



ASSIGNMENT MEMORANDUM

SUBJECT : FINANCE AND PAYMENTS I (FP1)

ASSIGNMENT : 1st SEMESTER 2010

QUESTION 1 [40]

STUDY UNIT 2, pp. 26-31

Freight charges

Freight: $\text{USD } 2\,325 + 27,64\% \text{ BAF} = \text{USD } 2\,325 + \text{USD } 642,63 = \text{USD } 2\,967,63$
 $\text{USD } 2\,967,63 \times 7,6695 = \text{ZAR } 22\,760,24 = \text{ZAR } 22\,760$ (4)

Disbursements

Delivery/collection of container	1 492		
Terminal handling charge	795		
Export cargo dues	845		
Carrier release fee	175		
B/L issuing fee	92		
Freight charges	22 760		
FF Agency fee: 4,75% of	<u>26 159</u>	= R 1 242,55	= R 1 243

(8)

CIP Rotterdam

Ex-works price: 1500 @ R1 995	2 992 500	(1)
Testing charges: 0,75% of FCA	25 344	(1)
Delivery/collection of container	1 492	(1)
Terminal handling charge (THC)	795	(1)
Export cargo dues	845	(1)
Carrier release fee	175	(1)
B/L issue fee: USD 12 @ 7,6695 (1)	92	(1)
CTO fee	150	(1)
Forwarder's agency fee: 4,75% of disbursements	1 243	
Documentation fee	600	(1)
Certificate of origin Form A	225	(1)
Communication charges	60	(1)
Credit insurance: 1,25% of CIP	43 554	(1)
Financing: 12,5% p.a. 120 days = 4,11% of CIP (1)	143 207	(1)
Agent's commission: 5% of FCA	168 962	(1)
Total FCA	3 379 244	(1)
Estimated FCA amount	3 379 245	(1)
Known FCA amount (1)	2 998 177	(1)
Known FCA amount (2)	3 184 938	(1)
Freight: USD 2325 + BAF27,64% @ 7,6695	22 760	
Total CPT	3 402 004	(1)
Marine insurance: 1,9% of (CIP+15%) = 2,19% of CIP (1)	76 172	(1)
Total CIP	3 478 176	(1)
Estimated CIP amount	3 484 356	(1)
Known CIP amount	3 020 937	(1)

Percentages:	13,30% - 86,70%	5,75% - 94,25%	2,19% - 97,81%	
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(26)

Unit price

$$R\ 3\ 478\ 176 : 9,9010 = \text{EURO } 351\ 295,42 : 1500 = \text{EURO } 234.20 \text{ per radio.}$$

or

$$R\ 3\ 478\ 176 : 1500 = R\ 2\ 318,78 : 9,9010 = \text{EURO } 234.20 \text{ per radio.}$$

(2)

QUESTION 2**[30]****STUDY UNIT 3, pp. 46-60, 78-88****Cash in Advance/Cash with Order**

- This arrangement would be most desirable for the trader but would be highly unlikely:
 - The amount involved is too large.

- The product is not made to specifications.
- Nigeria is a poor country and the exchange control authority, if in place, is not likely to permit advance payments without receipt of the goods in exchange.

(4)

Open Account

- This option is not recommended:
 - The trader has never conducted business with this buyer before and open account should only be used when the relationship between seller and buyer is well established.
 - Being a large transaction for the trading company the risk is too high in respect of late payment and even default of payment.

(3)

Bank Collection

Clean Collection

- The buyer receives the documents without having necessarily paid for the goods.
- The net effect is similar to open account and therefore not suitable for this first transaction.

(3)

Documentary Collection

- The buyer has access to the documents either once payment has been made to the bank (D/P) or when the bill of exchange has been accepted (D/A).
- If the buyer does not pay in case of D/P, the trader is left with the problem of finding a new buyer.
- Apart from incurring warehousing & insurance costs, the time it will take to do so may jeopardise the 60 days credit granted by the SA wine estate (supplier).
- In case of D/A, after having accepted the bill of exchange the buyer might fail to pay on maturity.
- In view of the Nigerian buyer being unknown, neither D/P nor D/A is recommendable as the implied risks are too great for the trader to handle.

(6)

Documentary Credit

Revocable L/C

- This type of L/C can be amended/cancelled by the issuing bank any time, without notice to the exporter, prior to acceptance of the documents by the advising bank.
- Because of this risk aspect, this type is seldom used and doesn't merit any further discussion.

(3)

Unconfirmed Irrevocable L/C

- This type of L/C cannot be cancelled/amended without agreement of the buyer, the issuing bank and the exporter.
- It can be either at sight or at a determinable date in the future.
- Subject to documentary compliance, the bank guarantees payment and the risk of the buyer defaulting is not an issue.
- With or without credit terms, there is still the risk of delay in transferring the funds which might endanger the 60 days credit granted by the SA Wine Estate.

(5)

Confirmed Irrevocable L/C

- An irrevocable L/C could be confirmed by an SA bank which means that this SA bank guarantees the payment if the issuing bank cannot transfer the funds.
- However, the SA bank may not be willing to confirm an L/C from Nigeria in which case a reputable bank in a third country will have to be looked for.

(3)

Recommendation

- To promote future business potential, the trader might be tempted to grant credit terms to the buyer in which case the period should not exceed 45 days from shipped bill of lading date to be on the safe side.
- However, the trader is not facing any apparent competition, that is, Nigeria is a seller's market for the wine in question and granting credit terms may not be necessary.
- In view of the issues discussed above, the recommended method of payment would be an irrevocable L/C at sight or 30 or 45 days and confirmed by a bank either in South Africa or in a third country. **(3)**

QUESTION 3

[15]

STUDY UNIT 5, pp. 95-98

3.1

- If exporters allow their goods to leave their physical control before they have received payment for them, they leave themselves open to the possibility that they will not be paid at all.
 - Should they indeed not receive payment, they not only lose their anticipated profit but also capital.
 - Security against capital loss is of particular importance to banks or other financial institutions that may be financing the export sale.
 - The greater the risk or the larger the amount of money at stake, the more urgent is the request from these organisations that credit insurance be taken out.
 - Banks, for example, will not provide finance for the export of capital goods and services unless a policy is issued by Credit Guarantee and ceded to them as collateral.
 - For a bank that has granted export finance, the existence of a credit insurance policy indicates that an additional, objective party is involved in the export transaction.
 - Credit Guarantee, through the Berne Union and its network of extensive resources, investigates the creditworthiness of foreign importers.
 - Credit Guarantee does not, however, operate an information bureau, that is, exporters must already be clients of the organisation before investigations are made on their behalf.
 - The function of a credit insurer is thus not only to honour any losses that may occur, but also to help avoid them in the first place.
 - In the event of a default on payment by the importer, the credit insurer is usually in a much better position than the individual exporter to prompt the importer towards swift settlement of debt for the following reasons:
 - It usually has a better and more general insight into the market where the default has occurred
 - By notifying the Berne Union, the name of the defaulting buyer is circulated amongst the Union members, who can then take the necessary steps to prevent their policyholders from incurring a similar loss.
- (12)**

3.2

- The Bern Union, founded in 1934, is a private association of credit insurers from many countries and serves as a forum for the exchange of experience and information on export credit.
- Via the Berne Union, Credit Guarantee obtains valuable information concerning risk situations in countries and trade areas throughout the world.
- As a result of its membership, Credit Guarantee is able to enlist the help of fellow members in overseas countries in dealing with defaulting customers or in collecting overdue debt. (3)

QUESTION 4**[15]****STUDY UNIT 6, pp. 118-119****Bookings made by EMIA**

- National Pavilions – benefits are applicable to SMMEs and HDIs only.
- Missions (inward) – travel bookings will be arranged by the Foreign Office.
- EMIA will undertake to provisionally book and bear a percentage of the costs of air tickets.
- All that is required from the applicant is to arrange for the issue and delivery of his/her ticket from the service provider.
- EMIA will not consider claims in respect of travelling expenses where the TISA Preferred Service Provider was not utilised. (6)

Bookings made by applicants

- Primary Export Market Research – benefits are applicable to SMMEs, HDIs and other.
- Individual Exhibitions – benefits are applicable to SMMEs and HDIs only.
- Missions (outward) – benefits are applicable to SMMEs, HDIs and other.
- It is the responsibility of the applicant to make the arrangements for air tickets including the booking, issue and delivery stages thereof.
- Applicants must obtain a quotation from each of the two EMIA Preferred Service Providers (PSPs); the lowest quotation will be reimbursed.
- It is advisable to provisionally book the ticket with any of the two PSPs before submitting the relevant application.
- Applicants must confirm their bookings with the PSP and make payment in order for the ticket to be issued.
- EMIA will not be responsible for any cancellation fees, or any additional costs, which are incurred due to travel deviations. (9)