FOREX CLASS 8 PART 1 HOME WORK SUPPORT COVERAGE

Question			Answer			Lecture Time
Q. No	Page no.	Book	Q. No	Page no.	Book	
13	5	CW Q BOOK	13	7	CW ANS BOOK	00:00:31 TO 00:22:41
1	54	HW ANS BOOK	1	55	HW ANS BOOK	00:22:42 TO 00:26:21
12	6	HW Q BOOK	12	7	HW ANS BOOK	00:26:22 TO 00:29:24
24	8	CW Q BOOK	24	12	CW ANS BOOK	00:29:25 TO 00:32:08

Question 13: CW Q BOOK PAGE 5

M/s. Sky products Ltd., of Mumbai, an exporter of sea foods has submitted a 60 days bill for EUR 5,00,000 drawn under an irrevocable Letter of Credit for negotiation. The company has desired to keep 50% of the bill amount under the Exchange Earners Foreign Currency Account (EEFC). The rates for ₹/USD and USD/EUR in inter-bank market are quoted as follows:

	₹/ USD	USD/EUR
Spot	67.8000 - 67.8100	1.0775 - 1.8000
1 month forward	10/11 Paise	0.20/0.25 Cents
2 months forward	21/22 Paise	0.40/0.45 Cents
3 months forward	32/33 Paise	0.70/0.75 Cents

Transit Period is 20 days. Interest on post shipment credit is 8 % p.a. Exchange Margin is 0.1%. Assume 365 days in a year.

You are required to calculate:

i. Exchange rate quoted to the company

ii. Cash inflow to the company

iii. Interest amount to be paid to bank by the company.

(Source: ICAI)

Answer: CW ANS BOOK PAGE 7

i. Transit and usance period is 80 days. It will be rounded off to the lower of months and @ months forward bid rate is to be taken

₹/USD	₹ 67.8000
Add: Premium for 2 months	₹ 0.2100
	₹ 68.0100
Less: Exchange margin @ 0.1%	₹ 0.0680
Bid rate for USD	₹ 67.9420
USD/EUR	USD 1.0775
Add: Premium	USD 0.0040
	USD 1.0815
₹/EUR Rate (67.942 x 1.0815)	₹ 73.4793
Amount of Export Bill	EUR 5,00,000
Less: EEFC	EUR 2,50,000
	EUR 2,50,000
Exchange Rate	₹ 73.4793

ii. Cash Inflow ₹ 1,83,69,825

iii. Interest for 80 days @ 8% ₹ 3,22,101

Topic 3 CROSS RATE

Question 1: HW ANS BOOK PAGE 54

M/s. MTR products Ltd., of Chennai, an exporter of frozen foods has submitted a 60 days bill for EUR2,50,000 drawn under an irrevocable Letter of Credit for negotiation. The company has desired to keep 40% of the bill amount under the Exchange Earners Foreign Currency Account (EEFC). The rates for INR/USD and USD/EUR in inter-bank market are quoted as follows:

	INR/ USD	USD/EUR
Spot	81.2000 - 81.2300	1.2100 - 1.2250
1 month forward	15/18Paise	0.25/0.30 Cents
2 months forward	20/23Paise	0.45/0.55 Cents
3 months forward	26/30Paise	0.65/0.80 Cents

Transit Period is 25 days. Interest on post shipment credit is 7.5 % p.a. Exchange Margin is 0.2%. Assume 365 days in a year.

You are required to calculate:

i. Exchange rate quoted to the company

ii. Cash inflow to the company

iii. Interest amount to be paid to bank by the company

(Source: FOD)

Answer: HW ANS BOOK PAGE 55

i. Transit and usance period is 85 days. It will be rounded off to the lower of months and @ months forward bid rate is to be taken

INR/USD	INR81.2000
Add: Premium for 2 months	INR 0.2000
	INR 81.4000
Less: Exchange margin @ 0.2%	INR 0.1628
Bid rate for USD	INR81.2372
USD/EUR	USD 1.2100
Add: Premium	USD 0.0045
	USD 1.2145
INR/EUR Rate (81.2372x 1.2145)	INR98.6626
Amount of Export Bill	EUR 2,50,000
Less: EEFC	EUR 1,00,000
	EUR 1,50,000
Exchange Rate	INR98.6626

ii. Cash Inflow = 1,50,000 × 98.6626
= INR 1,47,99,387

iii. Interest for 85 days @ 7.5% = INR2,58,482

Question 12: HW Q BOOK PAGE 6

TT Ltd. is planning to hedge its foreign exchange risk. It has made a purchase on 1st April 2021 for which it has to make a payment of US $ 1 Lakh on 30/09/2021. The present exchange rate is 1US $ - ₹ 73. It can purchase forward 1US $ at ₹ 74. TT Ltd. will have to make an upfront premium @ 1% of the forward amount purchased. The cost of the funds to the company is 10% p.a. In the following situations, compute the Gain/(Loss) of the TT Ltd. will make if they hedge with exchange rate on 30/09/2021 as:

i. ₹ 76/US $

ii. ₹ 70/US $

iii. ₹ 79/US $

Note: Calculation to be done on monthly basis.

(Source: ICAI)

Answer: HW ANS BOOK PAGE 7

	(₹)
Present Exchange Rate ₹ 73 = 1 US$	
If company purchases US$ 100,000 forward premium is 100,000 × 74 × 1%	74,000
Interest on ₹ 74,000 for 6 months at 10%	3,700
Total hedging cost	77,700
If exchange rate is	₹ 76
Then gain (₹ 76 – ₹ 74) for US$ 100,000	2,00,000
Less: Hedging cost	77,700
Net gain	1,22,300
If US$ = ₹ 70	
Then loss (₹ 70 – ₹ 74) for US$ 100,000	4,00,000
Add: Hedging Cost	77,700
Total Loss	4,77,700
If US$ = ₹ 79	
Then Gain (₹ 79 – ₹ 74) for US$ 100,000	5,00,000
Less: Hedging Cost	77,700
Total Gain	4,22,300

Question 24: CW Q BOOK PAGE 8

A company is considering hedging its foreign exchange risk. It has made a purchase on 1st. January, 2008 for which it has to make a payment of US $ 50,000 on September 30, 2008. The present exchange rate is 1 US $ = ₹ 40. It can purchase forward 1 US $ at ₹ 39. The company will have to make a upfront premium of 2% of the forward amount purchased. The cost of funds to the company is 10% per annum and the rate of corporate tax is 50%. Ignore taxation. Consider the following situations and compute the Profit/Loss the company will make if it hedges its foreign exchange risk:

i. If the exchange rate on September 30, 2008 is ₹ 42 per US $.

ii. If the exchange rate on September 30, 2008 is ₹ 38 per US $.

(Source: ICAI)

Answer: CW ANS BOOK PAGE 12

	₹
Present Exchange Rate ₹40 = 1 US$	
If company purchases US$ 50,000 forward premium is 50000 × 39 × 2%	39,000
Interest on ₹39,000 for 9 months at 10%	2,925
Total hedging cost	**41,925**
If exchange rate is ₹42	
Then gain (₹42 – ₹39) for US$ 50,000	1,50,000
Less: Hedging cost	41,925
Net gain	**1,08,075**
If US$ = ₹38	
Then loss (39 – 38) for US$ 50,000	50,000
Add: Hedging Cost	41,925
Total Loss	**91,925**