

UNIVERSITY OF SWAZILAND

DEPARTMENT OF ACCOUNTING AND FINANCE

SUPPLEMENTARY /RESIT EXAMINATION PAPER MAY 2017 ACADEMIC YEAR
2017/2018

PROGRAMME OF STUDY	Bachelor of Commerce
YEAR OF STUDY	Year 2 (Part Time)
TITLE OF THE PAPER	Principles of Finance
COURSE CODE	AC 213
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

Define and briefly explain the importance of the following financial ratios to business managers

- i. Current Ratio
- ii. Debt to equity ratio
- iii. Interest coverage ratio
- iv. Stock turnover ratio
- v. Gross Profit margin

(Total Marks 25)

QUESTION TWO

(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 **(4Marks)**
- (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 **(5 Marks)**
- (e) A borrower offers 16% rate of interest with quarterly compounding. What is the effective rate of interest **(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 30)

QUESTION THREE

Indicate the effects of the transactions listed in the table below on total assets, current ratio and Net income. Use (+) to indicate an increase, (-) to indicate a decrease and (0) to indicate either no effect or an indeterminate effect. Assume an initial current ratio of 1.0

		Current Ratio	Net Income
1	Cash acquired through issue of additional common stock		
2	Merchandise is sold for cash		
3	Income tax due for previous year is paid		
4	A fixed asset is sold for less than book value		
5	A fixed asset is sold for more than book value		
6	Merchandise is sold on credit		
7	Payment is made to trade creditors for previous purchases		
8	A cash dividend is declared and paid		
9	Short term notes receivable are sold at a discount		
10	Fully depreciated asset is retired		
11	Accounts receivables are collected		
12	Equipment is purchased with short term notes		
13	Merchandise is purchased on credit		

(Total Marks 25)

QUESTION FOUR

1. What kind of financial markets are the JSE and New York Stock Exchange
 - A. Capitalist market
 - B. Government market
 - C. Money Market
 - D. Capital market
2. The money markets are markets in lending and borrowing money for more than two years. TRUE or FALSE
3. The bond markets are primarily concerned with financing imports and exports. TRUE or FALSE
4. A zero coupon bond is a bond that

- a. Pays no coupon in first year
 - b. Pays both the agreed interests and the principal debt at maturity with no interim payments
 - c. That pays a zero sum at maturity
 - d. None of the above
5. Financial markets where long term debt and ordinary shares are bought and sold are called....markets
- a. Money
 - b. Primary
 - c. Secondary
 - d. Capital
6. Which of the following statements is not true
- a. Treasury bills and treasury bonds are issued by the state
 - b. Treasury bill and treasury bonds are both money market instruments
 - c. Treasury bills, BAs and CPs have maturities of one year or less
 - d. Ordinary shares and bonds are normally traded on stock exchanges
7. Which of the following statements correctly describes derivative instruments
- a. Are normally used to hedge risks or transfer them to other parties
 - b. Are not regarded as financial assets
 - c. Are reserved for big companies with a track record of making profits
 - d. Are only found in the United States of America and Europe
8. Which of the following statements is not true of preferred stock
- a. Holders are called shareholders
 - b. They guarantee a predetermined dividend
 - c. They are less risky compared to common stock
 - d. They carry more voting powers than ordinary stock
9. TRUE or FALSE. Participating preference shares allow the shareholders to participate in the day to day running of the company
10. Which of the following is not an example of a financial market
- a. OTC
 - b. Swaziland Stock Exchange
 - c. Money market
 - d. Commodities market
 - e. Derivatives market

Total 20 Marks

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