THE INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN

Certified Finance and Accounting Professional Stage Examination

Strategic Business Finance

Examiners' Comments **Autumn 2026**

PASSING %

Question-wise					Overall
1	2	3	4	5	
53%	49%	17%	52%	15%	27%

GENERAL COMMENTS

The pass rate in the Autumn 2026 Strategic Business Finance examination was slightly lower than the previous session. The lower performance may partly be attributed to the currency swap question, which involved cross rates and the exchange of principal and interest payments and showed below-average performance.

In addition, examinees demonstrated competence in the numerical aspects of the questions but faced challenges with theoretical and analytical questions. They are strongly advised to practice exam-style questions that require analytical responses.

QUESTION-WISE COMMON MISTAKES OBSERVED

Question 1(a)

- Expected revenue was recognised from 2027 instead of 2028.
- Development costs payable in December 2026 were included in year 0 or year 1 instead of year 0.5.
- Working capital was calculated as 10% of revenue in each year instead of reflecting the incremental working capital required from year 2 onwards.

- The initial investment for the ARR calculation did not include the Rs. 500 million incurred on the initial development work and meeting, despite the information provided in the question.
- Amortisation of development costs and depreciation of manufacturing equipment were not taken into account when calculating average annual accounting profit.
- Average annual accounting profit was calculated over five years instead of the four operating years.

Question 1(b)

- The relevant net cash flows were not discounted.
- The tax impact on the relevant cash flows was not taken into account.
- The sensitivity result was interpreted incorrectly.
- The NPV was recalculated using revenue reduced by 15%, instead of calculating the percentage reduction in selling price that would reduce NPV to zero.

Question 1(c)

- The answers were limited to stating only one limitation each of the expected values and sensitivity analysis.

Question 2(a)

- Incremental support costs were included from year 1 instead of from year 2 in the replacement-cycle analysis.
- The residual value at the end of year 4 was omitted when calculating the tax savings on depreciation for the four-year replacement cycle.
- Equivalent annual cost was not calculated. Instead, the conclusion was based on NPV or on dividing NPV by four or five, which does not determine equivalent annual cost.
- The cumulative discount factor was calculated incorrectly.

Question 2(b)

- Like the replacement cycle, incremental support costs were included from year 1 instead of from year 2.

- The residual value of the laptops was included in the lease option, although it was relevant to the purchase option only.
- Depreciation of the laptops was included in the lease option.
- Lease payments were included from year 1 to year 4 instead of from year 0 to year 3.
- Tax savings on lease payments were recognised from year 0 to year 3 instead of from year 1 to year 4.
- Under the purchase option, the loan proceeds were incorrectly treated as a cash inflow in year 0 and loan repayments as subsequent cash outflows. Moreover, interest cash flows were also included.
- A discount rate of 12% was used instead of the post-tax borrowing rate.

Question 2(c)

- The answers were limited to only one or two factors, and financial factors were also discussed.

Question 3(a)

- The cost of debt was not calculated and, consequently, WACC was not determined.
- The cost of equity was calculated without incorporating the country risk premium (CRP).
- The equity beta of Bueve Limited was used directly to determine the beta for Nixe Limited. It should first have been ungeared to derive the asset beta for the cocoa industry and then regeared using Nixe Limited's gearing.

Question 3(b)

- The currency swap arrangements were explained incorrectly.
- The principal amounts to be exchanged under the swaps were calculated incorrectly.
- The requirement to re-exchange the principal amounts at the end of the swap was not addressed. The explanation should also have clarified that Nixe Limited would remain liable to repay its original domestic PKR loan.
- Only one swap fee of 0.25% was included; the fee on the second swap was omitted.

Question 4

- Expected receipts and payments due at the end of December 2026 were not offset. Consequently, unnecessary and lengthy hedging calculations were performed for both receipts and payments.
- The direct and indirect exchange-rate quotations were confused, resulting in incorrect USD amounts.
- For the money market hedge, EUR was not borrowed, and USD was not invested as required; instead, USD was borrowed, and EUR was invested.
- The futures hedge was structured incorrectly by recommending a purchase now followed by a sale later.
- The number of futures contracts was calculated incorrectly.
- The loss on the futures position was calculated incorrectly and, in some cases, was treated as a gain.
- A call option was selected instead of the appropriate put option.
- Interest on the amount borrowed to finance the option premium was omitted.
- The surplus USD balance under each of the hedging techniques was not converted into PKR.
- The June 2026 spot rate was used to convert the surplus USD into PKR.

Question 5(a)

- Net assets adjusted to a break-up basis were not calculated.
- The price-to-earnings ratio of Sound was not adjusted to reflect the lack of liquidity.
- The industry asset beta was not calculated. Instead, Sound's equity beta was used directly to determine the cost of equity and discount rate.
- Big Cat's after-tax earnings for 2026 were included in the discounted cash flow valuation, although they should not have been included in the forecast cash flows as presented.

Question 5(b)

- Considerations other than the current and expected market value of the shares were not discussed.

- Incorrect implications and tax treatments were discussed.

Question 5(c)

- Sound's gearing ratio was discussed without calculating the expected gearing ratio after the acquisition.
- Incorrect advantages of the proposed acquisition were identified.

(THE END)