

# Certificate in Accounting and Finance Stage Examination

## Business Insights and Analysis

7 March 2026

100 marks

3 hours and 15 minutes (including 15 minutes' reading time)



### **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.

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### SECTION A

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#### QUESTION 1

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

- (i) A logistics company adopts blockchain technology to record shipment transactions on a distributed ledger. These transactions are validated through network consensus and once recorded, cannot be altered or deleted. This system operates without reliance on a central authority. The primary technological feature of blockchain illustrated in this situation is:
  - (a) Encryption-based control of user access to transaction data
  - (b) Centralised storage and processing of transaction records
  - (c) Decentralisation combined with immutability of transaction records
  - (d) Automation of transactions through high-speed data processing **(01 mark)**
  
- (ii) A company operates in a market where customers can easily switch suppliers, competing companies offer largely similar products, and price competition is intense. The most significant competitive force affecting the company is:
  - (a) Threat of new entrants
  - (b) Bargaining power of customers
  - (c) Bargaining power of suppliers
  - (d) Threat of substitute products **(01 mark)**
  
- (iii) An Islamic bank leases machinery to a client under an Ijarah contract. The lessee delays the rental payments and the bank charges a late payment penalty and records it as its income. From a Shariah perspective, how is this treatment of the penalty viewed?
  - (a) It is not permissible because any amount collected in excess of outstanding debt is considered as riba
  - (b) It is permissible if agreed in the contract
  - (c) It is permissible because rental payments becomes a debt once due
  - (d) It is permissible if the penalty amount is small **(01 mark)**
  
- (iv) A central bank hints that from next year, all digital lenders must maintain a minimum liquidity reserve to continue operating. Although the requirement has not yet been enacted into law, this news immediately influences investor confidence. Under PESTEL analysis, which factor best classifies this development?
  - (a) Technological factor, because it affects digital lending platforms
  - (b) Legal factor, because it will eventually impose compliance obligations on firms
  - (c) Economic factor, because it influences market confidence and capital availability
  - (d) Political factor, because it reflects a policy stance of a public authority **(01 mark)**

- (v) An industry is characterised by high fixed costs, low variable costs, largely undifferentiated products, and excess production capacity across firms. Which competitive force is most intensified under these characteristics?
- (a) Threat of new entrants (b) Bargaining power of suppliers  
(c) Threat of substitute products (d) Rivalry among existing competitors **(01 mark)**
- (vi) Delta Electronics has a product line that operates in a market growing at 18% annually. Delta holds a 30% market share, while the largest competitor holds 25%. Given that 10% is considered as the midpoint for market growth in the BCG Matrix, this product is best classified as:
- (a) Cash Cow (b) Star  
(c) Question Mark (d) Dog **(01 mark)**
- (vii) In a Mudarabah contract, if a loss occurs due to normal business risks and not because of negligence or misconduct, who bears the financial loss?
- (a) The Rabb-ul-Maal only  
(b) The Mudarib only  
(c) Both Mudarib and Rabb-ul-Maal share the loss equally  
(d) The loss is shared according to the pre-agreed profit-sharing ratio **(01 mark)**
- (viii) Which of the following situations most clearly demonstrates the loss of a unique resource, causing it to become a threshold resource?
- (a) A patented production process expires, allowing competitors to legally adopt similar methods  
(b) A company loses its operating licence due to regulatory non-compliance  
(c) A firm upgrades its standard IT systems to align with industry best practice  
(d) A competitor enters the market using lower-cost labour **(01 mark)**
- (ix) A company entered into a 3 v 9 Forward Rate Agreement (FRA) with a bank for a notional principal of Rs. 5 million at 12.4% per annum to hedge its future deposits. If the KIBOR is 13.2% per annum at the end of the third month, what will be the settlement amount?
- (a) Rs. 18,765 payable by the bank (b) Rs. 20,000 payable by the bank  
(c) Rs. 18,765 payable by the company (d) Rs. 20,000 payable by the company **(02 marks)**

## QUESTION 2

NovaWear Ltd (NWL) is a textile manufacturing company that markets itself internationally as a '100% Sustainable Fashion Brand'. NWL's website highlights initiatives such as reduced electricity consumption in its head office, the use of biodegradable packaging, and sponsorship of a national tree-planting campaign.

However, 70% of NWL's garments are produced by overseas suppliers. Recent investigation has revealed that several of these suppliers discharge untreated dye waste into rivers and pay workers below the statutory minimum wage. NWL does not conduct independent audits of its supplier but instead requires them to sign a self-declaration form confirming compliance with environmental and labour laws.

Executive bonuses at NWL are linked solely to revenue growth and profit margins. Sustainability information is disclosed in a two-page summary within the annual report and is not prepared in accordance with any recognised Environmental, Social and Governance (ESG) reporting framework. Management argues that, since NWL's own facilities comply with environmental laws and NWL contributes to environmental campaigns, it is justified in branding itself as a fully sustainable company.

### Required:

- (a) Classify the sustainability-related matters, both positive and negative, in the scenario under the ESG framework. **(04 marks)**
- (b) Discuss whether NWL's claim of being a '100% Sustainable Fashion Brand' is justified, or whether it represents an instance of greenwashing. **(04 marks)**
- (c) Explain the importance of sustainability to NWL and recommend appropriate actions to better align to a recognized sustainability framework. **(03 marks)**

**QUESTION 3**

MedLogix (Pvt.) Ltd (MLPL) operates a specialised cold-chain logistics business that transports temperature-sensitive pharmaceutical products for hospitals and pharmaceutical distributors across Pakistan. MLPL owns a fleet of refrigerated vehicles equipped with GPS tracking and temperature-monitoring systems. MLPL has also developed an in-house logistics management system that provides clients with real-time shipment visibility. MLPL has established a strong reputation for reliability and compliance with pharmaceutical storage standards.

MLPL incurs high operating costs due to fuel-intensive refrigerated transport and regular maintenance of specialised vehicles. MLPL's revenue base is also highly concentrated, as it depends on a small number of large pharmaceutical clients. Expansion into secondary cities has been slow because of a shortage of trained cold-chain technicians.

Demand for pharmaceutical logistics services is expected to increase as regulatory requirements for drug storage and transportation become more stringent. In addition, government health programmes and vaccine distribution initiatives are driving greater demand for reliable cold-chain logistics. However, recent increases in fuel prices have further escalated operating costs. At the same time, new low-cost logistics providers have entered the market, and the regulators have announced plans to impose stricter penalties for cold-chain compliance failures.

**Required:**

- (a) Conduct a SWOT analysis of MLPL based on the information provided. **(07 marks)**
- (b) Using your answer in (a), explain how the strengths of MLPL could be used to address each of the threats identified. *You should clearly link each threat to the relevant strength.* **(03 marks)**

**QUESTION 4**

AquaHeat (Pvt.) Ltd manufactures electric water heaters using a batch production system and follows a standard operating cycle for all production batches. Raw materials received are subject to a mandatory quality inspection lasting two days. Once cleared, materials are issued to production through the central stores department. To manage workload and control overtime costs, the stores department processes material issues once per day at a fixed cut-off time, resulting in an average waiting time of one day between clearance and issue to production.

Manufacturing requires 14 days of actual processing time. At the final stage of production, all units must pass through a sealing station before completion. Due to limited capacity, the sealing station processes batches sequentially, resulting in an average waiting time of one day before sealing can commence.

After production is completed, finished goods undergo a mandatory safety certification process lasting two days. Once certification is completed, dispatch documentation is prepared, which requires one day to finalize. Dispatch takes place immediately upon completion of documentation.

To improve the operating cycle, management is considering the following three independent options:

- (i) Removing the cut-off time so that all cleared materials are issued to production on the same day as clearance.
- (ii) Installing an additional sealing machine.
- (iii) Preparing dispatch documentation during the certification period.

Management desires to implement the most economical and least disruptive solution.

**Required:**

- (a) Identify the primary value chain activities of AquaHeat. **(04 marks)**
- (b) Recommend the most appropriate option to management for improving the operating cycle. *Your answer should include clear reasons for the recommendation.* **(07 marks)**

**QUESTION 5**

AlphaMed (Pvt.) Ltd manufactures medicines for government hospitals. An internal compliance review revealed that a recently supplied batch of medicine does not comply with updated regulatory labelling requirements. However, the medicines are clinically safe and no adverse effects have been reported.

The regulatory authority is currently unaware of the non-compliance. Disclosing the non-compliance would require a product recall, resulting in a significant financial loss for the company. If the matter is not disclosed, the company's profits will remain unaffected. Management maintains that, in light of the substantial financial impact, disclosure would not be in company's best interest.

**Required:**

Using the Tucker 5-Question model, evaluate whether the non-compliance should be disclosed. **(06 marks)**

**SECTION B****QUESTION 6**

Gloria Beverages Limited (GBL) is a listed company engaged in the manufacture and sale of soft drinks. GBL has a proven track record of paying consistent and steadily growing dividends. The following information has been extracted from GBL's financial statements as at 31 December 2025:

	<b>Rs. in million</b>
Ordinary share capital (Rs. 10 each)	800
15% irredeemable preference shares (Rs. 100 each)	200

**Additional information:**

- (i) A dividend of Rs. 8 per ordinary share has just been announced.
- (ii) Dividends are expected to grow at 5% per annum in perpetuity.
- (iii) The current market price of ordinary shares is Rs. 78 (cum-dividend) per share, while market price of preference share is Rs. 150 per share.
- (iv) The risk-free rate of return is 10% and the market risk premium is 6%.
- (v) The applicable corporate tax rate is 30%.

**New investment proposal**

GBL is considering a new investment to expand its operations. The project is expected to raise the GBL's overall business risk above its current level. As a result, the revised equity beta after undertaking the investment is estimated to be 1.3.

To finance the project, management is considering the following two alternative financing options:

- (i) A 1-for-4 rights issue of ordinary shares at a premium of Rs. 40 per share.
- (ii) An issue of 12% redeemable preference shares of Rs. 100 each, sufficient to raise funds equivalent to the rights issue. These shares will be redeemed after 4 years at a 20% premium.

**Required:**

- (a) Calculate GBL's current weighted average cost of capital (WACC). **(05 marks)**
- (b) Based on the revised WACC, recommend which financing option should be adopted for the proposed investment. **(08 marks)**

**QUESTION 7**

Assume that the date today is **1 June 2026**.

Stellar Textiles Ltd. (STL), a Pakistani exporter, expects to receive USD 1,500,000 from a European customer on 30 September 2026. STL is exposed to foreign exchange risk due to potential fluctuation in the PKR/USD exchange rate. Management is considering alternative hedging strategies to manage this exposure.

**Market Data:**

- **Spot exchange rate (1 June 2026):** PKR 280 per USD
- **Currency futures:**

Future	Rate (PKR/USD)	Contract size	Transaction cost per contract
September	282.5	USD 50,000	Rs. 1,000
October	283.0	USD 50,000	Rs. 1,000

- **Currency options:**

Option type	Strike price (PKR/USD)	Contract size	Premium per contract	Exercise fee per contract
Call	285.0	USD 100,000	Rs. 55,000	Rs. 7,500
Put	283.5	USD 100,000	Rs. 60,000	Rs. 7,500

- **Expected spot rate on 30 September 2026:** PKR 282.75 per USD

**Required:**

Advise STL on the most appropriate hedging strategy for managing its foreign exchange exposure, including a no-hedge strategy, and justify your recommendation based on effective exchange rates. **(09 marks)**

**QUESTION 8**

Novatech Industries (NTI) is considering the launch of a new battery product, SunVault, designed for the commercial solar energy storage market. The following information has been compiled to support the investment appraisal of the proposed project:

- (i) The project requires an initial capital investment of Rs. 250 million to establish the production facility. This amount includes Rs. 15 million incurred last year on feasibility studies and prototype testing.
- (ii) An initial working capital investment of Rs. 40 million is required at the start of the project, of which 75% will be recovered at the end of Year 5.
- (iii) The production facility has a maximum annual capacity of 9,000 units. Expected demand in Year 1 is 6,000 units, increasing thereafter at 12% per annum.
- (iv) The selling price in Year 1 is Rs. 45,000 per unit, increasing at 8% per annum. Variable production costs are Rs. 30,000 per unit in Year 1, increasing at 6% per annum.
- (v) Annual fixed operating costs related to this project are Rs. 20 million, increasing at 10% per annum.
- (vi) NTI currently sells an existing battery product, PowerCell, generating a contribution margin of Rs. 12,000 per unit at current prices. The launch of SunVault is expected to reduce PowerCell sales by 1,000 units per year, with the lost contribution margin increasing at 5% per annum throughout the project's life cycle.
- (vii) The SunVault facility can generate additional rental income by leasing idle testing and calibration facilities, amounting to Rs. 10 million in Year 1, increasing at 9% per annum.
- (viii) Depreciation for tax purposes will be charged at 40% per annum on a reducing balance method. The project qualifies for a three-year tax holiday, after which profits will be taxed at 30%. Taxes are payable in the year they arise, and tax losses during tax holiday cannot be carried forward.
- (ix) The production facility will have a residual value of 40% of its original cost at the end of Year 5.
- (x) NTI's cost of capital is 18%, and unless stated otherwise, all cash flows occur at the end of each year.

**Required:**

Using the net present value method, evaluate whether NTI should proceed with the SunVault project.

**(15 marks)**

**QUESTION 9**

SafeStep Footwear Limited (SFL) manufactures a popular brand of industrial safety shoes in Pakistan and is planning to expand its production facilities in order to meet the increasing market demand. Currently, SFL produces and sells 280,000 pairs of shoes per annum. The current cost and selling price per pair of shoes are as follows:

Particulars	Rupees
Selling price (inclusive of 18% sales tax)	13,920
Raw materials (inclusive of import duty)	3,750
Packing material	420
Direct labour cost	1,680
Variable manufacturing overheads	720
Fixed manufacturing overheads	2,050
Variable selling overheads	540
Fixed selling overheads	310
Fixed administrative overheads	460

**Additional information:**

- (i) Raw materials are imported from foreign suppliers on 45-day credit term, with import duty of 10% of C&F value payable on arrival. Packing materials are purchased locally on 30-day credit term.
- (ii) Direct labour are paid in the month they are incurred, while manufacturing, selling and administrative overheads are paid 30 days after incurrence. The production process takes 20 days; raw materials are issued at the start of the process, packing materials are added at the end, and conversion costs are incurred evenly throughout the process. On average, work-in-process is 50% complete.
- (iii) Approximately 65% of sales are made for cash, while the remaining 35% are credit sales to corporate customers, which are normally settled after 90 days. Sales tax is payable 30 days after the sales.
- (iv) To ensure uninterrupted production, SFL maintains inventories equivalent to 75 days of raw materials, 15 days of packing materials, and 30 days of finished goods. A minimum cash balance of Rs. 3.20 million is maintained at all times.
- (v) Total fixed manufacturing overheads include depreciation amounting to Rs. 80 million.
- (vi) SFL's current working capital requirement is estimated at Rs. 512.40 million.

**Expected changes due to expansion:**

- (i) Annual production and sales are expected to increase to 390,000 pairs.
- (ii) Credit sales are expected to reduce to 25% of total sales.
- (iii) Total fixed manufacturing overheads will increase by Rs. 85 million per annum (inclusive of depreciation of Rs. 20 million).
- (iv) Additional sales promotion expenses of Rs. 21.60 million per annum will be incurred.
- (v) The minimum cash balance requirement will increase to Rs. 4.75 million.
- (vi) There is no change in total fixed selling and total fixed administrative overheads.

**Required:**

Compute the revised working capital requirement arising from proposed expansion of production. Assume a 360-day year. **(15 marks)**

**(THE END)**