

UNIVERSITY OF SWAZILAND ..
MAIN EXAMINATION PAPER 2005
DEPARTMENT OF ACCOUNTING

- COURSE TITLE** : **PRINCIPLES OF FINANCE AND BANKING**
- COURSE CODE** : **AC 3 0 3**
- DEGREE** : **DIPLOMA IN COMMERCE III**
- TIME ALLOWED** : **THREE (3) HOURS**
- INSTRUCTIONS**
1. **TOTAL NUMBER OF QUESTIONS ON THE PAPER: FIVE (5)**
 2. **THIS PAPER IS DIVIDED INTO TWO (2) SECTIONS.**
 3. **ANSWER FOUR (4) QUESTIONS.**
 4. **SECTION A: THERE IS ONLY ONE QUESTION IN THIS SECTION. THIS QUESTION IS COMPULSORY.**
 5. **SECTION B: ANY THREE (3) QUESTIONS TO BE ANSWERED.**
 6. **THE MARKS AWARDED FOR A QUESTION ARE INDICATED AT THE END OF EACH QUESTION.**
 7. **WHERE APPLICABLE, ALL WORKINGS ARE TO BE SHOWN.**
 8. **CALCULATIONS ARE TO BE MADE TO TWO DECIMAL PLACES OF ACCURACY, UNLESS OTHERWISE INSTRUCTED.**
 9. **ASSUME A 360-DAYS YEAR**

SPECIAL REQUIREMENTS: CALCULATOR

NOTE: YOU ARE REMINDED THAT IN ASSESSING YOUR WORK, ACCOUNT WILL BE TAKEN OF THE ACCURACY OF LANGUAGE, THE GENERAL QUALITY OF EXPRESSION, TOGETHER WITH THE LAYOUT AND PRESENTATION OF YOUR FINAL ANSWER.

THIS QUESTION PAPER SHOULD NOT BE OPENED UNTIL PERMISSION HAS BEEN GRANTED BY THE INVIGILATOR

Mar 8, 2005.

SECTION A

THERE IS ONLY ONE QUESTIONS IN THIS SECTION WHICH IS COMPULSORY AND MUST BE ATTEMPTED

QUESTION 1

- a) Explain Altman's failure prediction model. [2 Marks]
- b) Define Trust Receipt, and commercial papers. [2 Marks]
- c) The New Mall Company intends to borrow E 90 000 to support its short-term financing requirements during the next year. The financing alternatives offered by the Banks include:
- i) A discount interest loan from FNB with a simple interest of 10 % and no compensating balances.
 - ii) A 10% simple interest loan from Standard Bank that has a 20% compensating balance requirement.
 - iii) A 100 000 revolving line of credit from Swazi Bank with simple interest of 10% paid on amount borrowed and 4.5% commitment fee.
- Calculate the effective, annual rate of interest being charged by each Bank. [6 Marks]
- d) The country's average inflation rate supplied by Swaziland Government Statistics Department is currently 12 %. What average nominal interest rate would be expected to produce a real risk free rate of 4%, assuming a default risk premium of 0.8%, and a maturity risk premium of 1.20% at current level of average inflation rate ? [2 Marks]
- e) Z Company Ltd has a taxable income of E 400 000 from operations after all operating costs but before interest charges of E 30 000, and an interest income from FNB of E 80 000. What is Z's tax liability given these figures. [2 Marks]

f) The following data relate to X Company Ltd., as at 31 December, 2004:

Assets at the beginning of year	E 1 000
Return on assets, after tax	200
Dividend paid	50
Asset at end of year	1 150
Shareholders Equity, end of year	1 150

Required: Sustainable Growth Rate (Rp)

[2 Marks]

g) Determine the annual percentage interest cost for each of the following terms of sale, assuming the firm does not take cash discount but pays on the final day of the net period (assuming 360-day year):

i) 2/20, net 30

ii) 3/20, net 45

[2 Marks]

h) A Company needs an additional E 420 000, which it plans to obtain from factoring arrangement. The factor would purchase X Company's accounts receivables and advance the invoice amount, minus a 4% commission on the invoices purchased each month. X Company sells on terms of net 30 days. In addition, the factor charges a 12% annual interest rate on the total invoices amount, and to be deducted in advance.

What amount of account receivables must be factored to net E 420 000 ?

[2 Marks]

i) A Company needs E 120 000 from inventory financing during the next three months. The Company wants to use field warehouse financing. The cost of field warehouse financing is as follows: (a) a flat fee of E 5 000 and
(b) 9% interest on the all outstanding credit and
(c) 2% additional charge on the maximum amount of credit extended during this period.

The expected inventory levels to be financed are :

January E 250 000 , February E 500 000, and March E 350 000.

Calculate the cost of field warehouse financing

[5 Marks]

[Total Marks = 25]

SECTION B**ATTEMPT ANY THREE (3) QUESTIONS IN THIS SECTION****QUESTION 2**

a) A firm has a profit margin of 15% on sales of E 20 000. If the firm has debt of E 7 500, total assets of E 15 000, and an after-tax interest cost on total debts of 5%. What is the firm's return on assets ?

[2 Marks]

b) A Company has earnings after tax but before interest of E 300. The Company's before tax times-interest-earned ratio is 7 x. Calculate the Company's interest charges.

[2 Marks]

c) Z Company has a total interest charges of E 1 000 per year, sales of E 10 000, a tax rate of 40%, and a net profit margin of 6%. What is the firm's times interest earned (TIE) ratio?

[2 Marks]

d) X Company has cost of goods sold of E 100 000, and an inventory turnover of 10 x. The firm's current ratio is 3: 1, while the quick ratio is 2.5 : 1. How much are X Company's current assets in Emalangenzi?

[2 Marks]

e) A Company has sales of E 15 000, net income of E 1 500, and total assets of E 20 000. What is the return on assets (ROA) ?

[2 Marks]

f) Analyse the following ratios of a firms:

RATIO	FIRM'S RATIO	INDUSTRY AVERAGE
1. Days sales outstanding	32 days	38 days
2. Fixed assets turnover	12 x	8 x
3. Times Interest Earned	8 x	5 x
4. Inventory turnover	4.0 x	6 x
5. P/E Ratio	5 x	6 x

The analysis should be made for each ratio separately.

[15 Marks]

[Total 25 Marks]

QUESTION 3

- a) Discuss any four essential economic functions performed by the stock exchanges.
[6 Marks]
- b) Differentiate between an organized stock exchange and over-the-counter market?
[2 Marks]
- c) How can stock exchanges protect the interests of investors ?
[2 Marks]
- d) What are the requirements for stocks to be listed on the Main Board of Swaziland Stock Exchange? Discuss any four (4) requirements.
[2 Marks]
- e) Why ARE stock exchanges known as “barometers of economic activity” ?
[2 Marks]
- f) Name and define any two types of speculators on the stock exchanges.
[2 Marks]
- g) What do you mean by “rights issue” ?
[2 Marks]
- h) What services are rendered by “underwriters” ?
[2 Marks]
- i) List the names of any two stock brokers in Swaziland.
[2 Marks]
- e) From the following information, find out the dividend paid per share (in emalangen):

DY 4 %

Ruling Price E 11.11

[3 Marks]

[Total Marks = 25]

QUESTION 4

- a) Compare and contrast commercial banks with central banks. Discuss any **five** functions of both the banks. [5 Marks]
- b) Discuss **four** functions of money. [4 Marks]
- c) “Money is the root cause of many evils “. Discuss. [2 Marks]
- d) What factors does a banker take into account in granting a loan? [2 Marks]
- e) “When in a country two more kinds of money circulate at the same time, bad money drives good money out of circulation” Discuss. [2 Marks]
- f) Define gold standard? [2 Marks]
- g) What is Quantity Theory of Money ? [2 Marks]
- h) What do you mean by “Money at Call and Short Notice” ? [2 Marks]
- i) How can commercial banks create credit ? [2 Marks]
- j) What is meant by “Acceptances for Customers” ? How would you show this item in the balance sheet of a bank ? [2 Marks]

[Total 25 Marks]

QUESTION 5

- a) Mr. X insured various costly electronic items, furniture and cloths from SRIC against fire. During a fire in his house some of these items were thrown out of a window by the insured and his neighbours. These items were damaged beyond repair.
- i. Is the insurance company liable for this loss to X under a fire policy ?
- ii. What fundamental principle of insurance Mr. X and his neighbours were following (or not following) when his household items were thrown out of the window ?
[3 Marks]
- b) Describe briefly **four** major problems faced by Royal Swaziland Insurance Corporation .
[4 Marks]
- c) Differentiate between “change of voyage” and “deviation of voyage”, as used in marine insurance.
[2 Marks]
- d) When is delay or deviation of voyage excused ? Give two reasons.
[2 Marks]
- e) X insured against fire his shop containing stock of electrical goods worth E 60 000 for E20 000 in order to pay a smaller amount of premium. There is an “average” clause in the policy. In a fire, stock worth E 45 000 were burnt to ashes. X claimed the whole insured amount. How much can X recover?
[2 Marks]
- f) Mr A effected an insurance on his house for E 50 000 against loss or damage by fire. After sometime, A and his wife quarreled. During the heated arguments, the wife set fire to and destroyed several household goods and furniture.
Is Mr A entitled to recover under the policy ?
[2 Marks]
- g) Define a “valued” policy, as used under fire insurance. In the event of loss, how much can be paid to the insured.?
[2 Marks]
- h) Differentiate between “assignment” of a policy and “nomination” of a policy.
[2 Marks]
- i) What benefits are available under “Lilunga Asset Builder” policy on a basic premium of E 100?
[2 Marks]
- j) What is “Jettison” ?
[2 Marks]
- k) Define “subrogation”.
[2 Marks]

[Total Marks = 25]