

UNIVERSITY OF SWAZILAND
DEPARTMENT OF ACCOUNTING
MAIN EXAMINATION PAPER 2016

**COURSE TITLE : PRINCIPLES OF FINANCE AND PRINCIPLES OF FINANCE & FINANCIAL
MANAGEMENT**

COURSE CODE : IDE AC 314 (P/T)

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

The objective of Financial Management is to maximize the value of the firm.

Discuss how the achievement of this objective might be compromised by the conflicts which may arise between the various stakeholders in an organization

(25 MARKS)

QUESTION 2

- (a) Discuss and give examples of how Governments assist companies in their financing requirements.

(10 MARKS)

- (b) Private sector companies have multiple stakeholders who are likely to have divergent interests.

Required: Identify five stakeholder groups and briefly discuss their financial and other objectives

(15 MARKS)

QUESTION 3

You are presented with the following different views of stock market behavior.

- i) If a company publishes an earnings figure that is better than the market expects, the shares of that company will usually experience an abnormally high return, both on the day of the earnings announcement and over the two or three days following the date of the announcement.
- ii) The return on professionally managed portfolios of equities is likely to be no better than that which could be achieved by a naïve investor who holds the market portfolio.
- iii) Share prices usually seem to rise sharply in the first few days of a new fiscal year. However, this can be explained by the fact that many investors sell closing stocks just before the fiscal year end in order to establish a tax loss for capital gains tax purposes. This causes abnormal downward pressure which is released when the new fiscal year begins.

Required:

- a) Briefly describe the three forms of the efficient market hypothesis.

(10 MARKS)

- b) Consider what each of the above three statements would tell you about the efficiency of the stock market. Where appropriate relate your comments to one or more forms of the efficient market hypothesis.

(15 MARKS)

QUESTION 4

Conglomerate Ltd is a diversified trading group with over 50 subsidiary companies. Two of its subsidiaries AB Ltd and CD Ltd are manufacturers in the same industry. A summary of the latest accounts of both companies is set out below:-

Historical Cost Accounts
year ended 30th November, 2011

	AB	CD
	E'000	E'000
Turnover	3,505	6,147
	=====	=====
Manufacturing expenses:		
Direct labour	481	624
Materials consumed	1,380	2,601
Depreciation	272	450
Plant hire	42	127
Factory overhead	244	380
Selling and administrative expenses	360	525
Interest	60	280
	-----	-----
	2,839	4,987
	=====	=====
Profit before taxation	666	1,160
Taxation	305	410
	-----	-----
Retained profit	361	750
	=====	=====
Fixed assets (book value)	2,635	3,969
Current assets	3,195	2,350
Current liabilities	2,018	1,682
Equity capital	3,312	2,637
Loan Capital	500	2,000
Average number of employees	95	119

The Board of Conglomerate Ltd wishes to review the performance and position of the two companies and requires a comparison of their results with those that can be expected in the industry.

A recent report published by the trade association for the industry includes the following average ratios achieved by companies in the industry (based on historical cost accounts).

Pre-tax return on capital employed	19%
Pre-tax profit to sales	21%
Asset turnover	0.9
Current ratio	1.7
Capital gearing (fixed interest capital/total capital)	28%
Value added per employee	E 23,500

You are required to prepare a report for the board of Conglomerate Ltd comparing the performance and position of the two subsidiaries with each other and with the information produced by the trade association. Include in your report comment on the limitations of using ratios for such interpretation particularly mentioning the effects of inflation.

(25 MARKS)