



ASSIGNMENT 2ND SEMESTER	:	FINANCE AND PAYMENTS II (FP2)
STUDY UNITS COVERED	:	STUDY UNITS 2, 3 AND 4
DUE DATE	:	3.00 p.m. 17 AUGUST 2010
TOTAL MARKS	:	100

INSTRUCTIONS TO CANDIDATES FOR COMPLETING AND SUBMITTING ASSIGNMENTS

The complete 'Instructions to Students for Completing and Submitting Assignments' must be collected from any IEX office, or the relevant Student Support Centre, or can be downloaded from the IEX website. It is essential that you study the complete instructions prior to beginning your assignment. The following points highlight only a few important notes:

- 1) You are required to submit ONE assignment per subject.
- 2) The assignment will contribute 20% towards the final examination mark, and the other 80% will be made up from the examination, however, the examination papers will count out of 100%.
- 3) Although your assignment will contribute towards your final examination mark, you do not have to earn credits for admission to the examinations; you are automatically accepted on registering for the exam.
- 4) Number all the pages of your assignment (e.g. page 1 of 4) and write your name and surname, student number and subject at the top of **each** page.
- 5) The IEX requires assignments to be presented on plain A4 paper. You must show all working calculations, including and where appropriate multiple choice working calculations.
- 6) A separate assignment cover, which is provided by the IEX, must be attached to the front of each assignment.
- 7) Retain a copy of each assignment before submitting in case the original does not reach the IEX.
- 8) The assignment due date refers to the day up to which assignments will be accepted for marking purposes. The deadline is 3:00 p.m. on 17 August 2010. Late assignments will be accepted, but **25 marks** will be deducted from the maximum mark, if received after 3:00 p.m. on 17 August 2010 and up to 5:00 p.m. the following day, after which no assignments will be accepted.
- 9) If you fail to follow these instructions carefully, the IEX cannot accept responsibility for the return of the assignment. It may even result in your assignment not being marked.

Results will be available on the IEX website, www.iex.co.za on Friday, 8 October 2010.

SPECIFIC INSTRUCTIONS:

When using your own words, be careful not to change the meaning of established terms, expressions and jargon of the specific subject in question.

NOTE: The nature of this subject is highly technical; students are well advised to set aside sufficient study time, that is, a solid minimum of 2 hours a day, 6 days a week.

QUESTION 1**[30]**

On 1 November you dispatched goods for an invoice value of USD 50 000 to a customer in Latin America. Using the exchange rates quoted below, show the entries for each of the following transactions in your bank account and comment on the cash flows generated and the overall profitability measured against the original contract.

<u>Date</u>	<u>Spot USD/ZAR</u>	<u>2 months</u>	<u>3 months</u>	<u>4 months</u>
1 Nov	7,3525/7,365 5	703/753	-	-
1 Jan	7,3640/7,377 0	-	-	1400/1450
1 Feb	7,3815/7,394 5	-	1059/1109	-
1 March	7,2170/7,220 0	690/740	-	-

- Payment was expected on 1 January and you asked your bank to cover this amount forward.
- Just before due date, your customer informed you that payment would be delayed until 1 May.
- On 1 February, the spot rate had moved so much to your advantage that you decided to benefit from this trend and closed out the contract.
- However, this weakening of the rand was of short duration and on 1 March you decided to take out cover again until 1 May when payment is expected.

*Note: Your bank account should include all the above transactions, that is, **one** bank account for **all** transactions in the order of value/delivery date, and show your calculations. Round all figures to the nearest rand and ignore any interest implications.*

QUESTION 2 [30]

Digitech (Pty) Ltd., a manufacturer of high-tech testing instruments, has always exported much of their production output. At any one time, the company has approximately 15% British pounds, 45% US dollars and 20% Euros of total export invoicing owing to it. Terms of payment for these exports average 90 days from date of shipment and Digitech has up till now financed these credit terms with its bank overdraft arrangement. The company has asked you, a consultant, to determine if financing in the relevant currencies would be cheaper than financing all exports with its current overdraft facility at prime interest + 1,5%.

SA prime interest rate	:	13,5% p.a.
British pounds finance (90 days)	:	6,25% p.a.
US dollar finance (90 days)	:	5,75% p.a.
Euro finance (90 days)	:	5,15% p.a.
Spot GBP/ZAR	:	14,8157
90-day forward GBP/ZAR	:	14,9987
Spot USD/ZAR	:	7,4533
90-day forward USD/ZAR	:	7,5617
Spot EUR/ZAR	:	10,0761
90-day forward EUR/ZAR	:	10,2479

- 2.1 Compare the cost of rand finance with financing in British pounds, US dollars and Euros in annual percentages of **three (3)** decimal points on a **365-day** year basis and present the outcomes in table format, that is, the final comparison in **one** table. **(24)**
- 2.2 By taking forward cover into account, compare the cost of financing in SA rands with the cost of financing in British pounds, US dollars and Euros. **(6)**

QUESTION 3 [20]

Discuss in detail foreign exchange risk management in terms of 'controlling the risk'.

QUESTION 4 [20]

Briefly explain factoring facilities and discuss the procedures involved in using a factor as well as the cost of factoring an export transaction.

ASSIGNMENT TOTAL: 100