dividend per share for the next financial year is expected to be Rs. 3 lower than the dividend declared for the current financial year. Thereafter, dividends are expected to grow at 6.8% per annum in perpetuity.

If this option is exercised, the current market price would remain the same.

Required:
Using the dividend growth model, recommend which financing option NPL should prefer for the proposed investment. **(08 marks)**

(THE END)