

LCBB 6002 INTERNATIONAL FINANCIAL MANAGEMENT (Weekday)

Assessment 2 (70%)

May 2024 EXAMINATION (100 marks)

Duration 3 hours.

There are three sections in this examination paper:

Section A has 10 multiple choice questions. Each question is valued at 3 marks. The total marks available in Section A is 30 marks. **All questions in Section A must be answered.**

Section B has two (2) questions. Each question is valued at 30 marks. The total marks available in Section B is 30 marks. Students should choose one question out of the two available and answer that question. **Only one question is to be attempted in Section B.**

Section C has one (1) question. This question is valued at 40 marks. The question has been broken into sub-questions such as (a), (b), (c), etc., with marks allocated to each part and denoted by []. **The question in Section C is compulsory and must be attempted by students.**

Please write all answers in the answer booklet and hand this in with your examination paper and any rough work sheets.

A Present Value Table will be provided with the examination paper.

SECTION A: There are 10 questions in this section. Each question is valued at 3 marks. All questions must be answered. Total Marks available 30 marks.

- 1) Which of the following is not associated with the Efficient Market Hypothesis
 - a) Strong -form Efficiency
 - b) Maximum Efficiency
 - c) Weak -form Efficiency
 - d) Semi- strong Efficiency
- 2) Short- term financing makes the borrower more vulnerable to ----- fluctuations.
- 3) Alpha Plc. has been instructed by its parent company RTY in Malaysia to borrow money in the local currency. It has approached two banks. GuFun bank will lend Alpha plc money on a short-term loan for one year. They will charge interest at 19% payable at maturity. Banga Bank 17.5 % on a discount basis. The loan form Alpha is cheaper.
 - a) True
 - b) False

- 4) Runquick Ltd wants to find the Accounting Rate of Return for the following project. The following details are provided – the initial investment cost is £6500. The project life is 20 years. Cash inflows are £1250 per year. Depreciation per year on a straight-line basis. What is the correct ARR?
- 10.1%
 - 15%
 - 9.2%
 - 8.96%
- 5) Which of the following takes into account the time value of money?
- Average rate of return
 - Payback period
 - Internal rate of return
 - None of the above
- 6) Y company has been successful in growing and its earnings and dividends. These have grown from £2.30 per share to £4 per share over a 6-year period. What is the rate of growth? Write your answer on the answer sheet and show your calculations.
- 7) State 3 factors that influence dividend policy. Please write your answers on the answer sheet.
- 8) Does a stock dividend provide real income for investors and shareholder?
- Yes
 - No
- 9) A direct quote (exchange rate) may be defined in terms of dollars per foreign currency unit.
- True
 - False
- 10) PJT Limited located in Scotland has a growing trade relationship with Rai Ltd in India. On January 1 PJT received an order from Rai Ltd for 3 000 000 INR to be paid on June 1st, when the goods would be received.

The rate for £1 are as below:

	Exchange Rate for £1 to INR (Indian Rupee)
Spot Rate Jan 1	102
Forward Rate – June 1	100
Spot Rate – June 1	98

Calculate what PJT would receive for Rai in pounds sterling using the spot rate at the time of the order and if the spot rate is used at the time the goods are received. Select the right answer.

- (£29411.764 ; £300000)
- (£29000; £25750)
- (£29411.764 ; £30612.24)

SECTION B: There are two (2) question in this section and students must choose and attempt one question only. Each question is valued at 30 marks.

Q11)

(a) Sally Hews is the Head of Credit at L Fashions plc, which is a subsidiary of Fashion R Us plc. Over the period June – Dec 2024, certain credit management issues came to light. The monthly cash receipts from credit sales declined reflecting issues with cash collection. These cash receipts were short of estimations made in the annual budget. The Chief Financial Officer of the parent company Fashion R Ozz plc has asked Sally to explain why this is happening and to provide recommendations to address the problem.

[30 marks]

Q12) WC Ltd has been growing its manufacturing business. Its new product Zexo is a star product and is acquiring market share and sales. Credit Sales increased for £12 to £16 million pounds in 2022. WC Ltd is expecting credit sales to rise £20 million in 2024.

Its budget for production costs is as below:

	£ Millions
Raw Materials	4
Direct labour	4
Production Overheads	2
Total Production Costs	10

Raw Materials are in stock for an average of four (4) weeks and finished goods are in stock for an average of four weeks. The production cycle takes six weeks, and raw materials are added at the start of the production process. Labour costs and production overheads are incurred at a constant rate. Suppliers of raw materials provide credit of three weeks. Customers (Trade receivables) are given 10 weeks to pay. Production takes place evenly throughout the year.

Calculate the total working capital requirement of WC Ltd. Show all workings.

[30 marks]

SECTION C. There is one question in section C and this question is compulsory. It must be attempted. This question is valued at 40 marks.

13)

a) Rumpelskin Ltd is a company in the rail industry and the board of directors are considering two projects which should drive company growth and shareholder wealth

maximization. The business has a cost of capital of 12 percent (12%) and uses straight-line depreciation for all its non-current /fixed assets when calculating its operating profit. There are no implications for working capital of the company, so this can be ignored. There are no tax complications. The company has sufficient fund to undertake both projects.

	Project A £'000	Project B £'000	Working Space for calculations
Investment Cost	(110)	(70)	
Annual Operating Profit/(Loss)			
Year 1	32	25	
Year 2	(2)	(3)	
Year 3	2	8	
Estimated Residual Plant Value	7	6	

Required:

(a) For each project calculate the following:

- (i) The Net Present Value. [10marks]
- (ii) The Internal Rate of Return. [10 marks]
- (iii) The Payback Period [6 marks]
- (iv) Advise the directors of the company which project they should undertake and why. [6 marks]
- (v) The Human Resource Director (HRD)suggest that the payback and discounted payback methods should be used to select the project. Explain to the HRD by internal memorandum why this is not a good idea. [8 marks]

End of Examination Paper

