**a)** **An Overall Outline of the ways Financial Management of the Company Might Change**

A large group with multiple member companies, its financial management structure can be divided into two types, namely, decentralized and centralized. The connotation of decentralized financial model is the financial fragmentation of each member enterprise, which decides the financial problem, while the group company can pay attention to the strategy and so on. The connotation of the centralized financial model is that all the financial rights of the enterprise are concentrated in the group company, and the members of the group must strictly implement the financial decisions of the group[1].

The advantage of using decentralized financial management model is to stimulate the creativity of subsidiaries and improve the efficiency of financial decision-making. At present, more and more enterprises adopt the centralized financial management mode, which is due to the fact that:

The group's subsidiaries have different management and mode of operation, and other legal persons is equal and independent, in this case, if not a unified, can easily lead to overall planning in the whole picture, caused some waste of resources, influence the whole efficiency of the group.

And the centralized financial management mode should follow the following principles: conducive to resource utilization; to encourage subsidiaries and employees of various departments; conducive to the subsidiary and part of the performance evaluation; to achieve the overall strategic objectives for the company[2].

But we know the truth too far, so excessive concentration or excessive decentralization will affect the group's overall strategic objectives. From the point of view of enterprise practice, neither is desirable. So we should combine, grasp a suitable degree, you can better play to the headquarters of the group's financial management functions, and can better elicitor, creativity. The combination of the two can overcome both shortcomings, but also play both advantages. The allocation of the main decision-making power at the head office, and the subsidiary company with independent management, such distribution is the most ideal.

**b)**

**i)** **Financial Evaluation of the Buyout**

In order to evaluate the buyout financially by using discounted cash flows, we should calculate the future spot rates in the first place. Considering that the buyout involves two countries, that is, China and Australia, we will do the calculation separately. As for China, the future spot rates in ten years are as follows.

|  |  |  |
| --- | --- | --- |
|  |  | Spot Rate |
| Current |  | 9.67 |
| In one year |  | 9.71 |
| In two year |  | 9.75 |
| In three year |  | 9.79 |
| In four year |  | 9.82 |
| In five year |  | 9.86 |
| In six year |  | 9.9 |
| In seven year |  | 9.94 |
| In eight year |  | 9.98 |
| In nine year |  | 10 |
| In ten year |  | 10.26 |

Then, we can calculate the net present value in pounds.

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Year | 0 | 1 | 2 | 3 | 4 | 5 |  | 6 | 7 | 8 | 9 | 10 |
| Cash Flow(Yuan) | 3 | 3.3 | 3.63 | 3.99 | 4.39 | 4.83 |  | 5.31 | 5.85 | 6.43 | 7.07 | 7.78 |
| Spot Rates | 9.67 | 9.71 | 9.75 | 9.79 | 9.82 | 9.86 |  | 9.9 | 9.94 | 9.98 | 10 | 10.26 |
| Cash Flow(pounds) | 0.31 | 0.34 | 0.37 | 0.41 | 0.45 | 0.49 |  | 0.54 | 0.59 | 0.64 | 0.7 | 0.76 |
| Discount Factor 15% | 1 | 0.87 | 0.756 | 0.658 | 0.572 | 0.497 |  | 0.432 | 0.376 | 0.327 | 0.284 | 0.247 |
| Present value | 0.31 | 0.29 | 0.28 | 0.27 | 0.26 | 0.24 |  | 0.23 | 0.22 | 0.21 | 0.2 | 0.18 |

According to the chart above, we can figure out that the net present value is ￡2.07 million. As for Australia, we can use the same way to calculate NPV

Net Present Value = .

As the net reorganisation costs for china and Australia are respectively 2.4 million Yuan and AUD 400000, which both exceeds the net present value for each country. Therefore, we can come to the conclusion that it may be not so ideal for Monsaldale Sauces to make the buyout[3].

**ii)Advice on the Effect of the Following Possible Occurrences**

⚫If the M & A enterprise requires an installment payment and the payment price is paid at the rate of performance, this measure will help narrow the gap between the two parties in terms of the merger price, which will enable the target enterprise to maintain the normal operation of the enterprise at the beginning of the merger, To prove the value of the enterprise, and the mergers and acquisitions can also protect themselves, so that the performance of the merger after the completion of the rapid decline.

And the use of the full payment of the way, then there is no more advantages, increased the financial pressure of the enterprise. So I suggest that mergers and acquisitions business or to try to conduct business negotiations, but also can make concessions, such as reducing the repayment period and other conditions.

If using the full payment of the payment method, then the enterprise will need to plan for the next financial issues to ease the financial constraints.

⚫ After the acquisition of the new subsidiary, general cash flow will rise, if the actual cash flow in the actual operation process of the cash flow is lower than the previous forecast, so on the one hand that a merger plan may not be so ideal, in this case a strategic plan to re look at the Target Corp specific indicators and corporate. On the other hand, it shows that after the merger, the cooperation between the two companies may not be good enough, so it is necessary to make much effort in the field of cooperation and make more business exchanges. The worst case is to sell the subsidiary again[4].

**iii)** **Views on the use of the PPP Theory for Forecasting Future Foreign Exchange Rates**

The theory of purchasing power parity has a profound influence on the theory of economic field and the method of economic analysis. Provides the basis for the exchange rate decision theory of purchasing power parity, and monetary and credit system origin deep analysis has been widely used in the field of international economy, specifically, plays a very important role in the exchange rate decision.

This famous theory also has its shortcomings, the theory of purchasing power parity is that it is based on the theory of money, money quantity theory assumes that money was the only factor affecting the price, so long as the production structure and consumption structure of the two countries and the price system roughly the same, then the exchange rate changes between the two countries may be very close. This shows that the purchasing power is not as accurate as the purchasing power parity between the parity and the real exchange rate is a big deviation, which is the weakness of the purchasing power parity theory[5].

Now let me say another theory: the interest rate parity theory, the main point of the theory is that the relationship between the spot exchange rate and the forward exchange rate of the two countries is closely related to the interest rates of the two countries. The main starting point of the theory is that the short-term interest rate income obtained by Chinese investors should be equal to the short-term investment income obtained by exchanging foreign exchange rates with foreign exchange rates, and buying the currency forward exchange rate at the spot exchange rate.

In 1920s, the interest rate parity theory gradually attracted the attention of Western economists. The interest rate parity theory and the theory of purchasing power parity difference is the former focus on the relationship between the flow and the exchange rate decision on capital, that is because of international capital flows on the causes of changes in the exchange rate (PPP theory is based on the flow of goods). However, the theory of interest rate parity is not a perfect interest rate decision theory, which is due to the theory of some of the assumptions in fact difficult to achieve, coupled with the impact factors of the complexity of changes in interest rates, in the short-term rate of operation, its effect is not stable[6].

**c)** **An Evaluation of the Main Issues and Challenges Potentially facing the Company**

In today's international financial environment, the sources of financing for M & A programs are generally two: own funds and bank loans. In addition, equity financing is relatively harsh conditions, financing to become a listed company, the implementation of the corresponding audit procedures, but also to meet the financing conditions, which makes the financing costs rise, so the audience is less; the bond financing, the company will issue bonds, the credit rating of the bond credit rating is very strict, so many restrictions. As a result of the above financing methods, the majority of M & a business is funded by its own funds. Due to the restrictions of its own funds, it has strict restrictions on the perfect completion of its merger and acquisition program.

Another source of funding is buyout funds. Based on past mergers and acquisitions history, M & A funds have played a significant role in the process of mergers and acquisitions[7].

Therefore, the company in the financing process may encounter problems:

1. The financing channels are relatively simple. In the current business efficiency in general circumstances is relatively low, if the enterprise to carry out mergers and acquisitions financing, the amount of financing is very limited. In loan financing, most banks generally tend to compare the strength of the company loans, that is to say, many banks are not willing to allow the company to use loans for speculative business, which for this company to some extent increase the financing difficulties. If the acquisition company is a listed company, and Target Corp is non-listed company, then the target enterprise part of the listing process has obstacles, increasing the cost of mergers and acquisitions[8].

2. At present, the sources of M & a funds are mainly bank loans, companies issuing shares, etc., and financing methods are relatively monotonous. Coupled with the current shortcomings of the capital market itself, the financing of M & A plans is more difficult.

3. If the M & a company is a listed company, it is also necessary to consider the ownership structure of M & A in the M & a program. Due to the special nature of the shares of listed companies and the proportion of shares issued, if the listed company as the acquirer, usually pay several times the cost of transfer of non-tradable shares of funds. Therefore, the cost of mergers and acquisitions and the amount of financing has increased greatly, and the financing risk has been increased and the success rate has been reduced[9].

**d)** **An Outline of the Potential Benefits and Cost Savings**

**i)** **The Multinational Financial System**

1. Use tax rates in different countries and transfer pricing to avoid tax avoidance

First, goods sold between subsidiaries are sold at lower prices to meet tax avoidance purposes.

Subsidiaries can also raise taxes to avoid tax purposes. Moreover, among subsidiaries, profits are transferred through intangible assets, capital allocation, or through transfer pricing.

2. Tax avoidance through taxpayers through internal transfer pricing.

Firms can make huge profits through transfer pricing, but relative state taxes will suffer. In view of this situation, each country will introduce appropriate laws and regulations to prevent enterprises from transferring profits to tax avoidance[10].

Transfer pricing is a two edged sword. When enterprises use transfer pricing to avoid tax, they must obey the laws and regulations of other countries, and they can avoid being misunderstood as delaying tax. In the evaluation process of transfer pricing, we should consider the tax rate, the structure of multi tax rates, the current and long-term interests, so that we can successfully evade tax through transfer pricing, and avoid the legal risks.

According to the relevant website data, China's import duty rate for seasoning sauce is 8.4%, while the Australian tax rate is 17.6%, then you can let the Australian subsidiary of the sauce at a very low price to sell to the branch in China, although Australia's subsidiary lost, but the profits of the Chinese branch has risen, and China's import tax rate is relatively low, then you can avoid the difference between the two tax rates formed by the amount of tax[11].

**ii)** **The Professional Management of Monsaldale’s finances**

⚫ At present, even large multinational companies in the financial sector are still subject to a lack of control and supervision of the financial value chain, as well as information fragmentation and capacity deficiencies. For small companies, it is often constrained by the lack of technology needed to optimize financial management and the lack of corresponding human resources. The current globalization, tight credit markets, the quickening pace of business, the level of financial risk in the market reached a hitherto unknown level, in this context if the financial optimization is not good, the gap is very dangerous.

One drawback of centralized technology management is that it may take longer to send information from the central control location when the distribution device setting is disabled. Also, if a remote location fails, more time is needed to integrate resources. The centralized financial management can integrate the financial data of each region, and understand the financial information and performance of the whole company in the overall situation. One of the drawbacks of centralized financial management is a must need a lot of fixed costs of staff at the headquarters set, but we all know that in the remote areas of labor costs are relatively low, so if you tell the accounting cost distributed to these areas may be more cost savings. One drawback of central technology management is that sending assistance from the central location can take longer when the device is disabled locally. Centralized accounting helps to integrate financial data from remote areas in order to fully understand the company's performance.

⚫ Centralized financial management can reduce the cost of debt, increase the return on investment, reduce the financial risk, and ensure the flexibility of the whole company's financial affairs. By concentrating the financial payment process, the company can obtain significant benefits directly from its own financial management. Among them, the concentration of financial management in all aspects of the impact on the company, as follows:

Improved working capital management through increased access to cash, resulting in reduced debt and increased return on investments of excess cash.

To a certain extent, reduce cash flow, thereby optimizing the flow of funds management.

Reduce the number of bank accounts, thereby reducing transaction costs and bank charges.

For all legal entities, standardized cash management is achieved.

With regard to risk management, centralized financial management can play a huge positive role:

By monitoring the global economic situation, we can more effectively manage foreign exchange exposure and avoid interest rate risks.

Reduce exposure, thereby reducing the additional costs of foreign exchange conversion and bank transfer.

To monitor bank risk limits globally.

The centralized financial accounting management uses the funds, the financial examination and approval authority of all departments and units, and all the financial data are uniformly accounted for, thus greatly reducing the labor cost.

The transfer pricing strategy of multinational companies is to achieve centralized control, globally unified deployment of favorable leverage manpower finance substance essential, is a necessary tool to realize its global strategy, and with its unique way to affect the development of transnational companies. The centralized financial management structure to support the above idea, because different transfer pricing is a subsidiary company within the group, if their subsidiary operations to problems, the central financial management departments will in the global environment to co-ordinate arrangements for the transfer pricing procedures, to avoid interest rate risk and legal risk[12].

Centralized management of foreign exchange funds is one of the effective methods to deal with exchange rate risks. At present, the main ideas of centralized management of overseas funds are as follows: centralized funds. At present, multinational companies in the global financing, so not only to consider the level of interest rates, but also to consider the exchange rate factors, the overall cost of financing is to combine interest rates and exchange rates. In a more comprehensive way, the interest rate, the exchange rate and the tax rate should be combined to combine the three. Therefore, it is urgent for a central financial management department to shoulder such responsibilities. That is to say, the centralized financial management system can consider the exchange rate risk globally and manage the group's overseas funds in a unified way, thus reducing the possibility of losses caused by the exchange rate risk.

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