

UNIVERSITY OF SWAZILAND
DEPARTMENT OF ACCOUNTING
SUPPLEMENTARY 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 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

Discuss and provide examples of the types of non-financial, ethical and environmental issues that might influence the objectives of companies. Consider the impact of these non-financial, ethical and environmental issues on the achievement of primary financial objectives such the maximisation of shareholder wealth.

Total (25 Marks)

QUESTION 2

A four-year summary of the financial accounts of Sikanye Ltd is shown below:

Statement of Comprehensive Income for the Years

	2007 EM	2008 EM	2009 EM	2010 EM
Sales	742	859	961	1,028
Operating profit	22	25	40	54
Interest receivable less payable	<u>(2)</u>	<u>-</u>	<u>(5)</u>	<u>(6)</u>
Profit on ordinary activities before tax	20	25	35	48
Taxation	<u>(7)</u>	<u>(8)</u>	<u>(12)</u>	<u>(17)</u>
	13	17	23	31
Extraordinary items:	(4)	-	(2)	-
Dividends	<u>(4)</u>	<u>(5)</u>	<u>(7)</u>	<u>(9)</u>
Profit retained	<u>5</u>	<u>12</u>	<u>14</u>	<u>22</u>

Statement of Financial Position

	2007 EM	2008 EM	2009 EM	2010 EM
Assets				
Non-Current Assets				
Tangible assets	142	168	188	225
Long-term investments	<u>4</u>	<u>6</u>	<u>8</u>	<u>8</u>
	146	174	196	233
Current Assets				
Stock	43	46	49	52
Debtors	18	24	26	31
Money market investments	11	20	20	12
Cash	<u>4</u>	<u>4</u>	<u>8</u>	<u>6</u>
	<u>76</u>	<u>94</u>	<u>103</u>	<u>101</u>
Total Assets	<u>222</u>	<u>268</u>	<u>299</u>	<u>334</u>
Less: Current Liabilities				
Bank loans and overdrafts	8	8	20	18
Trade Creditors	66	60	84	89
Taxation	7	7	8	12
Proposed dividend	2	2	3	4
Other short-term creditors	<u>21</u>	<u>26</u>	<u>35</u>	<u>40</u>
Total Current Liabilities	<u>104</u>	<u>103</u>	<u>150</u>	<u>163</u>
Non-Current Liabilities				
Long-term creditors				
11% convertible debenture 2000/2004 ¹	17	17	17	17
4% deep discount loan stock ²	<u>-</u>	<u>-</u>	<u>30</u>	<u>30</u>
Total Non Current Liabilities	<u>17</u>	<u>17</u>	<u>47</u>	<u>47</u>
Equity and Liabilities				
Called-up share capital (50c)	25	30	30	30
Share premium	30	60	-	-
Profit and loss account	<u>46</u>	<u>58</u>	<u>72</u>	<u>94</u>
Total Equity	<u>101</u>	<u>148</u>	<u>102</u>	<u>124</u>
Total Equity and Liabilities	<u>222</u>	<u>268</u>	<u>299</u>	<u>334</u>

¹ Each E100 debenture is convertible into 12.6 ordinary shares in any year up to 2024. The conversion rate has been adjusted for a rights issue in 2008.

² Redeemable at a total cost of E60 million in 2028 (at face value E100)

	2007 E	2008 E	2009 E	2010 E
Average share price	300 c	350 c	440 c	520 c
Average earnings yield of the industry	12%	11%	14%	12.5%

Additional Notes:

- (i) The company's activities (except for import/export) are entirely within the Kingdom of Swaziland.
- (ii) A 1 for 5 rights issue was made in 2008
- (iii) The company made an acquisition in 2009 costing E80 million. The book value of the tangible assets acquired was E20 million.
- (iv) The directors estimate that the current market value of tangible fixed assets is E315 million.

Required:

- (a) Appraise the financial health of Sikanye commenting upon any possible financial weaknesses.
(18 Marks)
- (b) What other information would be useful in your assessment of the company's financial health?
(7 Marks)

Total (25 Marks)

QUESTION 3

(a) Discuss the factors which influence exchange rates. (15 Marks)

(b) Write short notes on each of the following:

- (i) Money market
- (ii) Capital market
- (iii) Secondary market
- (iv) Bankers' acceptances

Total (25 Marks)

QUESTION 4

Assume that you are a consultant to a small engineering company that wishes to borrow E400,000 to expand. The annual turnover is E2 million, pre-tax profits are E280,000 and 35 staff are employed. The company's summarised balance sheet is shown below:

Balance Sheet of Hluphekile Ltd as at 31 March 2010

		E000
Fixed assets (net)		780
Current assets		
Stock	320	
Debtors	290	
Cash	<u>30</u>	640
Less Current Liabilities		
Trade Creditors	350	
Overdraft (secured)	220	
Tax payable	80	(650)
Five year fixed rate bank loan (secured)		<u>(200)</u>
		<u>570</u>
Ordinary shares (50 cent par)		190
Reserves		<u>380</u>
		<u>570</u>

Required:

Prepare a brief report for the company's directors advising them on:

- (i) How to present their arguments in support of the loan to potential lenders. (18 Marks)
- (ii) What sources of finance might be available to the company (7 Marks)

Total (25 Marks)