FIN 435
Summer 2000
Midterm 3
Bruce Seifert

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Total

Show All Work and Answer Questions Fully

1.) Explain how multilateral netting works. Why would a company do this? 8pts.

2.) What is a functional currency? 8pts.

3. **Explain the various ways one part of a firm could use to transfer money to another part of the same company?** **12pts.**

4. **What additional strategies might a firm employ to send money to another part of the company if the firm is operating in a country that blocks funds? In otherwords, Subsidiary A wants to send money to its parent and Subsidiary A is located in a country that regularly blocks funds? In addition, what techniques might the parent use to send money to the subsidiary if its subsidiary is located in a country that blocks funds?**

10pts.

5. **In the U.S. when does a company use the current rate method as opposed to the temporal method?** **8pts.**

6. **What is an interest rate swap?** **8pts.**

7. **Explain the concept of mismatched maturities? Give an example. What is the purpose of this technique? 8pts.**

8. **What is a Balance Sheet hedge? Why would a firm use one? 8pts.**

9. **ABC Company had the following balance sheet, expressed in millions of pesos, on December 31, 2000:**

Assets		Liabilities and NetWorth	
Cash	**100**	**Accounts Payable**	**400**
Accounts Receivable	**500**	**LT Debt**	**600**
Inventories	**400**	**Capital Stock**	**200**
Net Plant and Equipment	**1000**	**Retained Earnings**	**800**

Relevant exchange rates are as follows:

Pesos 10/$ **Plant and equipment was acquired at this rate and capital stock was issued at this rate.**

Pesos 12/$ **Inventory was acquired at this rate as was long term debt. This was also the exchange rate on December 31, 2000.**

Pesos 14/$ **Exchange rate for January 1, 2001.**

Give the balance sheet accounts in $ on January 1, 2001, assuming no change in the peso accounts between December 31, 2000 and January 1, 2001, using (1) the current rate method and (2) the temporal method.

What is the accounting gain or loss under both methods?

Assume the value of retained earnings under the current rate method was $72 million while under the temporal method it was $80 million. The Cumulative Translation Adjustment (CTA) account on December 31, 2000 was - $8.67 million (a negative $8.67 million) **30 points**