

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

- COURSE TITLE : PRINCIPLES OF FINANCE AND BANKING**
- COURSE CODE : IDE-AC 303-2**
- 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.**

**Feb 2, 2005.**

**QUESTION 1**

- a) Define Trust Receipt, Field warehouse and commercial papers. [ 6 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.

**REQUIRED:** Effective interest rate of interest being charged by each bank.

[6 Marks]

d) 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

[ 4 Marks ]

e) 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 ?

[ 4 Marks ]

f ) 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]**

**QUESTION 2**

- a) Discuss any three essential economic functions performed by the stock exchanges.  
[ 6 Marks ]
- b) Differentiate between an organized stock exchange and over-the-counter market?  
[ 3 Marks ]
- c) How can stock exchanges protect the interests of investors ?  
[ 3 Marks ]
- d) What are the requirements for stocks to be listed on the Main Board of Swaziland Stock Exchange? Discuss any two (2) requirements.  
[ 2 Marks ]
- e) Name and define any two types of speculators on the stock exchanges.  
[2 Marks]
- f) What do you mean by “rights issue” ?  
[ 2 Marks ]
- g) What services are rendered by “underwriters” ?  
[ 2 Marks ]
- h) From the following information, find out the dividend paid per share (in emalangenzi):  
DY 4 %  
Ruling Price E 11.11  
[5 Marks]

**[Total Marks = 25]**

**QUESTION 3**

- a) Compare and contrast commercial banks with central banks. Discuss any **three** functions of both the banks. [ 6 Marks ]
- b) Discuss **two** functions of money. [ 4 Marks ]
- c) “Money is the root cause of many evils “. Discuss. [ 3 Marks ]
- d) What factors does a banker take into account in granting a loan? [ 3 Marks ]
- ) “When in a country two more kinds of money circulate at the same time, bad money drives good money out of circulation” Discuss. [ 3 Marks ]
- f) Define gold standard? [ 3 Marks ]
- g) What is Quantity Theory of Money ? [ 2 Marks ]
- h) What is meant by “Acceptances for Customers” ? How would you show this item in the balance sheet of a bank ? [ 1 Marks ]

**[ Total 25 Marks ]**

**QUESTION 4**

- 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 ?

[ 5 Marks ]

- b) Describe briefly **two** 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.

[4 Marks]

- d) 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?

[4 Marks]

- e) Define a “valued” policy, as used under fire insurance. In the event of loss, how much can be paid to the insured ?

[ 4 Marks ]

- f) What benefits are available under “Lilunga Asset Builder” policy on a basic premium of E 100?

[ 2 Marks ]

- g) What is “Jettison” ?

[ 2 Marks ]

**[Total Marks = 25]**