

**UNIVERSITY OF SWAZILAND**  
**SUPPLEMENTARY EXAMINATION PAPER 2005**  
**DEPARTMENT OF ACCOUNTING**

**COURSE TITLE : PRINCIPLES OF FINANCE AND BANKING**

**COURSE CODE : IDE-AC 3 0 3-1**

**DIPLOMA : DIPLOMA IN COMMERCE III**

**TIME ALLOWED : TWO (2) HOURS**

**INSTRUCTIONS 1. TOTAL NUMBER OF QUESTIONS ON THE PAPER: THREE (3)**

**2. ANSWER ALL THREE ( 3 ) 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**

**QUESTION 1**

**(a) What are the four specific activities with which financial managers are involved. Discuss.**

**[ 8 Marks ]**

**(b) What would happen to the standards of living in Swaziland, if people lost faith in the safety of Swazi financial institutions.**

**[ 6 Marks ]**

**(c) Define the following terms:**

- 1. Money market**
- 2. Risk-free rate of interest**
- 3. Financial leverages**
- 4. Pro forma income statement**
- 5. Marketable securities**

**[ 10 Marks ]**

**(d) “ Despite the recent decline in investor trust for financial reporting by companies, the executives of major firms in Swaziland believe their firms should, and do, try to maintain high ethical standards in all their business dealings”. Discuss.**

**[ 6 Marks ]**

**[ Total 30 Marks ]**

**QUESTION 2:** The following statements relate to Moonlight Company Ltd:

**BALANCE SHEET OF MOONLIGHT COMPANY LTD.**

<b>ASSETS:</b>	<b><u>2003</u></b>	<b><u>2004</u></b>
Goodwill	E 36 000	27 000
Land	54 000	45 000
Machinery (Gross)	45 000	81 000
Less: A.D. Machinery	<u>(9 000)</u>	<u>(18 000)</u>
Net Machinery	<u>36 000</u>	<u>73 000</u>
<b>Total fixed assets</b>	<b>126 000</b>	<b>135 000</b>
<b>CURRENT ASSETS:</b>		
Cash	45 000	27 000
Marketable securities	9 000	45 000
Accounts Receivable	54 000	45 000
Inventories	<u>36 000</u>	<u>10 8 000</u>
<b>Total current assets</b>	<b><u>144 000</u></b>	<b><u>225 000</u></b>
<b>Total assets</b>	<b><u>270 000</u></b>	<b><u>360 000</u></b>
<b>LIABILITIES &amp; EQUITY:</b>		
Accounts payable	36 000	63 000
Notes payable	18 000	36 000
Accruals	<u>54 000</u>	<u>27 000</u>
<b>Total current liabilities</b>	<b><u>108 000</u></b>	<b><u>126 000</u></b>
Long-term Loans	9 000	36 000
Common Stock	90 000	126 000
Share Premium	9 000	18 000
Preferred stock	27 000	9 000
Retained earnings	<u>27 000</u>	<u>45 000</u>
<b>Total equity</b>	<b><u>153 000</u></b>	<b><u>198 000</u></b>
<b>Total liabilities &amp; equity</b>	<b><u>270 000</u></b>	<b><u>360 000</u></b>

**Income Statement for the year ended December 31,2004**

Sales	E 630 000
Cost of goods sold	( 450 000)
Other expenses	( 81 000)
Depreciation	<u>( 9 000)</u>
<b>EBIT</b>	<b>90 000</b>
Taxes 40%	<u>( 36 000)</u>
<b>Net income</b>	<b><u>54 000</u></b>

**REQUIRED:** Statement of cash flows for the year 2004.

[ 30 Marks ]

**QUESTION 3:**

Analyze the firm's current position from the following data:

<u>Ratio</u>	<u>X Company</u>	<u>Industry</u>
Inventory turnover	5.8 x	7.0 x
Days sales outstanding	32 days	37 days
Fixed assets turnover	5.0 x	3.6 x
Times interest earned	6.5 x	3.9 x
Debt ratio	60 %	45 %

The analysis should be made for each ratio separately and compared to the industrial average.

Also, review the overall financial position of the company in the light of the above information.

[ 40 Marks ]