

UNIVERSITY OF SWAZILAND
MAIN EXAMINATION PAPER 2006
DEPARTMENT OF ACCOUNTING

- COURSE TITLE** : **PRINCIPLES OF FINANCE AND BANKING**
- COURSE CODE** : **AC 3 0 3 & IDE-AC 303-1+2**
- DEGREE** : **DIPLOMA IN COMMERCE III**
- TIME ALLOWED** : **THREE (3) HOURS**
- INSTRUCTIONS**
1. **TOTAL NUMBER OF QUESTIONS ON THE PAPER: FIVE (5)**
 2. **QUESTION NO.1, IS COMPULSORY AND IS TO BE ATTEMPTED BY ALL STUDENTS.**
 3. **SECTION B: ANY THREE (3) QUESTIONS ARE TO BE ANSWERED.**
 4. **THE MARKS AWARDED FOR A QUESTION ARE INDICATED AT THE END OF EACH QUESTION.**
 5. **WHERE APPLICABLE, ALL WORKINGS ARE TO BE SHOWN.**
 6. **CALCULATIONS ARE TO BE MADE TO TWO DECIMAL PLACES OF ACCURACY, UNLESS OTHERWISE INSTRUCTED.**
 7. **ASSUME A 360-DAYS YEAR**

SPECIAL REQUIREMENTS: SILENT 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

SECTION A

**THIS QUESTION ARE COMPULSORY
AND ALL SECTIONS (a to g) MUST BE ATTEMPTED**

QUESTION 1

- a) What is the “Grasham’s Law” [2 Marks]
- b) Define Trust Receipt, Field Warehouse and Commercial Papers. [3 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 Nedbank with a simple interest of 9.5% and no compensating balances.
 - ii) A 10% simple interest loan from Standard Bank that has a 15% compensating balance requirement.
 - iii) A 100 000 revolving line of credit from Swazi Bank with simple interest of 10% paid on amount borrowed and 2.2% commitment fee.

Calculate the effective, annual rate of interest being charged by each Bank.
[3 Marks]

- d) The country’s average inflation rate supplied by Swaziland Government Statistics Department is currently 12.3 %. What average nominal interest rate would be expected to produce a real risk free rate of 3%, assuming a maturity risk premium of 1.7 % at current level of average inflation rate ? [2 Marks]
- e) X Ltd has a taxable income of E 410 000 from operations after all operating costs but before interest charges of E 50 000, and an interest income from Swazi Bank of E 40 000. What is X Company’s tax liability given these figures? [3 Marks]
- f) X Company has an inventory conversion period of 60 days, a receivable collection period of 36 days, and a payable deferral period of 26 days. What is the length of the firm’s cash conversion cycle ? [2 Marks]
- g) Analyze the firms’s current position from the following data:

RATIO	FIRM’S RATIO	INDUSTRY AVERAGE
1. Inventory turnover	4.0 x	5.8 x
2. Days sales outstanding	27 days	30 days
3. Fixed assets turnover	10 x	13 x
4. P/E Ratio	6 x	5 x

The analysis should be made for each ratio separately. [10 Marks]

[Total Marks = 25]

SECTION B
ATTEMPT ANY THREE (3) QUESTIONS IN THIS SECTION

QUESTION 2: a) The following statements relate to Moonlight Company Limited :

MOONLIGHT COMPANY LIMITED			
BALANCED SHEETS			
ASSETS:		<u>2004</u>	<u>2005</u>
Goodwill	E	24 000	E 18 000
Land		36 000	30 000
Machinery (Gross)		30 000	54 000
Less Accumulated Depreciation: Mach.		<u>(6 000)</u>	<u>12 000</u>
Net Machinery		<u>24 000</u>	<u>42 000</u>
Total Fixed Assets		84 000	90 000
<u>CURRENT ASSETS:</u>			
Cash	E	30 000	18 000
Marketable Securities		6 000	30 000
Accounts Receivable		36 000	30 000
Inventories		<u>24 000</u>	<u>72 000</u>
Total Current Assets		96 000	150 000
Total Assets		<u>180 000</u>	<u>240 000</u>
<u>LIABILITIES & EQUITY:</u>			
Accounts payable		24 000	30 000
Notes payable		12 000	36 000
Accruals		<u>36 000</u>	<u>18 000</u>
Total Current Liabilities		<u>72 000</u>	<u>84 000</u>
Long-Term Debts		6 000	24 000
Common Stock E 1 each		78 000	90 000
Share premium		6 000	12 000
Retained Earnings		<u>18 000</u>	<u>30 000</u>
Total Equity		<u>102 000</u>	<u>132 000</u>
 Total Liability & Equity		 <u>180 000</u>	 <u>240 000</u>

INCOME STATEMENT FOR THE YEAR ENDED 31st DECEMBER 2005

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

REQUIRED:

a) Statement of cash flows for 2005.

[20 Marks]

b) Using the Du Pont Equation, find out the rate of return on assets of the Company.

[2 Marks]

c) What is measured by "Times Interest Earned" (TIE) ratio ?
Discuss.

[1 Mark]

d) Veg City daily maintains an inventory of lettuce worth E 450. The total bill for produce of lettuce over the course of the year was E 54 000. How old, on average, is the lettuce Veg City serves their customers?

[2 Marks]

[Total Marks = 25]

QUESTION 3:

- a) Discuss briefly any **five** economic functions performed by the stock exchanges.
[10 Marks]
- b) In what ways investors benefit from the existence of stock exchanges?
[2 Marks]
- c) List **four** requirements for stocks to be listed on the Swaziland Stock Exchange?
[8 Marks]
- d) Given EY 5.1, PE 19.5, DY 2.4, RPE 11.30 cents. Determine the amount of dividend paid if the Company has 100 000 shares and pays dividend once in a year.

[5 Marks]

[Total Marks = 25]

QUESTION 4

- a) Define “money”. Discuss **three** functions of money.
[6 Marks]
- b) Compare and contrast commercial banks with central banks. Discuss in detail any **four** functions of both the banks.
[8 Marks]
- c) “Money is the root cause of many evils “. Discuss.
[6 Marks]
- d) What factors does a banker take into account to evaluate general credit risk before granting a loan?

[5 Marks]

[Total 25 Marks]

QUESTION 5

- a) List any **four** points to differentiate between life and Non-Life Insurance.

[8 Marks]

- b) X insured against fire his shop containing stock of electrical goods worth E 60 000 for E 20 000 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?

[3 Marks]

- c) Mr A insured his wife and later divorced her. She later died. Is the insurer liable? Discuss why or why not ?

[2 Marks]

- d) A shipment of oranges was insured against loss due to collision. Later on, the ship actually collided resulting in delay and mishandling of the shipment, which made oranges unfit for human consumption. What was the proximate cause of loss ? Is the insurer liable?

[2 Marks]

- e) “The contract of insurance is a contract of indemnity and indemnity only”. Comment on this statement.

[2 Marks]

- f) Write short notes on:

- i) Change of voyage
- ii) Endowment policies
- iii) Surrender value
- iv) Valued policies

[8 Marks]

[Total Marks = 25]