

UNIVERSITY OF SWAZILAND
MAIN EXAMINATION PAPER 2007
DEPARTMENT OF ACCOUNTING

COURSE TITLE : PRINCIPLES OF FINANCE AND BANKING

COURSE CODE : AC 3 0 3/ IDE-AC303

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 IN THIS SECTION IS COMPULSORY
AND MUST BE ATTEMPTED**

QUESTION 1

- a) The owner of a small business insured his shop containing merchandise worth E 60 000 for E 20 000 only. The policy contained an “average” clause. In a fire, the stock worth E 45 000 were burnt to ashes. How much can the owner of the business recover?
[3 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.
[6 Marks]

- d) The country's average inflation rate supplied by Swaziland Government Statistics Department is currently 12.23 %. What average nominal interest rate would be expected to produce a real risk free rate of 3%, assuming a maturity risk premium of 1.27 % at current level of average inflation rate ?
[4 Marks]
- e) X Ltd has a taxable income of E 370 000 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 ?
[3 Marks]
- g) 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) 2/10, net 60
 - ii) 3/20, net 45
- [3 Marks]

[Total 25 Marks]

SECTION B**ATTEMPT ANY THREE QUESTIONS IN THIS SECTION****QUESTION 2:**

a) Discuss the advantages of insurance to individuals and the business community.

[10 marks]

b) "No claim without flame". Discuss this statement in relation to fire insurance policy.

[3 marks]

c) What is an "average" clause in a fire insurance policy ?

[3 marks]

d) Differentiate between "double insurance" and "re-insurance".

[3 Marks]

e) What is "Jettison" as used in marine insurance

[3 Marks]

f) Describe briefly any two life insurance policies issued by Swaziland Royal Insurance Corporation .

[3 Marks]

[Total 25 Marks]

QUESTION 3:

a) Describe the activities of Central Bank of Swaziland.

[10 Marks]

b) 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 %

[15 Marks]

[Total 25 marks]

QUESTION 4:

a) Identify and describe four different types of sources of short-term financing.

[16 marks]

b) Calculate the annual percentage rate or cost of failure to take cash discount under the following credit terms:

- i) 1/10, net 20
- ii) 1/10, net 30
- iii) 2/10, net 20
- iv) 3/15, net 45

[2 marks]

c) Swaziland Jet Stores needs an additional E 480 000, which it plans to obtain through a factoring arrangement. The factor would purchase Jet's accounts receivables and advance the invoice amounts, minus 3.25% commission, on the invoices purchased each month. Jet sells on terms of net 30 days.

In addition, the factor charges a 9% annual interest rate on the total invoice amounts, to be deducted in advance.

i) What amount of account receivable must be factored to net E 480 000 ?

[2 Marks]

ii) If Jet can reduce credit expenses by E 6 000 per month and avoid bad debt losses of 3% on the factored amount, what is the total Emalangeneni cost of factoring arrangement?

[5 Marks]

[Total Marks 25]

QUESTION 5:

a) Discuss briefly the economic functions performed by the stock exchanges?

[12 Marks]

b) In what ways investor benefit from the existence of stock exchanges ?

[3 Marks]

c) You find the following quote for MOBILE- N Company in the financial pages of today's newspaper:

PE	EY	DY	Name	Buy	Sell	Last	Ruling	High	Low	DM	DM %	YM %
11.1	9.0	2.6	Mobile-N	140	150	140	140	140	140	-10	6.7	-

REQUIRED:

1. What was the closing price for the shares of Pep ?

[2.5 Marks]

2. The Company currently has 100 000 shares in issue and pays dividend once in a year. How much total dividend was paid in Rand ?

[2.5 Marks]

3. What was the net profit for the past year if the Company has 100 000 shares in issue ?

[2.5 Marks]

4. If the average price during the day was E 1.40, what was the Earnings per share (EPS) for Mobile-N Company ?

[2.5 Marks]

[Total 25 Marks]