UNIVERSITY OF SWAZILAND

MAIN EXAMINATION PAPER 2005

DEPARTMENT OF ACCOUNTING

COURSE TITLE	:	PRINCIPLES OF FINANCE AND BANKING
COURSE CODE	:	IDE-AC 303-1
DEGREE	:	DIP. COM. III
TIME ALLOWED	:	TWO (2) HOURS
INSTRUCTIONS	1.	TOTAL NUMBER OF QUESTIONS ON THE PAPER: FOUR (4)
	2.	ANSWER ALL FOUR (4) QUESTIONS.
	3.	THE MARKS AWARDED FOR A QUESTION ARE INDICATED AT THE END OF EACH QUESTION.
	4.	WHERE APPLICABLE, ALL WORKINGS ARE TO BE SHOWN.
	5.	CALCULATIONS ARE TO BE MADE TO TWO DECIMAL PLACES OF ACCURACY, UNLESS OTHERWISE INSTRUCTED.
	6.	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.

QUESTION 1

a) Explain Altman's failure prediction model.

[3 Marks]

b) 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 ?

[3 Marks]

c) 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.

[3 Marks]

d) 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)

[3 Marks]

e) Define "finance"? Describe three main functions of a finance manager.

[5 Marks]

f) What would happen to the standard of living in Swaziland, if people have faith in the safety of our financial institutions. Discuss any four implications.

[8 Marks]

[Total Marks = 25]

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.

[1 Marks]

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

[1 Marks]

d) 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) ?

[1 Marks]

e) 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. [20 Marks]

[Total 25 Marks]

QUESTION 3 The following statements relate to Moonlight Company Limited :

MOONLIGHT COMPANY LIMITED
BALANCED SHEETS

ASSETS:	**2003**	**2004**
Goodwill	E 24 000	E 18 000
Land	36 000	30 000
Machinery (Gross)	30 000	54 000
Less Accumulated Depreciation: Mach.	6 000	12 000
Net Machinery	24 000	42 000
Total Fixed Assets	84 000	90 000
CURRENT ASSETS:		
Cash	E 30 000	18 000
Marketable Securities	6 000	30 000
Accounts Receivable	36 000	30 000
Inventories	24 000	72 000
Total Current Assets	96 000	150 000
Total Assets	**180 000**	**240 000**
LIABILITIES & EQUITY:		
Accounts payable	24 000	30 000
Notes payable	12 000	36 000
Accruals	36 000	18 000
Total Current Liabilities	72 000	84 000
Long-Term Debts	6 000	24 000
Common Stock E 1 each	78 000	90 000
Share premium	6 000	12 000
Retained Earnings	18 000	30 000
Total Equity	102 000	156 000
Total Liability & Equity	**180 000**	**240 000**

INCOME STATEMENT FOR THE YEAR ENDED 31st DECEMBER 2004

Sales	E 420 000
Cost of Goods Sold	300 000
Other Expenses	(54 000)
Depreciation	(6 000)
EBIT	60 000
Taxes 40%	24 000
Net Income	**36 000**

Required: **Statement of cash flows for 2004.**

[25 Marks]

QUESTION 4:

a) What is proforma (projected) financial Statement ? Why is it prepared?

[6 Marks]

b) What is financial break-even method ?

[6 Marks]

c) What data is necessary to construct an operating break-even?

[1 Mark]

d) The following income statement of XYZ Ltd is shown below:

	E
Sales	36 000
Cost of goods sold	25 200
Gross Profit	10 800
Fixed overheads	6 480
EBIT	4 320
Interest	2 880
Earnings before tax	1 440
Tax 40%	576
Net income	864
Dividend (50%)	432

REQUIRED:

1. Degree of Operating Leverage

2. Degree of Financial Leverage

3. Degree of Total Leverage

[12 Marks]

[Total 25 Marks]