

INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN

EXAMINERS' COMMENTS

SUBJECT	SESSION
Business Finance Decisions	Certified Finance and Accounting Professional (CFAP) Examination - Summer 2019

Passing %

Question-wise					Overall
1	2	3	4	5	
43%	57%	21%	60%	15%	30%

General comments

The overall passing ratio i.e. 30% was slightly better as compared to 27% in the previous attempt. Relatively weak performance in question no. 3 and 5 were attributed to lack of practice and/or conceptual understanding of the topics. Further, it was commonly observed that examinees did not read the questions carefully and started answering the question. This resulted in loss of some easy marks. Examinees are advised to effectively utilize the 15 minutes additional reading time and highlight/underline the relevant information. This would not only save time but would also help in immediate identification of relevant information.

Question-wise common mistakes observed

Question 1(a)

- Instead of using combined WACC of YL and WL, separate YL's WACC was used for discounting the free cash flows. Some examinees incorrectly used combined cost of equity for discounting the free cash flows.
- Industry beta was used for computing cost of equity instead of using beta of relevant companies.
- Cost of irredeemable debentures was either ignored or incorrectly computed.
- Coupon rate was used as cost of TFCs instead of using IRR of loan cash flows.
- In order to determine equity value of merged entity, value of debts i.e. TFCs and debentures, were not deducted from value of merged entity.

Question 1(b)

Most of the examinees discussed only two or three factors that directors and shareholders of both companies may consider and left their answers incomplete. Further, many examinees wrote same factor with different wordings and wasted their time.

Question 2(a)

- Under overhauling of machine option, book value of machine was ignored while computing depreciation.
- Under replacement of machine option:
 - disposal value of old machine was ignored in initial investment.
 - tax savings related to loss on disposal of old machine was ignored.
 - maintenance cost was not computed correctly.
- Under both options (overhauling as well as replacement), residual values were accounted for without taking into account the impact of inflation.

Question 2(b)

- Under sub-part (i):
 - tax savings in respect of maintenance cost was ignored.
 - in order to determine sensitivity, incorrect figures were used for numerator and denominator.
- Sub-part (ii) was left incomplete after showing some irrelevant or meaningless workings. Please refer ICAP's suggested answer for detailed guidance.

Question 3

- Credit sales of customers availing 2% and 3% discount were determined incorrectly. Either incorrect algebraic equation was formed or equation was solved incorrectly.
- In order to determine economic order quantity, annual demand was not computed correctly.
- Opening and closing inventories of finished goods were not adjusted in cost of goods sold to determine total manufacturing cost.
- Opening and closing inventories of raw material were not adjusted in material consumed to determine purchases of raw material.
- Working capital requirement was computed based on last year's figures.
- Instead of computing the closing raw material using EOQ model, increase in demand % i.e. 32% was applied on opening raw material inventory.

Question 4(a)

Under hedging through currency options:

- JPY 500 million was not converted into PKR to determine number of contracts.
- call option instead of put option was considered.
- finance cost of premium was ignored.

Question 4(b)

In part (ii), instead of adding the impact of fall in spot rate and movement in future price for computation of gain on hedging, examinees deducted the impact of movement in future price from impact of fall in spot rate.

Question 5(a)

Assumption regarding current price earnings ratio was ignored.

Question 5(b)

This part was well answered by majority of the examinees.

Question 5(c)

Workings were restricted to computation of beta and cost of equity only.

Question 5(d)

This part was not attempted by most of the examinees and those who attempted this part made recommendation without providing proper/reasonable justifications. Please refer ICAP's suggested answer for detailed guidance.

(THE END)