

**UNIVERSITY OF SWAZILAND.**  
**MAIN EXAMINATION PAPER 2008**  
**DEPARTMENT OF ACCOUNTING**

**COURSE TITLE** : **PRINCIPLES OF FINANCE AND BANKING  
FULL TIME & IDE**

**COURSE CODE** : **AC 303**

**DEGREE** : **DIPLOMA IN COMMERCE III**

**TIME ALLOWED** : **THREE (3) HOURS**

**INSTRUCTIONS** 1. **TOTAL NUMBER OF QUESTIONS ON THE PAPER:  
FIVE (5)**

2. **ANSWER ANY 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.**

Matsapha Industries needs an additional E 500 000, which it plans to obtain through a factoring arrangement. The factor would purchase Company's accounts receivables and advance the invoice amount minus a 2 percent commission, on the invoices purchased each month. Matsapha Company sells on terms of net 30 days. In addition, the factor charges a 12 percent annual interest rate of the total invoice amount, to be deducted in advance.

**REQUIRED:**

- a. What amount of account receivable must be factored to net E 500 000?
- b. If Company can reduce credit expenses by 3 500 per month and avoid bad debt losses of 2.5% on the factored amount, what is the total emalangeni cost of the factoring arrangement?
- c. What would be the total cost of the factoring arrangement if Company's funding needs rose to E 750 000? Would the factoring arrangement be profitable under these circumstances?

**[ 5 Marks ]**

**B:**

Define and briefly discuss the following terms, as used for short-term financing:

1. Blanket lien
2. Trust receipts
3. Public warehouse
4. Field warehouse
5. Warehouse receipt

**[ 20 Marks ]**

**[ TOTAL 25 Marks ]**

**QUESTION 2:**

The following information relating to a Matsapha Textile Company for the year ended 31 December, 2007:

| <b><u>RATIO</u></b>     | <b><u>COMPANY</u></b> | <b><u>INDUSTRIAL AVERAGE</u></b> |
|-------------------------|-----------------------|----------------------------------|
| Current                 | 4.1                   | 3.6                              |
| Acid test ratio         | 2.1                   | 1.5                              |
| Inventory Turnover      | 7.4                   | 4.6                              |
| Days sales outstanding  | 43.2 days             | 32.1 days                        |
| Fixed assets turnover   | 6.9                   | 4.5                              |
| Times interest earned   | 3.3                   | 6.5                              |
| Return on total assets  | 6.4                   | 12.6                             |
| Return on common equity | 13.0%                 | 17.2 %                           |
| Price Earnings Ratio    | 15.6x                 | 13.0 x                           |
| Market/Book value       | 1.4 x                 | 2.0 x                            |

**REQUIRED:**

Analyse the Company's ratios with the Industrial averages. Give at least three points for each ratio. Can you see any obvious strengths or weaknesses, compared to the industrial average?

Comment on whether you believe Matsapha Textile Company's financial position improved or deteriorated during 2006.

**[25 Marks ]**

**QUESTION 3:** Discuss the following fundamental principles of insurance:

- a. Utmost good faith
- b. Insurable interest
- c. Indemnity
- d. Mitigation of loss
- e. Contribution

Give at least one example relating to the above principles of insurance.

[ 25 Marks ]

**QUESTION 4:**

A. What is the meaning of “fire” as used in insurance?

B. Discuss the salient features of the following types of fire insurance policies:

- i. Average policy
- ii. Floating policy
- iii. Re- instatement policy
- iv. Consequential loss policy.

C. Differentiate between “change of voyage” and “deviation of voyage”.

D. Differentiate between assignment and nomination as used in life insurance.

[ 25 Marks ]

**QUESTION 5:** What economic functions are performed by stock exchanges?  
Discuss the working of Swaziland Stock Exchange.

[ 25 Marks ]