



BBF4302-Treasury Management

Tuesday 4th June, 2024

08:30- 11:30

INSTRUCTIONS:

TIME ALLOWED: THREE HOURS (plus 5 minutes to read through the paper)

Instructions to Candidates:

1. Section A: This question is compulsory and must be attempted.
2. Section B Answer any **THREE (3)** questions from this section.
3. This examination paper carries a total of **100Marks**.

SECTION A: Question 1 is compulsory and must be attempted.

QUESTION ONE

You are the Treasury Manager for Global Tech Solutions, a multinational corporation with operations in the United States, Europe, and Asia. The company manufactures and sells high-tech equipment and has revenues in multiple currencies, including USD, EUR, and JPY. Your role involves managing the company's cash flow, foreign exchange risks, and investment strategies.

Current Situation:

1. **Cash Position:** GlobalTech has significant cash balances in the United States and Japan but has a liquidity shortfall in its European operations.
2. **Currency Fluctuations:** Recently, the EUR/USD exchange rate has been highly volatile due to economic uncertainties in Europe. The JPY/USD exchange rate has also shown some fluctuations due to changes in Japanese monetary policy.
3. **Investment Needs:** The European division requires €50 million for a new R&D project, which is expected to enhance product development and market competitiveness.
4. **Debt Obligations:** GlobalTech has an upcoming debt repayment of \$20 million in the United States, due in three months.
5. **Regulatory Environment:** Different regions have varying regulations on capital movements and currency conversions.

Required

As the Treasury Manager,

- a) How would you manage the cash flows and foreign exchange risks to ensure liquidity across regions, fund the new R&D project in Europe, and meet the debt repayment obligations in the United States? [20Marks]
- b) Describe the strategies and financial instruments you would use to optimize the company's treasury operations in this context. [20Marks]

[Total:40Marks]

Section B: Answer any THEREE (3) questions from this section.

QUESTION TWO

Imagine you are a Treasurer for a multinational corporation that operates in various countries. The company has multiple subsidiaries, each with its own cash balances in different currencies. The headquarters of the company is in the United States, and your primary responsibility is to manage the company's global cash positions efficiently.

- a) Given the diverse locations of your subsidiaries and their varied cash balances in different currencies, explain the concept of cash pooling. How can cash pooling be beneficial to your organization's cash management strategy, and what are the potential challenges or risks associated with implementing cash pooling? [5Marks]
- b) Discuss the different types of cash pooling structures available, such as notional pooling, zero balancing, and physical pooling. What are the advantages and disadvantages of each type, and under what circumstances might you choose one over the other? [5Marks]
- c) Suppose one of your subsidiaries is located in a country with strict currency controls and regulations. How might these regulations impact your ability to implement cash pooling, and what alternative cash management strategies or structures could you consider in this situation? [5Marks]
- d) Your company aims to optimize its liquidity and minimize borrowing costs. Explain how an interest optimization technique, such as target balancing, can be integrated into a cash pooling strategy. Provide an example of how this technique could work in practice. [5Marks]

[Total:20Marks]

QUESTION THREE

Suppose you are the Finance manager of a small manufacturing company that produces customized widgets. Your company uses a specific type of raw material, which is essential for widget production. You have a steady demand for this raw material, with an average requirement of 200 units per week. The cost of placing an order for the raw material is K50 per order, and the cost of holding inventory is K5 per unit per year. The company has a lead time of 5 days

Required:

- a) Calculate the Economic Order Quantity (EOQ) for the raw material in this scenario. [5Marks]
- b) How many orders per year will you need to place to meet your demand? [5Marks]
- c) What is the reorder point if you want to maintain a safety stock of 20 units? [5Marks]

[5Marks]

- d) How often should you reorder the raw material if you want to minimize your total inventory cost?

[5Marks]

[Total:20Marks]

QUESTION FOUR

ABC Corporation estimates its annual cash usage at K12,000,000. The company incurs a transaction cost of K100 every time it transfers funds from investments to cash. The annual interest rate on its marketable securities is 5%.

Required:

- a) What is the optimum amount of cash to be invested in each transaction? [6Marks]
b) How many transactions will arise each year? [6Marks]
c) What is the cost of making those transactions per annum? [4Marks]
d) What is the opportunity cost of holding cash idle per annum? [4Marks]

[Total:20Marks]

QUESTION FIVE

- a) Explain the concept of treasury management. What are the key objectives and responsibilities of a treasury department within an organization? Provide examples to illustrate your points. [5Marks]
b) Imagine you are the treasurer of a medium-sized manufacturing company. Describe the steps you would take to assess and manage the company's liquidity risk. How would you ensure the company has adequate liquidity to meet its short-term obligations? [5Marks]
c) In the context of treasury operations, discuss the differences between money market instruments and capital market instruments. Provide examples of each and explain when a company might choose to use one over the other. [5Marks]
d) Discuss the importance of compliance and regulatory considerations in treasury operations. Provide examples of relevant regulations that treasuries need to adhere to, and explain how a company's treasury department can ensure compliance while executing financial transactions. [5Marks]

[Total:20Marks]

END OF EXAMINATION