

**UNIVERSITY OF SWAZILAND**  
**DEPARTMENT OF ACCOUNTING**  
**SUPPLEMENTARY EXAMINATION PAPER 2009**

- COURSE TITLE** : **PRINCIPLES OF FINANCE AND BANKING**
- COURSE CODE** : **IDE-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**

The primary financial objective of companies is usually said to be the maximisation of shareholders' wealth.

Discuss whether this objective is realistic in a world where corporate ownership and control are often separate, and environmental and social factors are increasingly affecting business decisions.

(25 Marks)

**QUESTION 2**

Explain how the following factors would influence the exchange rate for a currency.

- |     |                                        |           |
|-----|----------------------------------------|-----------|
| (a) | The rate of inflation                  | (5 Marks) |
| (b) | Interest rate                          | (5 Marks) |
| (c) | The natural resources of the country   | (5 Marks) |
| (d) | The political stability of the country | (5 Marks) |

(20 Marks)

**QUESTION 3**

XYZ Brewing Company (Pty) Ltd is in the business of manufacturing and selling beer. Its two major brands are Don and Skok. The company is a very old established one and for many years has operated from the original main plant. At the beginning of its 2009 financial year, the company purchased a second plant which was owned by a family business. This plant consisted of a brewery and a can manufacturing operation, together with extensive inventories and other assets. Certain of the major assets were revalued in determining the purchase price. XYZ Brewing Company (Pty) Ltd paid cash in settlement of the price agreed upon for the purchase of all the assets.

The company has grown satisfactorily during the last few years. One of the reasons for the growth in sales, is the policy of granting more favourable credit terms to distributors than its three main competitors.

You have been approached by a client who is considering investing in XYZ Brewing Company (Pty) Ltd. She has provided you with balance sheets and income statements for the last five years. Prior to your assessment, one of your clerks has prepared financial statements expressed in percentage terms, calculated certain ratios and obtained industry statistics.

You are required to:

- (a) Evaluate the financial statements of XYZ Brewing Company (Pty) Ltd with particular attention to liquidity, capital structure, profitability and turnover.

(30 Marks)

**XYZ BREWING COMPANY (PTY) LTD**

**BALANCE SHEET**

	2005 E'000	2006 E'000	2007 E'000	2008 E'000	2009 E'000
Shareholders' equity	42 358	42 464	43 338	42 189	43 302
Long-term loan	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7 586</u>
	42 358	42 464	43 338	42 189	50 888
	<u>42 358</u>	<u>42 464</u>	<u>43 338</u>	<u>42 189</u>	<u>43 302</u>
Fixed Assets	21 347	19 444	19 999	22 558	34 047
Investments	10 329	12 032	11 881	8 102	5 608
Net Current Assets	10 682	10 988	11 458	11 529	11 233

<b>Current Assets</b>					
Inventories	3 568	3 807	5 884	7 159	14 684
Debtors	4 495	5 353	5 614	8 939	11 406
Other current assets	27	2 830	6 130	7 915	2 540
Marketable securities	5 000	2 973	-	-	-
Cash	<u>3 547</u>	<u>3 253</u>	<u>2 266</u>	<u>733</u>	<u>1 056</u>
	<u>16 637</u>	<u>18 216</u>	<u>19 894</u>	<u>24 746</u>	<u>29 686</u>
<b>Current Liabilities</b>					
Creditors	3 946	4 246	4 827	5 986	6 810
Other current liabilities	<u>2 009</u>	<u>2 982</u>	<u>3 609</u>	<u>7 231</u>	<u>11 643</u>
	<u>5 955</u>	<u>7 228</u>	<u>8 436</u>	<u>13 217</u>	<u>18 453</u>

## XYZ BREWING COMPANY (PTY) LTD

## BALANCE SHEETS EXPRESSED IN PERCENTAGE TERMS

	2005	2006	2007	2008	2009
Shareholders' equity	87,6	85,5	83,7	76,1	62,5
Long-term loan	-	-	-	-	10,9
Creditors	8,2	8,5	9,3	10,8	9,8
Other current liabilities	<u>4,2</u>	<u>6,0</u>	<u>7,0</u>	<u>13,1</u>	<u>16,8</u>
	<u>100,0</u>	<u>100,0</u>	<u>100,0</u>	<u>100,0</u>	<u>100,0</u>
Fixed assets	44,1	39,1	38,6	40,7	49,1
Investments	21,4	24,2	22,9	14,6	8,1
Inventories	7,4	7,7	11,4	12,9	21,2
Debtors	9,3	10,8	10,9	16,2	16,4
Other current assets	0,1	5,7	11,8	14,3	3,7
Marketable securities and cash	<u>17,7</u>	<u>12,5</u>	<u>4,4</u>	<u>1,3</u>	<u>1,5</u>
	<u>100,0</u>	<u>100,0</u>	<u>100,0</u>	<u>100,0</u>	<u>100,0</u>

## XYZ BREWING COMPANY (PTY) LTD

## INCOME STATEMENTS

	2005 E'000	2006 E'000	2007 E'000	2008 E'000	2009 E'000
Sales	119 122	128 415	141 481	182 016	260 855
Cost of goods sold	97 897	106 634	120 605	162 383	230 822
Marketing administrative and general expenses (net of interest received)	14 652	15 720	4 363	16 043	25 672
Interest	-	-	-	-	596
Other expenses	-	-	-	990	-
Profit on ordinary activities before tax	<u>6 573</u>	<u>6 061</u>	<u>6 513</u>	<u>2 600</u>	<u>3 765</u>
Tax	<u>3 140</u>	<u>2 660</u>	<u>2 971</u>	<u>950</u>	<u>1 620</u>
Net profit after tax	<u>3 433</u>	<u>3 401</u>	<u>3 542</u>	<u>1 650</u>	<u>2 145</u>

**XYZ BREWING COMPANY (PTY) LTD**

**INCOME STATEMENTS EXPRESSED IN PERCENTAGE TERMS**

	2005	2006	2007	2008	2009
Sales	100,0	100,0	100,0	100,0	100,0
Cost of goods sold	82,2	83,0	85,3	89,3	88,5
Marketing administrative and general expenses (net of interest received)	12,3	12,2	10,1	8,8	9,9
Interest	-	-	-	-	0,2
Other expenses	-	-	-	0,5	-
Tax	2,6	2,1	2,1	0,5	0,6
Net profit after tax	2,9	2,7	2,5	0,9	0,8

**XYZ BREWING COMPANY (PTY) LTD**

**FINANCIAL RATIOS**

	2005	2006	2007	2008	2009
Current ratio	2,79	2,52	2,36	1,87	1,61
Long-term loan to equity	-	-	-	-	0,18
Return on total assets	7,1%	6,9%	6,8%	3,0%	3,1%
Inventory turnover	25,57	28,92	24,89	24,90	21,13

**XYZ BREWING COMPANY (PTY) LTD**

**INDUSTRY AVERAGES**

Ratios	2005	2006	2007	2008	2009
Current ratio	2,22	2,20	2,09	1,86	1,82
Long-term loan to equity	0,35	0,43	0,39	0,35	0,52
Return on total assets	8,7%	7,1%	6,2%	6,50%	6,1%
Inventory turnover	18,20	20,05	17,43	16,53	15,53
Trends (1982 = 100)					
sales	100,0	111,30	122,30	138,30	159,00
Cost of goods sold	100,0	112,70	125,70	143,80	164,00
Marketing, administrative and general expenses	100,0	113,00	114,60	114,10	127,80

**QUESTION 4**

- (a) A business has estimated that 10% of its sales will be cash sales, and the remainder credit sales. It is also estimated that 50% of receivables will pay in the month following sale, 30% two months after sale, 15% three months after sale and irrecoverable debts will be 5% of credit sales.

Total Sales figures are as follows:

Month	E
October	80,000
November	60,000
December	40,000
January	50,000
February	60,000
March	90,000

**Required:**

Prepare a month by month forecast of cash receipts from sales for the months January - March.

(13 Marks)

- (b) Discuss any four sources of short term financing.

(12 Marks)

(Total: 25 Marks)