UNIVERSITY OF SWAZILAND

DEPARTMENT OF ACCOUNTING AND FINANCE

EXAMINATION PAPER DECEMBER 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 were 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.

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QUESTION ONE

a) Nkosi has E3 000 to invest with a bank. The bank will pay interest at 10% per annum on the investment. Mr Nkosi has asked you to determine the value of his investment for each of the following independent scenerios

   i. Two year investment with simple interest (2)
   ii. Two year investment with interest compounded quarterly (3)
   iii. Three year investment with interest compounded monthly (4)

b) A father promised his ten year old son E50 000 when he turned 21 years. The son, who has a keen interest in financial affairs, is eager to know what this equates to at his current age. He has asked you to assist him to determine the present value of his dad's future promise in the following scenarios

   i. Interest is earned at 10% per year, calculated bi-annually on a simple interest basis (2)
   ii. Interest is earned at 12% per year, compounded annually (3)
   iii. Interest is earned at 15% per year, compounded monthly (3)

c) An Insurance agent has offered you a policy entitling you to regular returns for the next five years in return for an initial purchase cost of E20 000. You are able to invest all surplus funds at 12% per year. You are not sure if the initial cost price required by the agent is exorbitant. What would you decide if the policy offers you the following returns

   i. E6 000 paid to you annually (4)
   ii. E1500 paid to you quarterly (in other words E6 000 per year) (4)

(Total Marks 25)

QUESTION TWO

[illegible] summary of the trading account, income statement and statement of financial position of [illegible] Limited for the years ended 30 June 2X11 and 2X12 is set out below.
[illegible] are required to give an opinion on the management's efficiency by calculating the company's profitability for 2X11 and 2X12.

Trading account and income statement	2X12	2X11
	R'000	R'000
Opening inventories: Material	1 320	720
Purchases	4 560	4 800
	5 880	5 520
Closing inventories: Material	(1 320)	(960)
Material consumed	4 560	4 560
[illegible]	2 760	2 340
Overheads	3 084	2 598
Cost of production	10 404	9 498
Opening finished products	3 240	2 124
	13 644	11 622
Closing finished products	(5 640)	(6 420)
[illegible]	8 004	5 202
Gross profit	1 626	853
[illegible]	9 630	6 055
[illegible] costs	252	240
[illegible]	300	288
Interest on bank overdraft	96	36
[illegible]	778	187
[illegible]	28%	28%
Statement of financial position		
[illegible]	3 980	3 360
[illegible]	6 960	4 560
[illegible]	4 200	3 600
[illegible]	14 640	11 520
[illegible]	1 200	1 200
[illegible]	960	960
[illegible]	4 920	5 232
[illegible]	4 800	1 920
[illegible]	2 760	2 208
[illegible]	14 640	11 520

(Show all workings) (Total Marks 25)

QUESTION THREE

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 FOUR

(a) Identify and describe any <u>eight</u> different risks associated with investing in Bonds

Total 25 Marks

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