Chartered Accountant SINGAPORE

SINGAPORE CA QUALIFICATION EXAMINER'S REPORT

MODULE: Business Value, Governance & Risk

EXAMINATION DATE: 17 June 2026

Section 1
General comments

The June 2026 BG examination consists of a single company case study with financial data covering four questions namely Q1 and Q4 covering governance and risk, and business valuation covered by Q2 and Q3.

Overall, candidates demonstrated a satisfactory standard of performance in Q1 and Q4. Stronger candidates showed a sound understanding of business analysis, corporate governance and risk management concepts, applying them effectively to with relevant evidence from the scenario as support, and justified their conclusions and recommendations using sound business reasoning.

Weaker candidates identified relevant points without sufficiently explaining their significance or linking them back to the scenario. Some candidates reproduced information from the case study rather than analysing or evaluating its implications.

Performance in Question 2 was mixed. Candidates generally attempted the cash flow forecast and covenant calculations, but few produced fully correct answers.

The evaluation of the revolving credit facility and sale-and-leaseback arrangement was less satisfactory, as many candidates described their features without sufficiently evaluating the financial and strategic implications for SolarVista.

For Question 3, Candidates generally performed well in the net asset valuation and offer-price discussion, while the WACC and discounted cash flow (DCF) calculations proved more challenging. A significant number of candidates did not attempt or provided only limited workings for the DCF valuation.

Performance on foreign exchange risk was mixed. Weaker responses discussed the risk only in general terms rather than explaining its specific impact on each valuation method.

Stronger scripts consistently:

- addressed every aspect of the question requirement;
- applied relevant facts from the case study;
- explained and justified points rather than merely identifying them;
- provided commercially realistic recommendations supported by sound business reasoning; and
- presented answers in a clear, logical and well-organised manner.

Candidates are reminded that professional examinations assess the quality of analysis, application and judgement rather than the quantity of points presented.

Section 2
Analysis of individual questions

Question 1

Part (a)

This part required candidates to identify and explain two strengths, weaknesses and opportunities for SolarVista within the context of the solar photovoltaic industry.

Stronger candidates demonstrated a clear understanding of the SWOT framework by correctly distinguishing between internal organisational factors (strengths and weaknesses) and external market factors (opportunities). These candidates supported each point with appropriate reference to the case study and explained why the factor was relevant to SolarVista's competitive position.

Candidates who performed less well confused strengths with opportunities or presented actions to address weaknesses as opportunities. Marks were commonly lost where insufficient explanation or supporting justification were provided.

Parts (b) and (c)

Parts (b) and (c) assessed candidates' ability to evaluate business risks and recommend appropriate risk-control responses.

For Part (b), most candidates successfully identified the six risks presented in the scenario and were generally able to assess both their frequency and potential impact. Stronger responses moved beyond repeating information contained in the case study by evaluating why a particular risk was likely to occur and explaining its potential commercial consequences for SolarVista.

For Part (c), better responses proposed commercially realistic controls that addressed the specific nature of each risk and clearly explained the link between the proposed control and the reduction of risk exposure.

Candidates who achieved lower marks typically did not evaluate the risks, suggested generic risk management measures that lacked commercial relevance, or failed to explain how their proposed controls would mitigate the identified risks.

Question 2

Part (a)

This part required candidates to prepare annual cash flow forecasts for SolarVista for the years ending 31 March 2027, 2028 and 2029.

The question was generally well attempted, although relatively few candidates produced a fully correct answer.

Most candidates were able to apply the relevant growth rates to the various expense categories. However, a common error was to assume that personnel costs, property expenses and other operating expenses would remain unchanged, instead of applying the stipulated annual growth rate of 5%.

Another common error was to assume the S$20 million repayment was made at the beginning of the year, and interest was calculated based on a loan balance of S$80 million.

Some candidates misunderstood the requirement and prepared a free cash flow calculation for valuation purposes rather than the annual cash flow forecast.

Part (b)

Candidates were required to calculate SolarVista's compliance with the three loan covenants for each forecast year and provide an overall conclusion on covenant compliance.

While many candidates were able to calculate the three financial ratios, a significant number were unable to interpret the results in the context of a bank loan or reach an appropriate overall conclusion on covenant compliance.

The interest-cover ratio was generally better understood than the asset-cover and gearing ratios. Nevertheless, a small number of candidates incorrectly used profit after tax as the numerator when calculating the interest-cover ratio, rather than profit before interest and tax. This indicated a gap in their understanding of the purpose and calculation of the ratio.

Some candidates also considered each ratio in isolation and did not clearly conclude whether SolarVista complied with all three covenants in each forecast year. This suggested weaknesses in applying financial ratios to practical lending and covenant-monitoring situations.

Part (c)

Candidates were required to discuss the potential consequences of a future loan covenant breach and provide appropriate recommendations to SolarVista.

Overall performance was satisfactory. Most candidates demonstrated a reasonable understanding of loan covenant breaches and their potential consequences.

Candidates who performed well correctly identified possible outcomes such as lender intervention, restrictions on additional borrowings, increased interest costs, accelerated repayment obligations and the reclassification of borrowings as current liabilities. Stronger responses also recommended that SolarVista engage with the lender at an early stage, seek a waiver or renegotiate the covenant terms, and strengthen its cash flow and covenant-monitoring processes.

Weaker responses tended to identify the consequences of a breach without providing practical recommendations on how SolarVista should manage or avoid the breach.

Part (d)

Candidates were required to evaluate two advantages and two disadvantages of both the revolving credit facility and the sale-and-leaseback arrangement.

Overall performance was less than satisfactory. Although most candidates were able to identify certain advantages and disadvantages of the financing alternatives, many responses lacked sufficient evaluation or were not adequately applied to SolarVista's circumstances.

For the revolving credit facility, candidates generally understood the flexibility of drawing and repaying funds as required, as well as the funding certainty provided by a committed facility.

However, fewer candidates recognised the implications of:

- commitment fees on undrawn balances and the upfront arrangement fee;
- exposure to fluctuations in SORA;
- the restriction that the funds must be used for additional solar installations; and
- the refinancing risk when the facility expires after five years.

Knowledge of sale-and-leaseback arrangements was poor. While many candidates recognised that the transaction would generate immediate liquidity, fewer demonstrated an understanding of its broader strategic benefits, such as releasing capital tied up in property, preserving borrowing capacity and providing funding that was not restricted to a particular purpose.

Candidates also frequently overlooked the disadvantages of the arrangement, including the loss of ownership and control over strategically important properties, the long-term rental commitment with annual rent escalation, and the absence of a guaranteed right to renew the lease at the end of the 15-year term.

Weaker responses merely described the features of the financing arrangements without evaluating their financial or strategic implications for SolarVista.

A noticeable number of candidates also left part of the question incomplete, particularly the section relating to the sale-and-leaseback arrangement.

Question 3

Part (a)

This part tested candidates' ability to derive an appropriate weighted average cost of capital for valuing SolarVista's enterprise value.

Overall performance was below expectations, although a number of candidates demonstrated a sound understanding of the relevant concepts and achieved full marks.

Most candidates were able to identify the relevant inputs and undertake the initial calculations in determining the cost of equity. Common errors included:

- omitting the re-gearing of the proxy company's asset beta to reflect SolarVista's capital structure;
- using the pre-tax cost of debt instead of the after-tax cost of debt; and
- treating the cost of equity as the final discount rate instead of proceeding to calculate the weighted average cost of capital.

When determining SolarVista's capital structure, some candidates incorrectly used debt values of S$20 million or S$120 million instead of the total interest-bearing debt of S$140 million. This suggested that they had not correctly interpreted the current and non-current loan balances presented in the statement of financial position.

Part (b)

Candidates were required to estimate SolarVista's equity value using the discounted cash flow method.

This appeared to be the most challenging part of the question. While many candidates demonstrated a general understanding of the valuation approach, a significant number did not fully understand the presentation and calculation of free cash flow to the firm.

Candidates who began their calculation with profit before interest and tax sometimes incorrectly added back interest or dividends. Interest should not be added back when starting from profit before interest and tax, while dividends are a financing distribution and do not form part of free cash flow to the firm.

Conversely, candidates who began with the cash flow calculated in Question 2(a) frequently added back depreciation again, even though the non-cash depreciation adjustment had already been reflected in that calculation.

A further common error arose when converting enterprise value to equity value. Some candidates incorrectly added SolarVista's cash balance, despite the question clearly stating that the cash was required for ongoing operations and should not be treated as surplus cash.

More than one-quarter of the cohort either did not attempt this part or provided only minimal workings. This may indicate insufficient preparation for discounted cash flow valuation or poor allocation of examination time.

Part (c)

Candidates were required to determine SolarVista's net asset value based on both book value and realisable value.

Candidates generally performed well in this part, with many achieving full marks.

Common errors included:

- failing to calculate the total book value of the assets;
- omitting the SolarVista brand when determining the realisable value of the assets;
- incorrectly including the internally generated brand in the book-value calculation; and
- failing to deduct liabilities when determining the net asset value under either basis.

Part (d)

Candidates were required to compare the asset-based valuation with the discounted cash flow valuation and explain why the resulting values differed.

Overall performance was satisfactory. Candidates who performed well recognised that the asset-based approach primarily reflects the value of SolarVista's identifiable net assets, whereas the DCF approach reflects the present value of the company's expected future cash-generating capacity.

Weaker responses often failed to read the question carefully, resulting in:

- no direct comparison between the two valuation methods;
- discussion of only one valuation method; or
- generic explanations that were not applied to SolarVista's circumstances.

Part (e)

Candidates were required to discuss how foreign exchange risk could affect SolarVista's asset valuation and discounted cash flow valuation.

Performance was mixed. Some candidates discussed foreign exchange risk only in general terms without explaining how exchange rate movements would specifically affect each valuation method.

For the asset valuation, stronger responses considered the effect of exchange rate movements on the Singapore-dollar value of foreign-currency-denominated assets and liabilities.

For the discounted cash flow valuation, stronger responses considered the effect on forecast revenues, procurement costs, operating margins and future free cash flows.

Some candidates misunderstood the requirement and compared the two valuation methods rather than discussing the impact of foreign exchange risk on each method.

A few candidates also focused on the relative magnitude of the exposure or on general operational matters, such as overseas spending, without linking these matters to their effect on the valuations.

Part (f)

Candidates were required to discuss two factors that could influence the price offered for SolarVista from the perspective of a potential investor.

Overall, candidates performed well and were generally able to identify and discuss relevant factors in sufficient detail.

Stronger responses considered strategic and commercial factors that could justify an offer above or below the calculated free cash flow valuation. These included potential synergies, SolarVista's market position and competitive advantages, the quality of its customer contracts, growth opportunities, execution risks, governance concerns and weaknesses in its internal controls.

A common weakness was an excessive focus on the technical assumptions and mechanics of the free cash flow valuation. Such responses did not sufficiently address the strategic, commercial and due diligence considerations that could lead an investor to pay a premium or negotiate a discount to the calculated valuation.

Question 4

Part (a)

This part required candidates to evaluate six governance weaknesses, explain the potential consequences if these weaknesses were not addressed, and recommend suitable governance improvements.

The strongest responses adopted a logical and structured approach by clearly identifying each governance weakness, explaining its potential consequences, proposing an appropriate recommendation, and demonstrating how the recommendation would improve governance effectiveness. Many candidates presented their responses in tables or under separate headings, which enhanced clarity and made it easier to address each requirement comprehensively.

The most common areas where candidates lost marks were in recommending appropriate responses to the absence of portfolio stress testing and risk-adjusted hurdle rates. Some recommendations were also overly generic or insufficiently linked to the governance weakness identified.

Part (b)

Candidates were required to recommend voluntary corporate governance practices that SolarVista could adopt and explain their associated benefits.

Those who attempted the question generally performed well and demonstrated a sound understanding of recognised corporate governance practices. Stronger responses proposed practical governance enhancements supported by clear explanations of how they would strengthen oversight, accountability and board effectiveness.

A number of candidates did not attempt this part of the question, suggesting that time management may have affected performance towards the end of the examination.

Part (c)

This part required candidates to recommend improvements to the governance of sustainability reporting and explain the benefits of each recommendation.

The most common misconception related to independent assurance over sustainability information. Many candidates recommended establishing internal review processes but did not recognise that independent assurance requires verification by an appropriately qualified external assurance provider. As a result, these responses did not fully address the governance objective of enhancing independence and stakeholder confidence.

Another common weakness was the tendency to recommend governance improvements without explaining the associated benefits. Higher-scoring responses clearly linked each recommendation to improved governance outcomes, such as enhanced accountability, greater transparency, stronger oversight and increased stakeholder confidence.