

UNIVERSITY OF SWAZILAND

DEPARTMENT OF ACCOUNTING

MAIN EXAMINATION PAPER 2012

**COURSE TITLE : PRINCIPLES OF FINANCE**

**COURSE CODE : AC 213/IDE AC 313**

**DEGREE/DIPLOMA : DIPLOMA**

**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**

The management of Hadebe Ltd a distribution company operating in the frozen food sector, has provided summary of statement of comprehensive income and statement of financial position for the last three years as follows:

**STATEMENT OF COMPREHENSIVE INCOME**

	<b>2012</b>	<b>2011</b>	<b>2010</b>	Explanatory
	<b>E000</b>	<b>E000</b>	<b>E000</b>	notes
Turnover	3,600	2,200	1,800	1
Cost of sales	<u>(3,060)</u>	<u>(1,760)</u>	<u>(1,476)</u>	2
	540	440	324	
Expenses:				
Depreciation	(180)	(150)	(90)	
Marketing	(60)	(30)	(20)	
Administration	(54)	(54)	(42)	
Interest	<u>(30)</u>	<u>(30)</u>	<u>(10)</u>	
Profit before taxation	216	176	162	
Taxation	<u>(54)</u>	<u>(50)</u>	<u>(40)</u>	
Profit after taxation	162	126	122	
Dividends	<u>(60)</u>	<u>(40)</u>	<u>(36)</u>	
Retained profit for the financial year	102	86	86	
	===	===	===	

**STATEMENT OF FINANCIAL POSITION**

	<b>2012</b>	<b>2011</b>	<b>2010</b>	
	<b>E000</b>	<b>E000</b>	<b>E000</b>	
<b>Non-current assets at net book value</b>	1,900	1,100	800	
<b>Current assets:</b>				
Stocks	280	190	170	
Debtors	480	200	180	3
Bank and cash	560	390	270	
<b>Creditors, less than one year:</b>				
Trade creditors	(315)	(190)	(230)	3
Other creditors	(343)	(130)	(80)	
<b>Creditors, more than one year:</b>				
Debenture loans	<u>(254)</u>	<u>(254)</u>	<u>(90)</u>	
	2,308	1,306	1,020	
	=====	=====	=====	
E1 ordinary shares, fully paid	1,400	750	600	4

Share premium	400	150	100
Retained profits	<u>508</u>	<u>406</u>	<u>320</u>
	2,308	1,306	1,020
	=====	=====	=====

## Explanatory notes

1. Analysis of sales revealed that on average 80% were made on a credit basis in each of the years.
2. A breakdown of cost of sales for each of the years showed the following:

	<b>2012</b>	<b>2011</b>	<b>2010</b>
	<b>E000</b>	<b>E000</b>	<b>E000</b>
Opening stock	190	170	150
• Purchases	3,150	1,780	1,490
Closing stock	<u>(280)</u>	<u>(190)</u>	<u>(170)</u>
	3,060	1,760	1,476
	=====	=====	=====

- Purchases were all made on credit.
3. Closing debtors' and creditors' figures may be taken as representative of the averages for each of the years in question.
  4. The market price of the shares at each of the statement of financial position dates established at:

<b>2012</b>	<b>2011</b>	<b>2010</b>
E1.82	E1.30	E1.10

- a) Select and show the basis of calculation of three ratios for each of the following aspects of Hadebe Ltd's performance.
  - i. Profitability
  - ii. Liquidity

And for each year calculate the ratios selected
- b) Prepare a report that utilizes the ratios you have calculated in (a) to analyse the profitability and liquidity of Hadebe over the three-year period.

**TOTAL ( 25 MARKS)**

## QUESTION 2

Consider the following comments and explain the theoretical errors they contain.

The Efficient Market Hypothesis (EMH) says that share prices are always right. This is because shares move in a random fashion when new information is made public. The only reason prices move randomly is because of the new information contained in the accounts when they are published.

Both technical and fundamental analysis serve no function and cannot predict future share prices. Corporate fund managers cannot predict share prices either.

**(25 MARKS)**

**QUESTION 3**

Mincorp is a mining company. Its mission is to 'maximise' profits for shareholders whilst recognizing its responsibilities to society'. It is considering a mining opportunity abroad in a remote country area where there is widespread poverty. The mining work will destroy local vegetation and may pollute the immediate water supply for some years to come. The company directors believe that permission for the mining work is likely to be granted by the Government as there are few people or animals living in the area and the company will be providing much-needed jobs.

- a) Identify the likely stakeholders in the company's decision. Consider their possible objectives and describe three likely conflicts in those objectives.

**(18 MARKS)**

- b) Explain how Governments assist companies in their financing requirements

**(7 MARKS)**

**TOTAL (25 MARKS)**

**QUESTION 4**

Mavimbela Ltd is a small manufacturing company.

Summarised accounts for the last two years are presented below:-

**STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH**

	<b>2011</b>	<b>2012</b>
	<b>E000</b>	<b>E000</b>
Non-Current Assets	820	1,000
Current Assets		
Stock	340	420
Debtors	360	570
Cash	10	-
	-----	-----
	710	990
Current liabilities		
Overdraft	140	250
Trade creditors	280	510
Other creditors	60	100
	480	860
	-----	-----
	1,050	1,130
	-----	-----
Ordinary shares (25 cents)	400	400
Profit and loss account	450	530
	-----	-----
	850	930
Medium-term bank loan	200	200
	-----	-----
	1,050	1,130
	-----	-----

**STATEMENT OF COMPREHENSIVE INCOME FOR THE YEARS ENDING 31 MARCH**

	<b>2011</b>	<b>2012</b>
	<b>E000</b>	<b>E000</b>
Turnover	1,800	2,900
Gross profit	210	260
Profit before tax	120	160

Taxation	30	40
	-----	-----
Dividend	90	120
	40	40
	-----	-----
Retained profit	50	80

Inflation during the last year was at the rate of 10%.

**Required:**

- a) Explain what is meant by overtrading, and discuss how it might be recognized in a company.

**(7 MARKS)**

- b) Evaluate whether Mavimbela Ltd is overtrading

**(12 MARKS)**

- c) One of Mavimbela's managers has suggested that the company would be more efficient if it reduced its operating cycle to the minimum possible period of time.

- i) Explain what is meant by the operating cycle of a company and how it might be determined.

**(6 MARKS)**

**TOTAL (25 MARKS)**