THE INSTITUTE OF CHARTERED ACCOUNTANTS OF SRI LANKA

SUGGESTED SOLUTIONS

KC2 – Corporate Finance & Risk Management

December 2017

Answer 01

Relevant Learning Outcome/s: 2.3.5 Evaluate the impact on financial performance (including ratios of an entity from share repurchases, issues, scrip dividends, scrip issue/capitalization) 5.2.4 Evaluate financing methods (including cash offer, share exchange and use of debt financing and earn-out arrangements, merger, acquisition or divestment). 1.2.1 Assess the achievement of designated financial objectives using. - Returns provided to shareholders. - Financial statement forecasts/financial modeling - Outcomes of financial statement analysis (profitability, liquidity, gearing, asset, investor ratios) 5.1.1 Discuss mergers, acquisitions and divestment as business strategies [including reasons, critical success factors and especially different types divestments such as trade sale, spinoff and management buy-outs (MBOs)]
Page No: 163/494/73/486

(a)

Pre-split		Post-split	
Sizzle Asia 70%	17,500,000	Sizzle Asia 60%	45,000,000
Public 30%	7,500,000	Simdi Growth Fund 10%	7,500,000
		Public 30%	22,500,000
Total no. of shares	25,000,000	Total no. of shares	75,000,000
Market capital 25 million shares at Rs. 210 per share = Rs. 5.25 billion.		Market capital 75 million shares at Rs. 70 per share = Rs. 5.25 billion.	

Alternative answer

Post – split		
Sizzle Asia 63%	47,250,000	(52,500,000 x 90%)
Simdi Growth Fund 07%	5,250,000	(52,500,000 x 10%)
Public 30%	22,500,000	
Total No. of Shares	75,000,000	

(b) Simdi Growth Fund = 7,500,000 x Rs. 70 = Rs. 525 million
Transaction cost 1.2% = Rs. (6.3 million)
Net sales proceeds = Rs. 518.7 million
USD = 3.346 million

Alternative answer

Simidi Growth Fund	5,250,000 x Rs.70	367,500,000
Transaction Cost 1.2%		(4,410,000)
Net sales proceeds		363,090,000
USD value	363,090,000/155	
	Rs. 2,342,516	

(c)

	Rs. million
Revenue	50,000
Less: cost of sales	(35,000)
Gross profit 30%	15,000
Administrative cost 8%	(4,000)
Bad debts provision 3%	(1,500)
Selling expenses 10%	(5,000)
Royalty 1%	(500)
EBITDA	4,000
Less: depreciation	(250)
EBIT	3,750
Less: financial cost	(1,983)
Profit before tax	1,767
Tax at 28%	(495)
Profit after tax	1,272

Working capital:
3 months inventory = 35,000 x 3/12 = 8,750
2 months debtors = 50,000 x 2/12 = 8,333
1 month credit = 35,000 x 1/12 = (2,916.67)
Working capital = 14,166.33
Financial cost = 14,166.33 x 14% = (1,983.28)

Alternative answer

3 months inventory = 35,000 x 90/365	=	8,630
2 months debtors = 50,000 x 60/365	=	8,219
1 month credit 35,000 x 30/365	=	(2,877)
Working capital	=	13,972
Financial cost 13,972 x 14%	=	1,956

(d)

Accenture purchases 60% of Sizzle (Sri Lanka) shares From Sizzle (Asia)	=	75,000,000 x 60% x 110
	=	Rs. 4,950 million
Transaction cost 1.2%	=	Rs. 59.4 million
Total cost	=	Rs. 5,009.4 million
50% of public [75m x 30% x 50% x 110] accepted the offer	=	75,000,000 x 15% x 110
	=	Rs.1,237.5 million
Transaction cost 0.5%	=	Rs. 6.2 million
	=	Rs. 1,243.7 million
Total transaction cost for 75% equity stake	=	Rs. 6,253.1 million

(e)

Goodwill $\longrightarrow \frac{6,253.1 \text{ million}}{2}$ = Rs. 3,126 million

Ideally we need to forecast the additional operating cash flow that would be generated due to the brand rights in the foreseeable future (10 years), discount it to the present value (deducting the brand royalty fee) and determine whether the present value of the additional cash flows is higher than the goodwill recorded. If not, the deficit needs to be charged to the P & L as impairment to goodwill.

(Total: 25 marks)

Answer 02

Relevant Learning Outcome/s:
1.2.2 Analyse financial results by using trends and ratios (including the DuPont analysis in financial statements across time/different companies/different accounting policies in appraising the short and long-term viability of the organisation (working capital issues such as overtrading and solutions to overtrading is expected to be discussed here)
2.2.1 Evaluate working capital requirements and investment decisions using working capital cycle and permanent and temporary working capital estimations.
3.1.1 Discuss different dividend policies, taking into account factors such as cliental effect, leverage and capital requirements, solvency ratios, tax considerations and Companies Act
3.1.3 Evaluate appropriate dividend policies for different organisations (private/listed in main or smaller markets) and the importance of dividend yield, dividend cover and dividend per share as important investor ratios.
Page No: 71/114/122/292

Part (a)

The financial position of ABC indicates that the liquidity has significantly worsened from last year to this year. **The cash balance has reduced from a positive balance of Rs. 300 million last year to a net OD balance of Rs. 100 million (net decrease of Rs. 400 million) this year.** On the other hand the profitability has remained satisfactory at the gross profit level as well as the net profit level.

Accordingly, the company has invested in WC and capex totaling Rs. 1,100 million.

At the same time the trade creditor balance has changed unfavorably amounting to Rs. 100 million.

Therefore, the total impact of the cash outflow is Rs. 1,200 million. This is a significant investment made by the company. The increase in non-current assets amounting to Rs. 700 million suggests that the company has gone for a major capacity expansion together with increased inventory volumes amounting to Rs. 170 million. The increased sales and the inefficient collection process has resulted in increased trade receivable balance of Rs. 230 million.

On the other hand the company has not attempted to match its working capital requirements via trade creditors there again it has decreased by another 100 million.

Therefore, we need to see how the company has financed its total increased investment of Rs. 1,200 million. (1,100 + 100)

Retained earnings + Depreciation	- 680
Cash	- 280
Overdraft	- 120
Other creditors	- 60
Non-current liabilities	- 60
Total	**1,200**

Conclusion

The company has increased its sales by approximately 29% without sufficient capital infusion. Term loans have not been considered and no additional equity capital was

obtained. The entire capital requirement has been financed from short term sources, other than retained earnings, hence the worsening of the liquidity position of the company.

This situation can be explained as overtrading which occurs when a company increases its sales without proper capital backing.

Ratio analysis to support liquidity situation

01. Liquidity ratios:

	2016/17	**2015/16**
Current ratio	1.76	1.8
Quick ratio	0.98	1.24

The current ratio has not been impacted largely but the quick ratio has decreased significantly as a majority of the cash is held up in inventories.

02. Sharp Increase in sales - The sales have increased by almost 30% for a period of one year.

03.

	2017	**2016**
Receivables collection period	550 x 365	320 x 365
	3,100	2,400
	65 days	49 days

04 Inventory days

	450 x 365	280 x 365
	1,860	1,400
	88 days	73 days

05 Trade payable days

	300 x 365	400 x 365
	1,860	1,400
	59 days	104 days

06. Sales to PPE ratio:

	2016/17	**2015/16**
Sales	3,100	2,400
PPE	2,450	1,800
Sales to PPE	**1.27**	**1.33**

The ratio has been maintained at a good level for over two years. This indicates that the company has invested well in PPE at the cost of liquidity.

07. Increase in sales to inventory

	2016/17	**2015/16**
Cost of sales	1,860	1,400
Inventory	450	280
Sales to inventory	**4.13**	**5**

Inventory position has increased and this indicates mismanagement in inventory while overtrading by the company.

08. Fall in profit margin – This is due to increased short term funds hence increased finance costs.

	2016/17	2015/16
Sales	3,100	2,400
NP	630	570
NP Ratio	20%	23%

09. Increase in short term funds and decline in cash and cash equivalent balances.

Part (b)

The Summary of savings is given below.

		(Rs. million)
Option 1	Term loan	12.60
Option 2	Factoring	12.91
Option 3	Cash discount	14.26/16.06

Option 1			
Overdraft value (Rs. million)			120
Interest savings on this	(22%-15%)		7.00%
Accumulated savings for a year (Rs. million)			8.4
Benefits (Rs. million)	(350 *12)		4.2
Net benefit (Rs. million)			**12.60**
Option 2			
Reduction of debtors	Days		30
Reduction debtors	(8.49*30)		255
Interest savings	(255*0.22)		56.05
Administrative savings			3.36
Factoring service costs			(46.50)
Net benefit (Rs. million)			**12.91**
Option 3			
Total sales (Rs. million)			3,100
Current Debtors collection period			
Sales per day			8.49
Debtors			550
No. of days			64.7
Approximately		(days)	65
The discount would bring the average collection period to		(days)	32
Revised collection period			
60%	10	6	
40%	65	26	
			32
Cost of discounting			**46.50**

(3,100 at 60% at 2.5%)	
Revised sales value (3,100-46.50)	3,053.50
Revised - average sales	8.37
Reduction of debtors due to discounting scheme (65-32) x 8.37	276.21
Saving on borrowing cost of debtors 276.21 x 22%	60.76
Net benefit 60.76 – 46.50 (Rs. million)	**14.26**

Option 03 Alternate answer

Previous cost of borrowing on debtors 3,100 x 65/365 x 22%	121.45
Proposed cost of borrowing on debtors 3,053.50 x32/365 x 22%	58.89
Saving on borrowing cost (121.45 – 58.89)	62.56
Total saving on discount scheme → saving	62.56
cost	(46.50)
	16.06

Evaluation and conclusion
The summary above shows that option 03 is the best option to adopt.

Option 1: Term loan

There are two major drawbacks in this option.

01. It does not address the root cause.
02. Limits the flexibility of the company to carry out its factory construction work due to the conditions given in the mortgage bond. This option will have an unfavorable effect in the long term.

Hence not recommended.
Option 2: Factoring

The main critical drawback of this option is the impact on customer loyalty.

The company is running with 50 loyal and well-established agents. They do provide market intelligence as well. In the event the factoring company undertakes the collection, the chances of losing loyal customers are quite high. As the factoring company is quite aggressive and take all possible action to collect money, this may have an adverse effect on loyal customers.

Hence, not recommended.

Option 3: Cash discount

This option provides the highest benefit which is the safest compared to all the options. It carries another benefit of increased sales which has not been considered in the calculations.

This option is recommended for the company.

Part (c)

The liquidity position of the company has created a situation where the company will have major issues in paying cash dividends. The simple reason being that long-term investments have been financed from short term funds available with the company.

One thing to clarify here is that we do not have a situation where the company is proposing dividends without sufficient profits earned for the current year or past years. However, the current liquidity position does not support the dividend payout. Hence the concern is from a financial management perspective more than a legal consideration.

A company may opt to maintain a constant dividend payout irrespective of the liquidity position due to many reasons. In reality, one of the critical factors to consider is the type of shareholder profile that exists in the company. For example, if the majority of shareholders are institutions, they may need an annual steady cash flow to manage their day to day expanses. Also, to honor their cash payout commitments to investors.

Explained above is one of the practical reasons to support cash dividends and there could be more reasons.

However, in theory the dividends payout will not have a major impact on the company value determination or in other words the share price determination if the following conditions are met.

Any withheld dividends can be reinvested in investments that would result in a greater return than the cost of equity. In the event the expected investment opportunities available in the market are going to result in lower returns than the cost of equity, the dividend payout is expected as the owners of the funds may have better investment opportunities.

Hence the company borrowing funds can be accepted under two conditions.

01. Above rule is correct

02. The company is already in a liquidity trap and proper action will be taken to come out of it, failing which if loans are obtained for dividends this may result in major operational difficulties due to working capital mismanagement.

Answer 03

Relevant Learning Outcome/s 5.2.1 Evaluate business valuation techniques (asset based, earnings based, proxy PE base, cash flow based) for a specific merger or acquisition or divestment. 2.6 Capital structure decision making 4.1.1 Analyse the capital budgeting process (including searching for investments, strategic prioritisation, identifying investment, investment appraisal, authorisation, capital budget, monitoring and review) 4.1.2 Evaluate investment projects using discounting factor/non-discounting factor techniques with. - Tax - Inflation (monetary and real method) - Unequal life projects (annual equivalent method only) - Asset replacement - Capital rationing (including multi period capital rationing) - Under uncertainty (certainty equivalent, adjusting discounting factors/payback, using probability and sensitivity analysis) - Foreign investments (using forward exchange rates or country specific discounting factors) 2.3.2 Analyse various methods (IPO, introduction, private placement, right issues) of issuing instruments to capital markets. 6.2.1 Assess different tools/strategies to mitigate each of the risks identified above. 6.2.2 Assess various types of financial derivatives (including forward contracts future swaps and options)
Page No: 439/453/260/327/147/151/152/620/630/634/640

(a)

A summary of the business valuation under three different methods is given below.

Assets based **(W1)** - Rs. 40.3 million
Earnings based (PE) **(W2)** - Rs. 65.16 million
Free Cash flow based **(W3)** - Rs. 45.81 million

<u>Given below are some of the key reasons why the earnings based valuation cannot be taken directly by QPL.</u>

The risk, stability, and expertise present in large highly professional quoted companies are not comparable to those of a small company such as QPL. Generally, large quoted companies will have advantages and should be valued on a higher multiple of their earnings than a small company. Hence some discounting is needed.

Given the above reasons, it is recommended to discount the PE based valuation and negotiate within the range of Rs. 40.3 million to 45.81 million.

Working 1 (W1)Assets based valuation - NRV

	Rs. million
Net assets	55.3
Adjustments for:	
Land and buildings	30
Plant and machinery	-20
Inventory	-10
Trade receivables	-15
Adjusted NRV	**40.3**

Working 2 (W2)Earnings Based valuation - PE	
Target company (Z PLC)	
EPS	10.5
MPS	152
PE ratio	14.48
Earnings per share of QPL	
	Rs. 4.5/1.5 shares
EPS (Rs.)	3
Based on the above market price per share(MPS) of QPL	3*14.48 times
MPS	43.44
Total valuation Rs. million	**65.16**

Working 3 (W3) Free cash flow based valuation	
	Rs. million
Year 1 sales (2017/2018)	
2016/2017 sales	262
Growth	4.5%
Expected sales	273.79
2016/2017 EBIT to sales ratio	23.76/262*100
After considering the EBIT to sales ratio drop: 23.76/262 (9.07%-2.5%)	6.5% (approximately)
2017/2018 EBIT (273.79 x 6.5%)	17.80 (approximately)
Investment in PPE (0.1%) (273.79 x 0.1%)	-0.274
Working capital - 2017/2018 (0.5%)	-1.369

FCFF	EBIT (1-t) - capital investment - WC investment	
	17.80 (1-0.28)-0.274-1.369	
	11.17	
Today's firm value	D1/(r-g)	
Growth rate	4.5%	
Present value of firms future cash flows	11.17/(13%-4.5%)	
Rs. million	131.41	
Less: Market value of debts	(85.599)	
Value remaining for equity share holders	**45.81**	

Calculation of WACC			
Debt	85.599	61%	
Equity	55.259	39%	
	140.858		
Cost of equity			
Risk free rate	9%		
Risk premium	3.50%		
Beta factor**(W4)**	1.4		
Adjusted risk premium	4.9%		
Cost of equity	13.9%		
Approximately	**14%**		
Cost of debt	16.50%		
After tax cost of debt	**0.1188**		

WACC			
Equity	39%	14%	5.46%
Debt	61%	11.88%	7.25%
			12.71%
Approximately			**13%**

Working 4 (W4) Arriving at Beta factor for QPL		
Target company Debt to equity ratio	**70:30**	
Beta factor	1.78	
Assumed tax rate	0.28	
Calculating unlevered beta	Beta levered 1 + (1-t))*D/E	
	1.78 1+ (1-0.28)*70/30	
	1.78/2.68	
Unlevered beta	**0.664**	
Estimated beta of QPL		
Levered beta =	Bu * (1+ (1-t) * D/E)	
	1.40	

Part (b)

The capital structure decision involves taking into consideration several factors including income, risk, flexibility, control, timing etc. The following factors are critical for QPL to consider in assessing their capital structure.

Efficient WACC – The WACC continues to fall with the addition of debt to the capital structure provided the cost of debt is managed at the correct level. As far as QPL is concerned it has already reached a higher gearing position, debt to equity of 61:39, and there is a question whether the company is able to reduce WACC further by introducing more and more debt to the structure.

Cost of equity: 13.9%
Cost of debt: 11.88%

Tax advantage of debt – Interest on debt is a tax-deductible expense and hence reduces the tax burden. The advantage of a tax shield motivates the company to raise more loans from the market. The market value of the firm would increase with the decreased tax burden. As explained in the previous point the reduced WACC would mean a higher market valuation for the company.

Flexibility – It is clear that QPL has already reached an alarming level and that is the reason why the debt provider is demanding for a premium to compensate for the credit risk. Therefore, the management of QPL should decide whether to go ahead with further debt at the cost of flexibility or look for other sources of funding.

Operational risk exposure to reasonable limits – The operational performance of QPL has been volatile over the last three years and only 2016/17 has recorded a marginal profit. The external market conditions for drugs in Sri Lanka has gone through several discussions and the market place is becoming more and more regulated with price caps and other controls.

Hence the chances that compliance risk, country risk, forex risk and other key risks driving the business to an expected level of profitability is high. The debt financing has no flexibility into any of these incidents as the debt payment is committed. Therefore, a stringent assessment of the risks of each business is necessary before committing further credit to the capital structure.

Controlling power – If more equity is issued to the public, control will get diluted for the promoters, whereas with issuing of debt the current shareholding will be retained. However this may not be a concern for QPL as majority of shares are within the family. At the moment there is an opportunity to expand the equity base without losing the controlling power.

Impact to the capital structure

Composition	Current capital structure	Increased Debt		
Debt	85.599	20	105.599	66%
Equity	55.259	0	55.259	34%
			160.86	100%

If Rs. 20 million is taken as debt finance, the new WACC would be:
0.66*0.1188 + 0.34*0.14 = 12.6%

Part (c)

Mass production	30%	2%	0.6%
Forex exposure	10%	1%	0.1%
Both	60%	3%	1.8%
EBIT to sales ratio drop			**2.5%**

Incremental EBIT						
	2016/2017	**2017/2018**	**2018/2019**	**2019/2020**	**2020/2021**	**2021/2022**
	Rs. million					
Total Sales (from pre-seen) - A		363	431	550		
EBIT (from pre-seen) – B		34.5	41.5	60.2		
EBIT % (B/A)		9.5%	9.6%	10.9%		
Less: EBIT to sales ratio drop		-2.5%	-2.5%	-2.5%		
Revised EBIT %		7%	7.1%	8.4%		
Revised EBIT (Value)		**25.41**	**30.60**	**46.2**	**50.82**	**55.90**
Forecasted sales with current standalone shops & outlets in supermarkets	262	328	368	426	476	527
EBIT (current level)	23.7	30.16	33.84	39.08	43.77	48.55
EBIT to sales ratio	9.07%	9.07%	9.07%	9.07%	9.07%	9.07%
Less: EBIT to sales ratio drop		-2.5%	-2.5%	-2.5%	-2.5%	-2.5%
Revised EBIT % - based on current level		6.6%	6.6%	6.6%	6.6%	6.6%
Revised EBIT value		21.65	24.29	28.12	31.42	34.78
Incremental EBIT		3.76	6.31	18.08	19.4	21.12

Project evaluation						
	2016/2017	**2017/2018**	**2018/2019**	**2019/2020**	**2020/2021**	**2021/2022**
	Rs. million					
Incremental EBIT		3.76	6.31	18.08	19.4	21.12
EBIT(1-t)		2.71	4.54	13.02	13.97	15.21
Investment	(30.00)	(30.00)	(30.00)	-	-	-
Depreciation and Amortisation		10.00	20.00	30.00	20.00	10.00
Working capital		(8.00)	(8.00)	(8.00)	-	-
Free cash flow	(30.00)	(25.29)	(13.46)	35.02	33.97	25.21
Terminal value						108.64
	(30.00)	(25.29)	(13.46)	35.02	33.97	133.85
Discounting factor	1.00	0.893	0.783	0.674	0.592	0.519
PV	(30.00)	(22.58)	(10.50)	23.60	20.11	69.47
NPV	50.1					

		Approximately	**DCF**
Year 1	12.24	12%	0.893
Year 2	13.32	13%	0.783
Year 3	13.7	14%	0.674

Discounting factor

Year 3				
		%	Cost	WACC
Loan1	30	0.28	12.24%	0.035
Loan 2	30	0.28	14.4%	0.041
Equity	45	0.4285	14.32%	0.061
	105	1		13.7%
Approximately	14%			
Cost of equity				
Risk free rate	9			
Market premium	3.5			
Beta	1.52			
Cost of equity	14.32			

Terminal value	
Year 2021/22 FCF	25.21
Less/ Depreciation	(10.00)
FCF from 2013 onwards	15.21
WACC	14%
Terminal value	108.64

Part (d)

(i) Disagree with both of his statements.

- There are many Private equity firms in Sri Lanka run by global leaders from the same market segment as well as local banks. For example, NDB utilized a private equity firm early this year. There is also a clear indication that most Private equity firms operating in Sri Lanka are encouraging most SMEs to come and join with them post war in Sri Lanka.

- On the other hand neither venture capital firms nor private equity would be suitable for raising equity capital due to the reasons outlined below.

Private equity firms mostly buy mature companies that are already established and have streamlined operations to increase revenues. Venture capital firms, on the other hand, mostly invest in start-ups with high growth potential. Therefore, QPL will not qualify for any of the prerequisites. The key requirement for QPL is to issue equity shares and ease the highly geared position.

Private equity firms mostly buy 100% ownership of the companies in which they invest. As a result, the companies are in total control of the firm after the buyout. Venture capital firms invest in 50% or less in equity shares of the companies. QPL management will never want to lose the controlling power as the current business model operates well and the proposed project seems profitable. Hence the ownership transfer to a third party would not make sense.

(ii) QPL will find it difficult to go for an IPO due to the reasons given below.

Lack of requisite scale: The total asset value of QPL as at 31 March 2017 is Rs. 218 million.

Enhanced corporate structure: The corporate structure shows that the operational set up is quite premature to handle an IPO and the prospectus would highlight this matter.

Hence, transparency and the governance need to be improved.

The cost of raising funds would be quite expensive due to direct and indirect costs involved in listing a company through an IPO.

As private equity firms, Venture capital and IPO are not suitable for raising extra capital, the ideal option would be to look for an individual investor for the expansion plan or to look for somebody who is looking for long term returns rather than quick wins in order to bridge the financing gap.

Part (e)

The pharmaceutical industry is under pressure due to the below factors.

01. Manufacturing initiatives are already underway with large and already established companies
02. The industry is being regulated by government bodies hence possible price controls.
03. Foreign currency exchange pressure with reduced Central Bank intervention in exchange rate determination.

Foreign exchange would expose QPL to transaction and economic risk.

Transaction exposure: refers to the risk of adverse exchange rate movements occurring in the course of normal international trading transactions. Examples are given below.

Purchase or selling on credit where the prices are stated in foreign currency.
Borrowing or lending in foreign currency.

Economic exposure: Refers to the risk that the present value of a company's future cash flows might be reduced by adverse exchange rate movements.

The above explanations do clearly show that the first two areas are highly impacted. Any significant devaluation in rupees against foreign currencies, will have an impact on the company. This is a significant exposure as almost all the drugs are imported by the company with credit. This is the key reason as to why the business research team has identified that the trade payable balance needs closer attention.

This long term trend will result in high price levels and reduce demand for company goods whereas low priced drugs are available in the local market which are locally manufactured. This is clearly the economic exposure arising from forex.

Transaction exposure for company's operations should be looked at from the trade payable perspective due to the reason that the purchase will be subject to substantial exposure. The hedging can be discussed as below.

Remain Un-hedged

One can stay away from taking any actions against possible exchange rates in the market place. Given the current situation the company can expect the below amount to be paid.

150,000 USD at 159 = LKR 23,850,000

However, the forex risk is not covered and the company may end up with having to pay a lower or higher amount.

Forward market hedge

In this case the company will get into a forward contract and the three months forward rate is 158.5.

The amount to be paid would be 150,000 at 158.5 = 23,775,000 LKR. This amount is Rs. 75,000 lesser than the uncertain amount. Hence would be a preferable option.

Money market hedge

The company will have to pay USD 150,000 in 3 months' time.

Will invest in an USD 150,000 equivalent amount after exchanging LKR taking into account 3 months interest revenue as well.

Annual investment rate: 6% (Three months 1.5%)

150,000/1.015= 147,783

How much money you would need to buy 147,783 USD

147,783*157 = 23,201,931

Three months finance cost = 23,201,931*4.5% = 1,044,086
Total cost = 23,201,931 + 1,044,086
= LKR 24,246,017

Conclusion

The forward market hedging gives the lowest cost as calculated by the research team.

(Total: 50 marks)

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