

UNIVERSITY OF SWAZILAND  
DEPARTMENT OF ACCOUNTING  
MAIN EXAMINATION PAPER 2014

- COURSE TITLE** : PRINCIPLES OF FINANCE
- COURSE CODE** : AC 213/IDE AC 213
- 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 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 as the maximization of shareholder wealth.

**TOTAL: (25 MARKS)**

**QUESTION 2**

The Management of Skobho 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>2014</b>	<b>2013</b>	<b>2012</b>	Explanatory notes
	<b>E000</b>	<b>E000</b>	<b>E000</b>	
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>2014</b>	<b>2013</b>	<b>2012</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

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

	<b>2014</b>	<b>2013</b>	<b>2012</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.
- Closing debtors' and creditors' figures may be taken as representative of the averages for each of the years in question.
  - The market price of the shares at each of the statement of financial position dates established at:

<b>2014</b>	<b>2013</b>	<b>2012</b>
E1.82	E1.30	E1.10

- Select and show the basis of calculation of three ratios for each of the following aspects of Skobho Ltd's performance.
  - Profitability
  - Liquidity
 And for each year calculate the ratios selected
- Prepare a report that utilizes the ratios you have calculated in (a) to analyse the profitability and liquidity of Skobho over the three-year period.

**TOTAL (25 MARKS)**

**QUESTION 3**

- (a) Edden is a medium-sized company producing a range of engineering products, which it sells to wholesale distributors. Recently, its sales have begun to rise rapidly due to economic recovery. However, it is concerned about its liquidity position and is looking at ways of improving cash flow.

Its sales are E16 million pa, and average receivables are E3.3 million (representing about 75 days of sales).

One way of speeding up collection from receivables is to use a factor. The factor will operate on a service-only basis, administering and collecting payment from Edden's customers. This is expected to generate administrative savings of E100,000 each year.

The factor has undertaken to pay outstanding debts after 45 days, regardless of whether the customers have actually paid or not. The factor will make a service charge of 1.75% of Edden's turnover. Edden can borrow at an interest rate of 8% pa.

**(15 MARKS)**

- (b) Khosi's company has sales of E20 million for the previous year, receivables at the year-end were E4 million, and the cost of financing receivables is covered by an overdraft at the interest rate of 12% pa.

**Required:**

- i) Calculate the receivables days for Khosi
- ii) Calculate the annual cost of financing receivables

**(10 MARKS)**

**TOTAL: (25 MARKS)**

**QUESTION 4**

- a) Financial Management is premised on three key decision areas. Discuss these.

**(10 MARKS)**

- b) Within a Financial Management context an inherent conflicts of interest exist with the following stakeholder groups:-

- i) Shareholders and Finance providers
- ii) Government and Shareholders
- iii) Employees and Shareholders
- iv) Shareholders and Managers
- v) Customers and Shareholders

Discuss the potential conflict of interests with each one of the stakeholder groups above.

**(15 MARKS)**

**TOTAL: (25 MARKS)**