

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN
EXAMINERS' COMMENTS

SUBJECT Management Professional Competence	SESSION Multi-Subject Assessment – 2 Examination (MSA-2) – Winter 2023
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Passing %

Question-wise													Overall
1(a)	1(b)	1(c)	1(d)	1(e)	1(f)	2(a)	2(b)	2(c)	3(a)	3(b)	3(c)	3 (d)	42%
64	72	26	61	70	2	63	64	6	58	16	28	67	

General comments

The passing percentage in this session has marginally increased to 42% as compared to 40% in the previous session. However, it has remained above the average for the last five sessions. In this session, a weak performance was observed in the areas of taxation and financial risk management (1f and 2c). This was offset by a comparatively better performance in the questions related to financial and performance management (1b, 2b, and 3d).

Question-wise common mistakes observed

Question 1(a)

Examinees were not able to determine how the floating charges created on assets of IVS would affect the distribution of funds in the event of the company's liquidation. Hence, examinees were not able to calculate the total amounts that Sahiwal Bank Limited and Faisalabad Bank Limited would receive in the event of IVS's liquidation.

Question 1(b)

Most of the examinees did not deduct interest expense from the operating profit while determining profit before tax. Due to this fundamental oversight, the examinees were unable to establish an accurate estimate of the valuation of IVS's ordinary shares.

Question 1(c)

- Examinees concluded that both Sahiwal Bank Limited and Faisalabad Bank Limited would be unlikely to accept the proposed reconstruction, as it would entail a reduction in their payable amounts. However, the examinees failed to appreciate that the reconstruction offered a higher risk / higher return alternative to liquidation for both banks.

- Examinees did not offer any analysis/discussion regarding the acceptability of the proposed reconstruction from the perspective of the shareholders as well as trade and other creditors.

Question 1(d)

Good performance was observed in this part of the question. However, some of the responses were generally restricted and identified just one or two potential causes of resistance, neglecting the main causes such as new learning curves, fear of the unknown, and seasonal working.

Question 1(e)

Examinees were unable to conclude that despite the costs involved, establishing a new and distinct online brand would probably maximize the chances of being successful. Additionally, this approach would effectively distance the online business from the current offline business, which has been subject to recent supply and legal problems.

Question 1(f)

- Examinees did not discuss the income tax and sales tax implications on the mulberry plantation as they failed to recognize it as agricultural income.
- Examinees further failed to delve deeper that IVS might be subject to income tax on other income streams associated with the silk crop.
- Most of the examinees were not able to recognize that the financial restructuring would lead to a debt waiver, which is subject to income tax.

Question 2(a)

Examinees did not offer a well-rounded discussion on the application of MM theory and the traditional approach. Furthermore, examinees failed to calculate the impact on gearing if the investment were to be financed by debt.

Question 2(b)

- Examinees were not able to accurately determine the projected share price at conversion and the post-tax IRR.
- Examinees failed to identify that the convertible bonds, being listed, would be more attractive to the investors due to their marketability. This could be used to lower the coupon rate.

Question 2(c)

- Many examinees overlooked that the forward rate agreement (FRA) would guarantee a base rate of 16% resulting in an eventual guaranteed net cost of 22%.
- Examinees also failed to recognize that the interest rate swap (IRS) was exercisable over 12 months and not the entire 5 years duration, deciding to choose IRS challenging.

Question 3(a)

- Examinees were not able to distinguish between social and human capital, often including relationships with employees as part of social capital.

- With regard to financial capital, examinees solely focused on calculating variation amounts without adequately highlighting the probable causes behind the differences.

Question 3(b)

- Many examinees only presented the advantages of an ERP system while an evaluation requires discussing both the pros and cons.
- Examinees repeatedly highlighted the same reporting advantages of the ERP system again and again, while ignoring some crucial benefits such as 'one source' and 'consistency of process'.

Question 3(c)

Examinees failed to touch upon any of the arguments in favor of a 'softened' presentation of the negative aspects in the integrated report. Considering that the examinees were required to evaluate the situation, a complete response should have been given thereby encompassing both aspects.

Question 3(d)

Examinees demonstrated good performance in this part of the question; however, they failed to discuss the significant disadvantage of offering early settlement discounts to only a small number of large customers.

(THE END)