

UNIVERSITY OF SWAZILAND
DEPARTMENT OF ACCOUNTING AND FINANCE
EXAMINATION PAPER MAY 2016 ACADEMIC YEAR 2015/2016

PROGRAMME OF STUDY	Bachelor of Commerce
YEAR OF STUDY	Year 1 (Full Time)
TITLE OF THE PAPER	Principles of Finance
COURSE CODE	ACF 114
TIME ALLOWED	Three (3) Hours

INSTRUCTIONS

1. There are Four (4) questions, ANSWER ALL.
2. Begin the solution to each question on a new page.
3. The marks awarded for a question are indicated at the end of each question.
4. Show your workings where necessary.

NOTE: You are reminded that in assessing your work, account will be taken of accuracy of the language and the general quality of expression, together with layout and presentation of your answer.

THIS PAPER IS NOT TO BE OPENED UNTIL PERMISSION HAS BEEN GRANTED BY THE INVIGILATOR / SUPERVISOR.

QUESTION ONE

- a) Define the following financial markets and give two examples of securities that trade in each.
- i. Money market 5 Marks
 - ii. Capital market 5 Marks
 - iii. Secondary Market 5 Marks
 - iv. Over the Counter Market 5 Marks
 - v. Primary Market 5 Marks

(Total Marks 25)

QUESTION TWO

Following is a balance sheet and income statement of Manthungwa Investments for the year ended December 2016

Income Statement

Particulars	E '000		Particulars	E '000
<i>Opening Stock</i>	175		<i>Sales : Credit</i>	1,200
<i>Add Manufacturing Cost</i>	1,075		<i>Cash</i>	300
	1,250			
<i>Less Closing stock</i>	150			
<i>Cost of Goods Sold</i>	1,100			
<i>Gross profit</i>	400			
	1,500			1,500
<i>Admin expenses</i>	35		<i>Gross Profit</i>	400
<i>Selling Expenses</i>	25		<i>Other Income</i>	9
<i>Depreciation</i>	50			
<i>Interest</i>	47			
<i>Tax</i>	126			
<i>Net Profit</i>	126			
	409			409

Balance Sheet

Particulars	E	Particulars	E '000
LIABILITIES		ASSETS	
Equity Shares of E10 each	350	Plant and Machinery	1,000
10% Preference shares	200	Less Depreciation	250
Reserves and Surplus	200	Net Plant and Machinery	750
Long term Loan (12%)	100	Goodwill	140
Debentures (14%)	250	Stock	150
Creditors	60	Pre-paid Expenses	100
Bills Payable	20	debtors	25
Accrued Expenses	20	Marketable Securities	75
Provision for tax	65	Cash	25
Total Liabilities	12.65	Total Assets	1,265

The share market price for Manthungwa Investments on 31 December 2016 is E45

	E '000
Reserve at the beginning	1.465
Net Profit during the year	1.260
	2.725
Preference Dividends	0.200
Equity Dividends	0.525
Reserves at the close of year	2.000

Required

Calculate the following ratios

- | | |
|---|---------|
| i. Current ratio | 1 Marks |
| ii. Quick Ratio | 2 Marks |
| iii. Debt to Equity ratio | 2 Marks |
| iv. Interest Coverage | 2 Marks |
| v. Stock Turnover | 3 Marks |
| vi. Debtors Turnover | 2 Marks |
| vii. Average Collection Period | 2 Marks |
| viii. Gross Profit Margin | 3 Marks |
| ix. Net Profit Margin | 3 Marks |
| x. Return on Capital Employed (use PAT) | 3 Marks |

xi.	Earnings per share	3 Marks
xii.	Return on Shareholders' Equity	2 Marks
xiii.	P/E Ratio	2 Marks
		(Total Marks 30)

QUESTION THREE

(Show all workings)

- (a) Mr X deposits E100, 000 in a savings bank account today, at 5% simple interest for 5 years. What is his accumulated interest **(2.5 Marks)**
- (b) Mr X invested E40, 000 today, for a period of five years. Calculate the future value if his required rate of return is 10% **(4 Marks)**
- (c) Suppose you deposit E100, 000 with an investment company which pays 10% interest with semi-annual compounding. What is the total amount at the end of 5 years **(4 Marks)**
- (d) Mr. A. deposits at the end of each year E2, 000, E3, 000, E4, 000, E5, 000 and E6, 000 for five years respectively. What is his series of deposits value at the end of five years assuming 6% compound interest **(4 Marks)**
- (e) A borrower offers 16% rate of interest with quarterly compounding,. What is the effective rate of interest **(2.5 Marks)**
- (f) What is the present value of E100, 000 receivable after 60 years if the investor's required rate of interest is 10% **(4 Marks)**
- (g) Calculate the present value of E10, 000 received in perpetuity assuming a discount rate of 12% **(4 Marks)**

(Total Marks 25)

QUESTION FOUR

- I. Generally, underwriters provide the following services to the issuing firm:
 - I) provide advice; II) buy some or all of the new issue; III) resell the issue to the public
 - A. I only
 - B. I and II only
 - C. I and III only
 - D. I, II, and III

- II. An equity issue sold to the firm's existing stockholders is called a:
 - A. Rights offer.
 - B. General cash offer.
 - C. Private placement.
 - D. Discriminatory-price auction.

- III. When a company sells an entire issue of securities to a small group of institutional investors like life insurance companies, pension funds, etc., it is called a(an):
 - A. Rights offering.
 - B. General art offering.
 - C. Private placement.
 - D. Unseasoned issue.

- IV. Which one of the following is false?
 - A. Ordinary shares represent the equity share capital of the firm.
 - B. Ordinary shareholders vote at meetings to determine important matters such as the composition of the board of directors.
 - C. Ordinary shareholders are promised a minimum annual return as a dividend.
 - D. Ordinary shareholders share in the rising prosperity of the firm.

- V. Which one of the following statements is false?
 - A. Usually providers of debt finance have no control over the direction of the company.
 - B. Usually debt holders oblige the firm to make interest and capital repayments on set dates – a failure to do so can lead to bankruptcy.
 - C. Debt holders often impose negative covenants on firms.
 - D. A floating charge debt holder can insist on the sale of a specific asset to satisfy a claim in the event of a default.

- VI. Which one of the following is NOT a disadvantage of raising capital by selling ordinary shares?

- A. Collateral has to be offered to potential shareholders.
 - B. The transaction costs are usually higher than raising other forms of finance.
 - C. The current shareholders may face a loss of control over the direction of the firm.
 - D. Dividends cannot be used to reduce taxable profit.
- VII. Which one of the following most accurately describes a debenture issued by a Swazi Firm?
- A. A financial asset with a right to receive interest and a share of a firm's profits.
 - B. A bond which entitles the owner to receive a share of the firm's assets in liquidation.
 - C. A long-term contract in which the debenture holder lends money to a company in return for promises of interest payments and capital repayment at maturity. The debenture is secured by either a fixed or a floating charge against the firm's assets.
 - D. A contract in which a lender provides finance to a firm in return for promises of interest payment and capital repayment at maturity. The debenture is unsecured.
- VIII. Which of the following best describes the concept of stock market pricing efficiency?
- A. In an efficient market the current price of all shares accurately reflects the future cash flows that will accrue to the shareholders.
 - B. In a pricing efficient market the costs of buying and selling shares are very low.
 - C. In an efficient market it is possible to use inside knowledge to make abnormally high returns on invested money.
 - D. In an efficient market, prices rationally reflect available information.
- IX. Which of the following is not an advantage of an efficient share market?
- A. It encourages share buying.
 - B. It gives correct signals to company managers.
 - C. It helps allocate society's resources.
 - D. It ensures that investors can never achieve a return greater than that on a broadly-based market index
- X. A financial derivative is which of the following?
- A. A short version of a technical expression.
 - B. When directors and other senior managers gain benefits from a business other than through their salary.
 - C. An asset whose performance is based on (derived from) the behavior of the value of an underlying asset.
 - D. The secondhand value of a used bank note.

Total 20 Marks

=====END of PAPER=====