

Case study kimtron electronics assignment



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Kim Electronics (Kimono). Product. Kim Electronics (Kimono) is the wholly owned Korean affiliate of Fairytale, a U. S. Electronic component manufacturer. Fairytale manufactures customized Integrated circuits (LLC) for use In computers , automobiles, and robots. Kimono has been Fritter's distribution affiliate in Korea, but consideration is now being given to making Kimono a manufacturing affiliate. Kimono's products would be sold primarily in Korea, and all sales would be denominated in Korean won. Sales. Sales in the first year are forecasted to be Won 22, 000 million.

The physical volume of sales Is expected to grow at 8% per annum for the foreseeable future. Working capital. Klystron needs gross working capital (that Is, cash, receivables, and Inventory) equal to 20 % of sales. Half of gross working capital can be financed by local accruals and accounts payable, but the other half must financed by Kimono or Fairytale. Inflation. Price are expected to increase as follows. Korean general price level: Korean labor costs: Kimono average sales price: U. S. General price level: Korean raw material costs: +6% per annum +8% per annum +3% per annum *2% per annum Parent supplied components.

Components sold to Kimono by Fairytale have a direct cost to Fairytale equal to 96% of their sales price. Depreciation. Plant and equipment will be depreciated on a straight-line basis for both accounting and tax purposes over an expected life of eight years. No salvage value Is anticipated. License fees. Kimono will pay a license fee of 2 % of sales revenue to Fairytale_ This fee Is tax- deductible in Korea but provides taxable income to Fairytale. Taxes. The Korean corporate income tax rate is 30% , and the U. S. Rate Is

34%. Korea has no withholding tax on dividends, interest, or fees paid to foreign residents. Cost of capital.

The weighted average cost of capital used in Korea by companies of comparable risk is 22%. Fairytale also uses 22% for Its Investments.

Exchange rates. In the year in which the Inhalant Investment takes place, the exchange rate is Won 800 to the dollar. Flatter forecasts the won to depreciate relative to the dollar at 3% per annum. Consequently, year-end exchange rates are forecasted to be as follows. Dividend policy. Kimono will pay 65 % of accounting net income to Fairytale as an annual cash dividend. Kimono and Fairytale estimate that over a five-year period the other 35% of net income must be reinvested to finance working capital growth.