

UNIVERSITY OF SWAZILAND

DEPARTMENT OF ACCOUNTING

MAIN EXAMINATION PAPER 2012

- COURSE TITLE** : **PRINCIPLES OF INSURANCE, STOCK EXCHANGE AND BANKING**
- COURSE CODE** : **AC 314/IDE AC 314**
- DEGREE/DIPLOMA** : **DIPLOMA IN COMMERCE**
- 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 EPRESSION, TOGETHER WITH THE LAYOUT AND PRESENTATION OF YOUR FINAL ANSWER.**

THIS QUESITON PAPER SHOULD NOT BE OPENED UNTIL PERMISSION HAS BEEN GRANTED BY THE INVIGILATOR.

QUESTION 1

- a) Discuss seven functions performed by a stock exchange

(10 MARKS)

- b) Scarface is a family controlled company that has grown in 10 years from having 10 employees to 350 employees. The company is now considering a listing on the USM (Unlisted Securities Market) through an offer for sale.

Scarface managing director believes that, as the company has assets with a book value of E22 million and reserves of more than E10 million, the company's value when listed should be at least E32 million. He proposes that 400,000 new shares should be issued to the public to raise approximately E2.5 million for future expansion.

The company's financial performance for the last three years is summarized below:-

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEARS 31 MARCH

	2010	2011	2012
Sales	13,300	16,200	19,000
Cost of goods sold	9,000	11,500	14,400
Gross profit	4,300	4,700	4,600
Administrative expenses	800	900	950
Selling, distribution and other Expenses	600	700	750
Interest payable	500	700	800
Taxable profit	2,400	2,400	2,100
Taxation	840	840	735
Retained profit	1,560	1,560	1,365

STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH

	2010	2011	2012
Non-Current assets (net)	8,500	10,000	12,000
Current assets:			
Stock	3,600	4,500	5,400
Debtors	2,800	3,500	4,500
Cash	100	100	100
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Total assets	15,000	18,100	22,000
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Represented by:			
Ordinary shares (10cents per value)	500	500	500
Reserves	7,800	9,360	10,725
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Shareholders' funds	8,300	9,860	11,225
Long-term loans	2,000	3,500	5,000
Current liabilities			
Bank loans	1,400	500	587
Trade creditors	2,500	3,400	4,400
Taxation	800	840	788
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	15,000	18,100	22,000
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Additional notes relating to the 2012 accounts:

- (i) Sales are expected to grow by approximately 20% per year.
- (ii) The company owns a patent which could be sold for E1 million more than its book value.
- (iii) Two per cent of debtors are expected to default
- (iv) Ten per cent of stock (by value) is considered to be obsolete

- (v) Machinery has an estimated realizable value of E 500,000 less than its book value, and buildings E1,5 million more than their written-down value.
- (vi) Land has never been revalued. Land costing E50,000 was purchased 10 years ago and a further plot at a cost of E300,000 six years ago. The value of industrial land has increased by an average of 15% per year during the last 10 years.

Scarface's management has obtained some financial information on the USM listed companies in the same industry, which have the same number of issued ordinary shares as Scarface.

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Market capitalization	E35 million	E4.3 million
Earnings per share	46 cents	5.5 cents

Required:

Acting as an external consultant to Scarface prepare a report for the Board of Directors of Scarface which discusses:

- i) The accuracy of the managing director's assessment of the company's value, and
- ii) The number of shares that should be issued

If you do not agree with the managing director you are required to:

- a) Produce a revised estimate (or estimates) of the value of Scarface for purposes of a USM listing, and
- b) Estimate the number of shares which should be issued.
Include in your report any other financial advice that you feel might be useful to Scarface's management.

(15 Marks)

QUESTION 2

(a) Discuss the fundamental principles of Insurance

(9 MARKS)

(b) Discuss the differences between life and other forms of Insurance policies

(16 MARKS)

TOTAL 25 MARKS

QUESTION 3

- a) Discuss the three principal functions of commercial banks

(7 MARKS)

- b) A Central Bank Acts as the leader of the money market and supervises, controls and regulates the activities of the commercial banking system. Discuss this statement

(10 MARKS)

- c) Calculate how much sterling exporters would receive or how much Sterling importers would pay, ignoring the bank's 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 FF150 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 Consultancy firm DM 120 000 for services provided by the firm.

Spot rates are as follows:-

France	10.73	-	10.76
Japan	233½	-	235½
Netherlands	3.55	-	3.57
Germany	3.1725	-	3.1775

(8 MARKS)**(25 MARKS)**

QUESTION 4

Write short explanatory notes on the following:

- a) Black foreign exchange markets **(7 MARKS)**
- b) Share price index **(6 MARKS)**
- c) Re-insurance **(6 MARKS)**
- d) Fixed exchange rates **(6 MARKS)**

TOTAL MARKS (25 MARKS)