

UNIVERSITY OF SWAZILAND

MAIN EXAMINATION PAPER 2006

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.

QUESTION 1

- a) What is the “Grasham’s Law” [2 Marks]
- b) 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 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. [6 Marks]

- d) 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]

e) 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]

f) 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 ? [5 Marks]

[Total Marks = 25]

QUESTION 2:

- a) Discuss briefly any **five** economic functions performed by the stock exchanges.
[10 Marks]
- b) List **four** requirements for stocks to be listed on the Swaziland Stock Exchange?
[4 Marks]
- b) In what ways investors benefit from the existence of stock exchanges?
[2 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.
[3 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]

[Total Marks = 25]

QUESTION 3:

- 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 4:

- 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]