

# Business Finance Decisions

**2006**

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# THREE STEPS TO SUCCESS IN BFD PAPER

**1. PLANNING**

**2. PREPARATION**

**3. ATTEMPTING THE PAPER**

# Seminar Objectives

## 1. PLANNING

- BFD COURSE MATERIAL
- PRACTICE MATERIAL

## 2. PREPARATION

- COURSE COVERAGE
- TIME ALLOCATION
- KEY AREAS TESTED BY THE EXAMINER
- MOCK EXAMINATIONS

## 3. ATTEMPTING THE PAPER

- TYPES OF PAPER
- HOW TO ATTEMPT THE PAPER
- COMMONLY MADE MISTAKES

# 1. PLANNING – Course Material and Practice Material



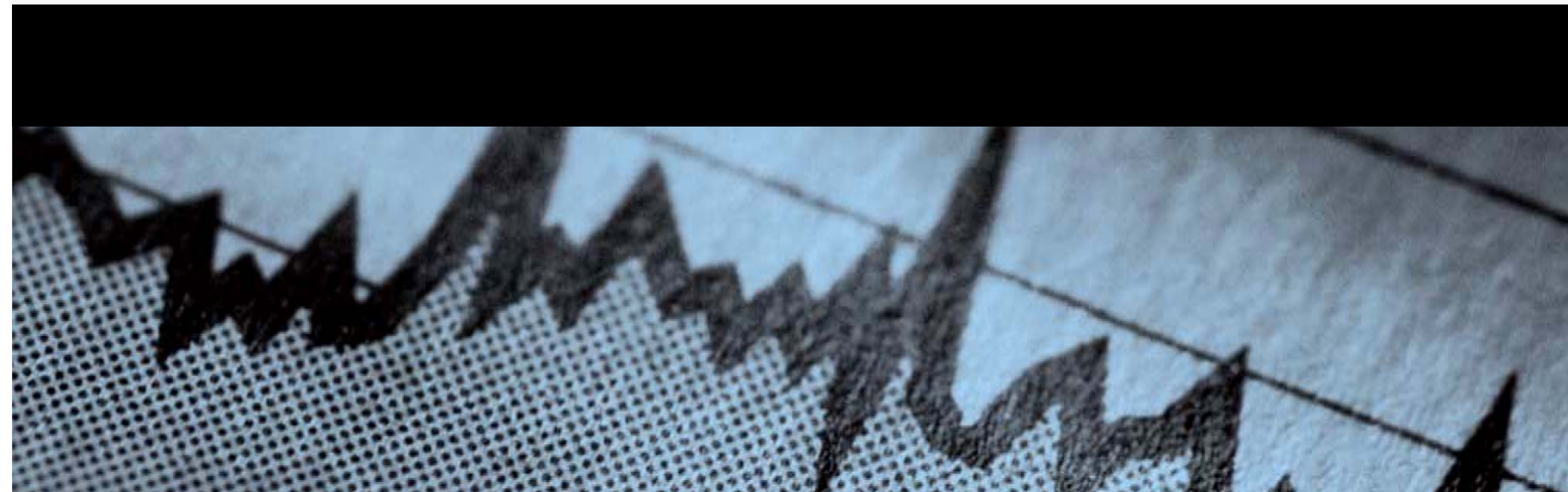
## Course Material

1. CA BPP Study Text
2. ACCA BPP 3.7 Study Text
3. ACCA FOREX Articles by Nigel Brown
4. Net Open Position Guidelines issued by SBP
5. Prudential Regulations

## Practice Material

- 1. CA BPP Revision Series**
- 2. Last 10 solved attempts of CA BFD Papers**
- 3. Chart Foulks Lynch 100 Q and A – Financial Management**
- 4. ICAEW (Collection of past paper questions)**
- 5. ACCA 3.7 Revision series (BPP / ATFL)**
- 6. ACCA latest attempts not incorporated in revision series**
- 7. Questions on Capital Budgeting by Khalid Pettiwala**

## **2. PREPARATION – COURSE COVERAGE, KEY AREAS, TIME ALLOCATIONS**



# COURSE OVERVIEW – 8 major areas

BFD

COST OF CAPITAL

CAPITAL BUDGETING

FOREIGN EXCHANGE AND  
INTEREST RATE RISK  
MANAGEMENT

VALUATION

PRUDENTIAL REGULATIONS,  
NOP GUIDELINES

REORGANISATION,  
TAKEOVERS

DIVIDEND DECISIONS

WORKING CAPITAL  
MANAGEMENT

# COURSE OVERVIEW

## COST OF CAPITAL – 47 HOURS

TOPIC	TO BE COVERED FROM	TIME
WEIGHTED AVERAGE COST OF CAPITAL	ACCA 3.7 STUDY TEXT	8 HOURS
PORTFOLIO THEORY	ACCA 3.7 STUDY TEXT	8 HOURS
CAPITAL ASSET PRICING MODEL	ACCA 3.7 STUDY TEXT	6 HOURS
THEORIES OF GEARING – CLASSICAL VS MM	ACCA 3.7 STUDY TEXT	10 HOURS
DETERMINATION OF APPROPRIATE DISC RATE	ACCA 3.7 STUDY TEXT	10 HOURS
ARBITRATION	ACCA 3.7 STUDY TEXT	5 HOURS

# COURSE OVERVIEW

## CAPITAL BUDGETING – 28 HOURS

TOPIC	TO BE COVERED FROM	TIME
PROJECT APPRAISAL USING DCF	CA BPP STUDY TEXT (CHAPTER 11 -14)	5 HOURS
PROJECT APPRAISAL NOT USING DCF	CA BPP STUDY TEXT (CHAPTER 11 -14)	4 HOURS
UNCERTAINTY AND RISK ANALYSIS	CA BPP STUDY TEXT (CHAPTER 11 -14)	4 HOURS
ASSET REPLACEMENT DECISIONS	CA BPP STUDY TEXT (CHAPTER 11 -14)	4 HOURS
LEASE VS BUY DECISIONS	CA BPP STUDY TEXT (CHAPTER 11 -14)	4 HOURS
CAPITAL RATIONING	CA BPP STUDY TEXT (CHAPTER 11 -14)	7 HOURS

# COURSE OVERVIEW

## FOREX AND IRR – 28 HOURS

<b>TOPIC</b>	<b>TO BE COVERED FROM</b>	<b>TIME</b>
<b>Foreign currency hedging</b>	<b>ACCA 3.7 Study text</b>	<b>10 hours</b>
<b>Interest rate hedging</b>	<b>ACCA 3.7 Study text</b>	<b>8 hours</b>
<b>SWAPS</b>	<b>ACCA 3.7 Study text</b>	<b>6 hours</b>

# COURSE OVERVIEW

## BUSINESS VALUATION – 10 HOURS

TOPIC	TO BE COVERED FROM	TIME
VALUATION METHODS	ACCA 3.7 study text	5 HOURS
APPLICATION (MAJORITY VS MINOR SHAREHOLDER)	ACCA 3.7 study text	5 HOURS

## KEY AREA RATIONALE

<b>ATTEMPT</b>	<b>MARKS FROM 4 KEY AREAS</b>
<b>DECEMBER 2005</b>	<b>85</b>
<b>JUNE 2005</b>	<b>75</b>
<b>DECEMBER 2004</b>	<b>70</b>
<b>TOTAL HOURS ALLOCATED</b>	<b>109</b>

# COURSE OVERVIEW – OTHER AREAS

## OTHER AREAS – 31 HOURS

TOPIC	TO BE COVERED FROM	TIME
PRUDENTIAL REGULATIONS	ISSUED BY SBP	5 HOURS
NET OPEN POSITION GUIDELINES	ISSUED BY SBP	4 HOURS
REORGANISATION, TAKEOVERS	CA BPP / ACCA	6HOURS
CORPORATE DIVIDEND POLICY	ACCA	4 HOURS
WORKING CAPITAL MANAGEMENT	CHART FOULKS LYNCH 100 Q and A / MA	12 HOURS

# THE IMPORTANCE OF THEORY

- WHEN PREPARING FOR THE EXAM **DON'T** IGNORE THEORY.
- GOING OVER THEORY AGAIN AND AGAIN
- KNOWING THE ASSUMPTIONS AND WEAKNESSES OF EACH MODEL, EVALUATION TECHNIQUE TO BE USED.
- MEMORISING THE ASSUMPTIONS WILL HELP YOU EVALUATE AND APPLY EACH MODEL
- THEORY BASED QUESTIONS REPRESENT EASY AND QUICK MARKS – DRASTICALLY IMPROVE RESULT

## The importance of theory

<b>ATTEMPT</b>	<b>MARKS</b>
<b>DECEMBER 2005</b>	<b>13</b>
<b>JUNE 2005</b>	<b>20</b>
<b>DECEMBER 2004</b>	<b>21</b>

## STAYING ORGANIZED

- 1. FORMULA SHEETS FOR QUICK REVISION**
- 2. ALL COURSE MATERIAL AND PRACTICE MATERIAL**
- 3. FILE ALL WORK ACCUMULATED IN A FILE**
- 4. PREPARE A LIST OF IMPORTANT QUESTIONS**
- 5. AREAS TO BE REVISITED TO BE MARKED**
- 6. THEORIES TO BE LEARNED TO BE MARKED IN BOOK**

## WHAT DID THIS QUESTION TEACH YOU?

QUESTION NUMBER	REFERENCE MATERIAL	IMPORTANT THINGS TO REMEMBER IN RELATION TO THIS QUESTION
QS 1	ICAEW	IF MORE THAN ONE ELEMENT OF DEBT OR EQUITY THE WEIGHT OF EACH ELEMENT SHOULD BE INCORPORATED IN THE COMPUTATION OF WACC

# MOCK EXAMINATIONS

- **ATLEAST 10-15 DAYS BEFORE THE END OF THE LEAVE  
CONDUCT REAL TIME MOCK EXAMINATIONS**
- **SIMULATING EXAM CONDITIONS**
- **SELF ASSESSMENT**
- **IDENTIFYING WEAK AREAS**
- **WORKING ON WEAK AREAS**
- **GOING THROUGH THE EXAMINER COMMENTS**
- **ACTUALLY ATTEMPTING THE QUESTIONS AND NOT JUST GOING  
THROUGH THE SOLUTIONS**

### **3. ATTEMPTING THE PAPER**



## **EXAMINATION TECHNIQUES**

**The paper is generally difficult and controlling the anxiety is the key**

**If the paper is difficult it is same for all the students and therefore the difficult questions in the paper do not determine your success.**

**However if you get the easy questions wrong you will loose easy marks and therefore you will not be able to pass.**

# EXAM TECHNIQUES

1. SCAN THE PAPER
2. PRIORITIES – EASIER ONES FIRST
3. TIME MANAGEMENT – MARKS VS TIME
4. UNDERSTANDING THE REQUIREMENTS OF EACH QUESTION
5. THINK
6. ASSUMPTIONS
7. WORKINGS AND PRESENTATION
8. ADEQUATE REST
9. DIFFICULT QUESTION
10. **STAYING CALM, COOL AND COLLECTED**

# 10 MOST COMMONLY MADE MISTAKES AND AVOIDANCE

- 1. APPLYING THE INCORRECT EVALUATION TECHNIQUE**
- 2. GETTING STUCK OVER A SINGLE QUESTION**
- 3. NOT CLEARLY STATING THE ASSUMPTIONS USED**
- 4. PANIC AND PRESSURE HANDLING**
- 5. NOT BEING QUICK ENOUGH**
- 6. NOT RESTING ADEQUATELY BEFORE THE PAPER**
- 7. THE PAPER IS 2 PM TO 5 PM ENSURE THAT YOU PRACTICE DURING THE LEAVE AT THESE TIMES**
- 8. NOT PLANNING BEFORE ATTEMPTING THE QUESTION**
- 9. PRESENTATION AND WORKINGS NOT CLEARLY SHOWN**
- 10. NOT USING SHORT CUTS IN COMPUTATIONS**

# DISCUSSING THE DECEMBER 2005 ATTEMPT

QUESTION NUMBER	TYPE	IMPORTANT POINTS
QS 1	FOREX	<ul style="list-style-type: none"><li>-Recognising that the premium had to be deducted and it was given in cents</li><li>-The various hedging strategies to be used i.e no hedging, mm hedge, forward foreign exchange contract, pay now</li></ul>

# DISCUSSING THE DECEMBER 2005 ATTEMPT

QUESTION NUMBER	TYPE	IMPORTANT POINTS
QS 2	NPV	<b>-Identifying the relevant and non-relevant cash flows and stating the reason for not accounting for certain cash flows in the question</b>

# DISCUSSING THE DECEMBER 2005 ATTEMPT

QUESTION NUMBER	TYPE	IMPORTANT POINTS
QS 3	Valuation	<ul style="list-style-type: none"><li>-Accounting for the reduction in earnings and the inflow relating to the department that was sold.</li><li>-The weighted average P/E ratio of the target and predator company was to be computed.</li></ul>

# DISCUSSING THE DECEMBER 2005 ATTEMPT

QUESTION NUMBER	TYPE	IMPORTANT POINTS
QS 4	Valuation	<b>-Computing the discount rate and giving the definition for the free cashflows could earn you easy marks</b>

## LEVEL OF DIFFICULTY OF QUESTIONS – DEC 2005

Question number and Type	Marks	Level of difficulty and Performance
1. FOREX HEDGING	14	AVERAGE
2 INVESTMENT APPRAISAL	22	AVERAGE
3 BUSINESS VALUATION	14	POOR PERFORMANCE
4 SHAREHOLDER VALUE ANALYSIS	23	VERY DIFFICULT / POOR PERFORMANCE
5 ASSET REPLACEMENT DECISIONS	12	ABOVE AVERAGE
6 BUSINESS VALUATIONS	15	AVERAGE

# MY VIEWS AND OPINION



## **My views and opinions**

- **ALL COURSE MATERIAL, STUDY TECHNIQUES, KEY AREAS EMPHASIZED DURING THIS SEMINAR REPRESENT MY VIEW POINT AND NOT THAT OF ICAP.**
- **THE INSTITUTE DOES NOT PRESCRIBE A PARTICULAR PUBLISHER ALTHOUGH RECOMMENDED COURSE MATERIAL LIST IS AVAILABLE IN THE YELLOW BOOK.**

**THANK U!!!!**

**Thank u for attending the seminar  
and best of luck for the exams!!!**