

UNIVERSITY OF SWAZILAND
DEPARTMENT OF ACCOUNTING
MAIN EXAMINATION PAPER 2009

- COURSE TITLE** : **PRINCIPLES OF FINANCE AND BANKING**
- COURSE CODE** : **AC 303**
- DEGREE/DIPLOMA :** **DIPLOMA IN COMMERCE III**
- TIME ALLOWED** : **THREE (3) HOURS**
- INSTRUCTIONS** :
- 1. TOTAL NUMBER OF QUESTIONS ON THE PAPER: FOUR (4)**
 - 2. ATTEMPT 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.**
- SPECIAL REQUIREMENTS** : **NONE**
- 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

In January 2008, FG limited purchased 40% of the issued share capital of K L Limited at par value. K.L Limited is a private company which manufactures car accessories and its chairman and managing director owns 51% of its shares.

From the information given below, you are required to prepare a report for the Board of Directors of F G Limited assessing this recent investment in K L Limited, including an analysis of the progress and efficiency of KL Limited in 2009 using internal accounting ratios covering profitability, use of capital and liquidity.

The financial statements of KL Limited for the two years ended 31 March 2009 are set out below:

		PROFIT AND LOSS ACCOUNTS			
		2009		2008	
		E	E	E	E
	Turnover		2,340,000		1560,000
	Opening stock of raw materials	195,000		175,500	
	Add: Purchases	<u>1,560,000</u>		<u>721,500</u>	
		1,755,000		897,000	
deduct:	closing stock of raw materials	<u>390,000</u>		<u>195,000</u>	
			1,365,000		702,000
add:	Opening stock of work-in-progress	156,000		195,000	
	Direct labour	585,000		312,000	
	Factory expenses (Other than depreciation)	<u>195,000</u>		<u>78,000</u>	
		936,000		585,000	
deduct:	Closing stock of work in progress	507,000		156,000	
			429,000		429,000

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add:	Opening stock of finished goods	234,000		273,000
deduct:	Closing stock of finished goods	<u>78,000</u>		<u>234,000</u>
			<u>156,000</u>	<u>39,000</u>
Cost of sales			<u>1950,000</u>	<u>1,170,000</u>
Gross Profit			390,000	390,000
less: Expenses				
	Selling	78,000		34,500
	Administration	52,500		52,500
	Directors salaries	45,000		30,000
	Depreciation	156,000		78,000
	Overdraft interest	<u>50,700</u>		<u>-</u>
			<u>382,200</u>	<u>195,000</u>
Profit before tax			7,800	195,000
Taxation			<u>-</u>	<u>93,600</u>
Profit after tax			7,800	101,400
Dividend			<u>48,750</u>	<u>39,000</u>
Transfer to (from) retained profits			<u>(40,950)</u>	<u>62,400</u>

BALANCE SHEET AS AT 31 MARCH

	E	2009 E	E	2008 E
Fixed Assets				
Land and buildings	195,000		190,000	
Plant and machinery	1521,000		785,000	
Motor vehicles	<u>195,000</u>		<u>156,000</u>	
		1911,000		1131,000
 Investment in MN Garages Ltd		<u>39,000</u>		<u>-</u>
		1950,000		1,131,000
Current assets				
Raw materials	390,000		195,000	
Work-in-progress	507,000		156,000	
Finished goods	78,000		234,000	
Debtors	780,000		585,000	
Bank	-		390,000	
Cash	<u>45,000</u>		<u>45,000</u>	
	1,800,000		1,605,000	
 less: Creditors: amounts falling due within one year				
Creditors	663,000		234,000	
Accruals	25,500		25,500	
Taxation	39,000		93,600	
Dividend	48,750		39,000	
Bank overdraft	<u>670,800</u>		<u>-</u>	
	1,447,050		392,100	
 Net current assets		352,950		1,212,900
		<u>2,302,950</u>		<u>2,343,900</u>
Financed by				
Share capital: 360,000 E2 ordinary shares authorised, issued and fully paid		720,000		720,000
Retained profits		<u>1,582,950</u>		<u>1,623,900</u>
		<u>2,302,950</u>		<u>2,343,900</u>

The investment in MN Garages Limited gives KL Limited a 3% stake in this company

(25 Marks)

QUESTION 2

- (a) Outline the major Government activities that influence financial management and briefly illustrate how Government activities affect companies in achieving their financial objectives.

(13 Marks)

- (b) Write short explanatory notes on the following:

- (i) Expectations Theory
- (ii) Liquidity Preference theory
- (iii) Market segmentation Theory
- (iv) The Term structure of interest rates

(12 Marks)

Total: (25 Marks)

QUESTION 3

- (a) Calculate how much sterling exporters would receive or how much sterling importers would pay, ignoring the banks' commission in each of the following situations, if they were to exchange currency and sterling at the spot rate.
- (i) A UK exporter receives a payment from a French customer of FF 150,000
 - (ii) A UK importer buys goods from a Japanese supplier and pays 1 million Yen.
 - (iii) A UK exporter receives a payment of 80,000 Guilders from a Dutch customer
 - (iv) A UK importer pays a German Consulting firm DM 120,000 for services provided by the firm

Spot Rates are as follows:

France	10.73 - 10.76
Japan	233½ - 235 ½
Netherlands	3.55 - 3.57
Germany	3.1725 - 3.1775

(10 Marks)

- (b) Bongwiwe Ltd, A UK company buys goods from Redland which cost 100,000 Reds (the local currency). The goods are resold in the UK for £32000. At the time of the import purchase, the exchange rate for Reds against sterling is 3.5650 - 3.5800.

Bongwiwe sells her foreign currency income as soon as it is received at the spot rate. The overseas buyer is given three months credit.

Required:

- (i) what is the expected profit on the resale?
- (ii) What would the actual profit be if the spot rate at the time when the currency is received has moved to:
 - 1. 3.0800 - 3.0950
 - 2. 4.0650 - 4.0800

(15 Marks)

Ignore bank commission charges.

(Total: 25 Marks)

QUESTION 4

The managers of ~~Mphumzeni Ltd~~ are worried about the level of the company's interest payments. Financial information for the last 30 months is given below:

MPHUMZENI LTD

	2 years ago Jan-June - July Dec		1 year ago Jan-June - July Dec		Current year Jan - June
Total Sales(E000)	3,294	3,267	3,430	3,412	3,583
Credit Sales as a percentage of total sales	85	90	90	95	95
Average debtors (E000)	694	842	972	1148	1334
Average stock: Raw materials (E000)	95	90	110	115	120
Work in progress (E000)	210	220	200	190	220
Finished goods (E000)	115	90	100	95	80
Percentage of credit sales represented by customers taking the cash discount	50	45	45	40	40
Average overdraft interest rate for Mphumzeni (% per year)	8.5	10	11	15	17

Mphumzeni Ltd offers a cash discount of 2% for payment within seven days. The normal credit period is 45 days.

- (a) Mphumzeni managers estimate that the interest cost of financing stock and debtors has more than trebled during the last 30 months.

Evaluate whether you agree with this estimate, demonstrating

- why interest costs have increased and
- any significant changes in stock management and debtors payment patterns

(14 Marks)

- (b) Evaluate why the percentage of credit sales represented by customers taking the cash discount has fallen and recommend whether the company should continue to offer the cash discount for payment in seven days.

(5 Marks)

- (c) Discuss strategies that the managers of Mphumzeni Ltd might adopt to reduce the interest costs of debtors and stock.

(6 Marks)

Total (25 Marks)