

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN CERTIFIED FINANCE AND ACCOUNTING PROFESSIONAL (CFAP) EXAMINATION EXAMINERS' COMMENTS	
SUBJECT Business Finance Decisions	SESSION Winter 2019

Passing %

Question-wise					Overall
1	2	3	4	5	
25%	24%	57%	14%	45%	28%

General comments

The overall passing ratio of 28% is consistent with the last two attempts' passing ratio i.e. 30% and 27% respectively. However, it was observed that many examinees secured good marks in two to three questions but failed to obtain reasonable marks in the remaining questions. Further, a review of the question-wise comments would indicate that most of the mistakes made by the examinees were those which are not expected at this level. Usually, these types of mistakes are committed when the examinees do not read the information available in the question carefully or start answering the question and making calculations without planning their answers.

Examinees are therefore advised to study the entire syllabus, effectively plan their exam and better utilize the 15 minutes reading time.

Question-wise common mistakes observed

Question 1(a)

- Finance cost was either ignored or incorrectly computed under each option.
- Decrease in contribution margin due to decline in sales was ignored under option 1.
- Early payment discount under option 1 was applied on existing credit sales instead of revised credit sales.
- Surcharge amount on account of late payment under option 1 was either ignored or incorrectly computed.
- Some examinees took 15 (i.e. 55–40) days as number of days for which delay occurred which was incorrect.

Question 1(b)

Most of the examinees discussed the difficulties only and either skipped or suggested invalid steps to resolve such difficulties.

Question 2(a)

- While computing free cash flows:
 - Savings of Rs. 31 million in operating expenses was incorrectly accounted for.
 - Redundancy payment was either ignored or taken in year 1.
 - Instead of taking only incremental impact of working capital, the whole amount of working capital was taken in year 1.
 - Terminal value was calculated at the end of year 4 instead of year 3.
- In order to determine maximum price, existing equity value of acquirer was not deducted from value of merged entity.

Question 2(b)

- Many examinees restricted their answers to calculations only and did not offer any discussion.
- Under finance with new debt option, interest expense on new debt was either ignored or taken without deducting tax impact in computation of revised net profit.
- Under finance by issuance of shares option, offer price of Rs. 450 million was not deducted from equity value of merged entity for determining value of acquirer's shareholders. Consequently, revised number of shares was not computed correctly.

Question 3(a)

- Inflation % was either ignored or applied incorrectly i.e. from Year 1 onwards.
- Instead of taking Rs. 300 (540-240) per unit as relevant cost, current purchase price of Rs. 330 was considered relevant cost for existing raw material stock of CD7.
- Skilled labour hours were not bifurcated into normal and idle hours. Further, instead of taking 30% of normal rate, 70% was taken as relevant cost for idle labour hours.
- Purchase and disposal values of machine were ignored in years 0 and 3 respectively.
- Additional requirement of working capital in year 2 and inflow of working capital in year 3 were ignored.

Question 3(b)

Many examinees were not able to identify that internal rate of return (IRR) is required to compute for determining the sensitivity with respect to cost of capital.

Question 4(a)

- In order to determine yield of 10% and 20% at any time, average of high and low prices was used instead of using 3 months – High (price) for call options and 3 months – Low (price) for put options.
- Option premium was incorrectly taken into account while making decision in respect of exercising the options. In fact, it should be ignored being the sunk cost.
- 3 months' high and low share prices were ignored and only spot price was taken into account to decide whether option is 'in the money' or 'out of money'.

Question 4(b)

Most of the examinees confined their answers with two to three points only. Further, many examinees wrote the same point with different wordings to meet the requirement of number of points in the question.

Question 5(a)

- In order to determine redemption value per unit, back end (selling) load % was incorrectly applied on estimated NAV of 31 December 2020.
- Formula of standard deviation and beta were incorrectly applied.

Question 5(b)

A large number of examinees did not attempt this part at all and those who attempted this part ignored the requirement and discussed the limitations of CAPM instead of alpha value.

(THE END)