



**ASSIGNMENT 1ST SEMESTER : FINANCE AND PAYMENTS 2 (FP2)
FINANCE AND PAYMENTS 3
(FP302)**

STUDY UNITS COVERED : 3 AND 5

DUE DATE : 3:00 p.m. 20 MARCH 2012

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 IMM GSM office, or the relevant Student Support Centre, or can be downloaded from the IMM GSM 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 contributed by 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 IMM GSM 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 IMM GSM, 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 IMM GSM.
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 20 March 2012. Late assignments will be accepted, but **25 marks** will be deducted from the maximum mark, if received after 3:00 p.m. on 20 March 2012 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 IMM Graduate School of Marketing 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 IMM GSM website: www.immgsm.ac.za on Friday, 4 May 2012.

SPECIFIC INSTRUCTIONS:

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

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

QUESTION 1 [30]

Using the information provided below, answer the questions that follow and show all your calculations.

<u>Currency</u>	<u>Spot rate</u>	<u>1 month</u>	<u>3 months</u>	<u>6 months</u>
USD/ZAR	7,4985/7,6210	285/335	790/840	1560/1760
USD/CHF	1,2760/1,2780	-	37/34	-
GBP/USD	1,8367/1,8374	-	-	36/38
AUD/USD	0,7452/0,7457	-	18/14	61/57

- 1.1 In one month's time, you are expected to settle an account in US dollars for a shipment of olive oil from Israel. Determine which forward exchange rate would apply if you were to take out forward cover. **(3)**
- 1.2 Determine which forward exchange rate the bank would use when you expect British pounds from your customer in Leeds (UK) in 6 months' time. **(6)**
- 1.3 You expect to receive the proceeds for a shipment of jackets to Switzerland in three months' time. Determine which exchange rate would be applicable if you were to cover this transaction in Swiss francs forward. **(6)**
- 1.4 You have purchased goods for an invoice value of AUD 18 000.00 from a trader in Sydney (Australia) with payment to be made any time between 90 and 180 days. Determine which forward exchange rate the bank would quote you. **(15)**

QUESTION 2 [30]

On 1 September last year, you dispatched goods valued at USD 38 000.00 to a customer in the Far East. By using the exchange rates quoted below, show all calculations in the form of bank account entries to your bank account for each of the forward exchange transactions in the following situations. Comment on the cash flows generated and the overall profitability of this export sale measured against the original forward contract.

<u>Date</u>	<u>Spot USD/ZAR</u>	<u>2 months</u>	<u>4 months</u>
1 September	7,2430/7,2550	545/595	-
1 November	7,3164/7,3270	-	1045/1135
1 January	7,4280/7,4386	515/565	-
1 April	7,3825/7,3955	-	-

- a) Payment was expected on 1 November and you asked your bank to cover this amount forward.
- b) Just before due date, your customer informed you that payment would be delayed to 1 March.
- c) By 1 January, the spot rate moved so much to your advantage that you decided to benefit from this trend and closed out the contract.
- d) Finally, your customer paid you the full amount on 1 April.

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. Round all rand values to the nearest unit and ignore any interest implication.

QUESTION 3 [20]

- 3.1 Explain the basic function of a confirming house and describe the procedures involved in using a confirming house for an export transaction. (12)
- 3.2 An export company may opt for a foreign currency-denominated trade finance facility offered by a local bank to finance the production of an export order. Often referred to as 'off-shore' finance, explain what such a facility entails. (8)

QUESTION 4 [20]

Give an example of the formula used for discounting a bill of exchange, and explain what an exporter should consider before adopting this method of finance.

ASSIGNMENT TOTAL: 100