THE INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN

EXAMINERS' COMMENTS

SUBJECT	**SESSION**
Business Finance Decisions	Certified Finance and Accounting Professional (CFAP) Examination Summer 2024

Passing %

Question-wise					Overall
1	2	3	4	5	25%
31%	11%	15%	46%	39%	

General comments

The result has slightly declined by 3% in this attempt, mainly due to below-average performances in Q.2 and Q.3. In addition, 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. Many examinees struggled not due to a lack of knowledge, but due to poor examination techniques. They provided unnecessarily lengthy answers at the beginning, which left insufficient time for the easier parts of the questions attempted later.

Question-wise common mistakes observed

Question 1(a)

- Revenue and operating costs calculations were started from year 1 instead of year 3. Consequently, calculations were made for five or seven years instead of just three years.
- Operating expenses were taken as 10% of revenue instead of 1%.
- The impact of inflation was considered from year 3 onwards.
- Working capital figures were calculated wrongly and placed in the wrong years.
- Sunk/irrelevant costs were considered in NPV computation.
- Terminal value was calculated by discounting the estimated future inflows.
- While computing MIRR, cashflows in the return phase were either not compounded or compounded at a rate other than 12%. Similarly, cashflows in the investment phase were either not discounted or discounted at a rate other than 12%.
- Many did not show how they had computed the IRR and MIRR and hence lost all marks, as they arrived at incorrect percentages. Had they shown the calculations, they could have received a major portion of the marks based on their calculations.

Question 1(b)

- While assessing the financial aspects, three things were relevant i.e., NPV, IRR, and MIRR but most of the examinees mentioned only one of the three.
- The non-financial aspects were covered in sufficient detail within the question itself. Examinees were expected to select and note down these points, yet surprisingly, most mentioned only one or two, and many did not provide any at all.

Question 1(c)

- Pros and cons of raising each type of finance were not discussed.
- Alternative sources such as joint venture and state investment were not mentioned at all.

Question 2(a)

- Inventory ratios were calculated for a company in the service industry.
- Multiple ratios evaluating the same aspect of business were calculated such as receivables turnover in days and receivables turnover in times, whereas only one ratio was enough to evaluate the company's position.
- While commenting on ratios only decline or improvement was mentioned without explaining the underlying cause and effect of these changes.

Question 2(b)

Most examinees did not understand the concept of KPIs and instead provided general suggestions for improving the entity's performance.

Question 2(c)

- Decline in gross profit margin was not mentioned as the reason for liquidity problems.
- Too much emphasis was put on the collection of receivables and reducing the inventory despite the fact that even reducing them to zero would not have significantly improved the company's liquidity position.
- Seeking more time for payment to creditors was mentioned while failing to grasp that payable already represented 106 days of cost of sales.

Question 3(a)

- The requirement was to advise the Board, yet a large number of examinees simply made calculations with either no or very few comments.
- Certain valuation was recommended without discussing or explaining why the figure arrived through that particular valuation technique was being recommended and the others were ignored.
- Instead of calculating P/E-based values separately on the latest earnings as well as forecasted earnings, only one of these was taken into calculation.
- In the cash flow method, the process of de-gearing and re-gearing was not performed or errors were made in doing so.
- In arriving at the value under the cash flow method, growth was ignored.
- While computing growth rate, forecasted profit was also taken into account.

Question 3(b)

- General answers on how a swap arrangement works were produced, ignoring the situation given in the question.
- Various hedging techniques other than swap arrangements were explained, which were totally irrelevant.

Question 4(a)

- The formula for the standard deviation of the portfolio was applied incorrectly.
- Under CAPM, the betas were not averaged out to compute the return on the portfolio with P or Q.

Question 4(b)

- Examinees recommended any one of the two methods without giving any justification or just saying that this is a more relevant theory and/or more modern theory.
- An important point that very few examinees could identify was that QCI was an investment company and hence it was more likely that it already has a diversified portfolio and therefore it seems appropriate for it to consider only the systematic risk and not the total risk.
- Moreover, very few examinees could identify that since in the option with a higher return, the risk was also higher and vice versa, the decision would depend on the level of risk that is acceptable for the business.

Question 5

- The explanation of the different hedging techniques and their appropriateness for the given situation was ignored.
- The fact that the bank would charge 1% above the EUR borrowing rate was mostly ignored. The situation became worse when the same was considered in some calculations but ignored for the rest of the calculations.
- Calculations were not based on a 2-year period.
- In the case of futures, the number of contracts and gain/loss on futures were computed incorrectly.
- Option premium was computed for five months whereas the rest of the calculations were carried out for 2 years. Moreover, in many cases, the call option was considered instead of the put option.

(THE END)