**ST. JOSEPH’S COLLEGE (AUTONOMOUS), BENGALURU -27**

**B.Com IFA – IV SEMESTER**

**SEMESTER EXAMINATION: APRIL 2023**

**(Examination conducted in May 2023)**

**BCIFA 4322 – FINANCIAL MANAGEMENT II**

**(For current batch students only)**

**Time: 2 Hours Max Marks: 60**

**This paper contains \_\_\_\_\_\_ printed pages and \_\_\_\_\_ parts**

**PART-A**

I. Answer any **five** of the following  **(5 X 3 = 15 marks)**

1. A treasurer can borrow in Swiss francs at a rate of 4% pa or in the UK at a rate of 7% pa. The current rate of exchange is 12SF = £ 1. What is the forward rate of exchange for delivery in a year’s time?
2. A company is offering a cash discount of 2.5% to receivables if they agree to pay debts within one month. The usual credit period taken is three months. What is the effective annualized cost of offering the discount and should it be offered if the bank would loan the company at 18% per year?
3. State the different methods for business valuation.
4. Differentiate between translation and transaction risk.
5. State the advantages of Miller – Orr cash management model.
6. Monthly demand for a product is 10,000 units. The purchase price is $10/unit and the company’s cost of finance is 15% per year. Warehouse storage costs per unit per year are $2/unit. The supplier charges $200 per order for delivery. Calculate the EOQ.

**Section B**

II. Answer any **two** of the following **(2 x 5 = 10 marks)**

1. Discuss the International Fischer’s Equation theorem.
2. It is now 2nd April and Ballu PLC will need a fixed interest rate loan of £ 800,000 for 9 months starting on 1 July. The company is worried by the time the loan is taken out, the interest rates might increase. The bank has quoted a rate of 10% p.a to apply for the loan.
3. State the required FRA.
4. Calculate the cash flows if the interest rate is increased to 12% and decreased to 7%.
5. From the following information of Bunty PLC, you are required to calculate the value of the company based on PE ratio.

Profit before taxation – 400,000$

Preference dividend – 20,000 $

Equity shares – 50,000

Market price per share – 85$ per share

Tax rate is 30%.

**Section C**

III. Answer any **two** of the following **(2 x 10 = 20 marks)**

1. Write a short note on-
2. Methods of raising equity **(6 marks)**
3. Venture capital **(4 marks)**
4. Mangoo Co estimates the following figures for the coming year.

| Sales – all on credit | $ 3,600,000 |
| --- | --- |
| Receivables | $ 306,000 |
| Gross profit margin | 25% on sales |
| Finished goods | $ 200,000 |
| Work in Progress | $ 350,000 |
| Raw materials (balance held) | $ 150,000 |
| Trade payables | $ 130,000 |

Inventory levels are constant. The raw materials are 80% of cost of sales and it is all on credit. You are required to calculate the cash operating cycle.

1. Briefly explain the tools for managing currency risks.

**Section D**

IV **Answer the following (1 X 15 = 15 marks)**

1. **A)** Bin Co whose home currency is Dollar, trades regularly with customers in a number of different countries. The company expects to receive euro 1,200,000 in six months’ time from a foreign customer. Current exchange rates in the home country of Bin Co are as follows: -

spot exchange rate – 4.1780 – 4.2080 euros per $

Six month forward exchange rate – 4.2302 – 4.2606 euros per $

Twelve-month forward exchange rate – 4.2825 – 4.3132 euros per $

You are required to calculate the loss or gain compared to its current dollar value which Bin Co will incur by taking out a forward exchange contract. **(5 marks)**

**B)** Bolt a UK Company must make a payment of US $ 230,000 in three months’ time. The company treasurer has determined the following:

Dollar: Sterling Spot rate $ 1.8250 - $1.8361 = £ 1

3 – month forward $ 1.8338 – $1.8452 = £ 1

Money market rates:

|  | Borrowing | Deposit |
| --- | --- | --- |
| US $ | 5.1% | 4.2% |
| Sterling | 5.75% | 4.5% |

Ascertain the cost of payment using a forward contract hedge and a money market hedge and interpret the results. **(10 marks)**

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