

**UNIVERSITY OF SWAZILAND**  
**DEPARTMENT OF ACCOUNTING**  
**MAIN EXAMINATION PAPER 2010**

**COURSE TITLE** : **PRINCIPLES OF FINANCE AND BANKING**

**COURSE CODE** : **AC303/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 AR 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**

Assume that you are a financial manager in a state-owned enterprise that is about to have its majority ownership transferred from the government to the private sector and to become a listed company on the stock exchange. Discuss the differences in financial objectives that you are likely to face and the changes in emphasis that are likely to occur in your strategic and operational decisions as a finance manager.

**(25 Marks)**

**QUESTION 2**

You are presented with the following different views of stock market behaviour.

- (i) If a company publishes an earnings figure that is better than the market expects, the shares of the company will usually experience an abnormally high return, both on the day of the earnings announcement and over the two or three days following the date of the announcement.
- (ii) The return on professionally managed portfolios of equities is likely to be no better than that which could be achieved by a naive investor who holds the market portfolio.
- (iii) Share prices usually seem to rise sharply in the first few days of a new fiscal year. However, this can be explained by the fact that many investors sell losing stocks just before the fiscal year end in order to establish a tax loss for capital gains tax purposes. This causes abnormal downward pressure which is released when the new fiscal year begins.

Required

- A. (i) Briefly describe the three forms of the efficient market hypothesis  
(9 Marks)
- (ii) Consider what each of the above three statements would tell about the efficiency of the stock market. Where appropriate relate your comments to one or more forms of the efficient market hypothesis.  
(8 Marks)

B.

Stock market analysts sometimes use fundamental analysis and sometimes technical analysis to forecast future share prices. What are fundamental analysis and technical analysis?

(8 Marks)

**Total: 25 Marks**

**QUESTION 3**

As a result of the recent death of a relative, Mr. Mshengu, your neighbour, is about to inherit a parcel of shares in a listed company, Kwaya Ltd. Amongst the effects of the deceased he found the attached schedule.

Mr. Mshengu has a daughter, a fifth year B. Com student at UNISWA. After scrutinising the schedule she advised her father to keep the shares, since the return on equity was almost 30% and the shares should therefore prove to be a sound medium to long term investment.

Mr. Mshengu does not need to sell the shares in the near future and share prices are also depressed at present.

You are required to:

State based on information given, whether or not you agree with Miss Mshengu. Motivate your answer.

**(25 Marks)**

Kwaya LTD

Schedule

E million

	2006	2007	2008	2009	2010
Profit after tax	77	33	35	43	53
Dividends	-	<u>16</u>	<u>18</u>	<u>21</u>	<u>26</u>
Retained profit for the year	<u>77</u>	<u>17</u>	<u>17</u>	<u>22</u>	<u>27</u>
Retained earnings					
- beginning of year	-	<u>77</u>	<u>94</u>	<u>111</u>	<u>133</u>
- end of year	<u>77</u>	94	111	133	160
Non-distributable reserves	14	14	14	13	13
Share capital	2	2	2	2	2
Share premium	<u>11</u>	<u>11</u>	<u>11</u>	<u>11</u>	<u>11</u>
Equity	104	121	138	159	186
Loans	15	12	12	12	7
Current liabilities	175	238	274	348	388
Creditors	164	215	246	288	319
Tax	-	10	14	44	49
Shareholders - dividends	<u>11</u>	<u>13</u>	<u>14</u>	<u>16</u>	<u>20</u>
	<b><u>294</u></b>	<b><u>371</u></b>	<b><u>424</u></b>	<b><u>519</u></b>	<b><u>581</u></b>
Current Assets	151	191	194	261	323
Inventories	121	120	140	208	232
Debtors	7	7	7	11	11
Bank	23	64	47	42	80
Loans	19	29	37	35	33
Loan levy	2	2	-	-	-
Investments	5	6	19	19	19
Equipment and vehicles	57	75	92	98	96
Property	60	68	82	106	110
	<b><u>294</u></b>	<b><u>371</u></b>	<b><u>424</u></b>	<b><u>519</u></b>	<b><u>581</u></b>

**Question 4**

An import-export merchant in Swaziland contracts on 1 January to buy 1,500 tonnes of product X from a supplier in Portugal at a price of Esc. 11,820 per tonne. Shipment will be made direct to a customer in Germany to whom he has sold the product at DM 462 per tonne. Of the total quantity, 500 tonnes will be shipped now and the balance at the beginning of February. Payment to the suppliers is to be made immediately on shipment, whilst two months credit at the beginning of February. Payment to the suppliers is to be made immediately on shipment, whilst two month's credit from the date of shipment is allowed to the German customer.

The merchant arranges with his bank to cover these transactions in Emalangeni on the forward exchange market, the exchange rates at 1 January being as given below:

	<b>Escudos</b>	<b>DM</b>
Spot	107.45 - 107.75	3.84 - 3.88
1 month forward	55-105 c dis	2.5 -1.5 pf premium
2 months forward	75 - 175 c dis	4 - 3 pf premium
3 months forward	106 - 250 c dis	6.5 - 55 pf. premium

Exchange commission of 0.1% (maximum E10) is charged on each transaction.

You are required:

- (a) to calculate (to the nearest Lilangeni) the profit the merchant will make on the transaction. (7 Marks)
- (b) to explain how calculations of further exchange profit or loss would be made if:
- (i) the February shipment were cancelled (9 Marks)
- (ii) the February shipment were delayed until April (9 Marks)

**(Total: 25 Marks)**