

**INSTITUTE OF BANKERS IN MALAWI**

**DIPLOMA IN BANKING EXAMINATION**

**SUBJECT: CREDIT RISK ASSESSMENT 1 (IOBM-D204)**

**Date: Sunday, 12th May 2019**

**Time Allocated: 3 hours (13:30 – 16:30 Hours)**

**INSTRUCTIONS TO CANDIDATES**

1 This paper consists of **TWO** Sections, A and B.

2 Section A consists of 4 questions, each question carries 15 marks.

Answer **ALL** questions.

3 Section B consists of 4 questions, each question carries 20 marks. Answer **ANY TWO** questions.

4 You will be allowed **10 minutes** to go through the paper before the start of the examination, you may write on this paper but not in the answer book.

5 Begin each answer on a new page.

6 **Please write your examination number on each answer book used. Answer books without examination numbers will not be marked.**

7 All persons writing examinations without payment will risk expulsion from the Institute.

8 If you are caught cheating, you will be automatically disqualified in all subjects seated this semester.

9 DO NOT open this question paper until instructed to do so.

**SECTION A (60 MARKS)**

Answer **ALL** questions from this section

**QUESTION 1**

1. Briefly discuss any **five** sectors in which businesses dealing with a bank can be classified. *(10 marks)*
2. Briefly describe intangible assets. As a banker in Malawi what would be your initial response to an application from a customer to borrow money to finance an intangible assets and why? *(5 marks)*

**(Total 15 marks)**

**QUESTION 2**

1. Briefly describe the meaning of working capital and list the key items that are included in working capital. *(3 marks)*

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1. Discuss the **two** components of working capital giving an example of the items under each component. *(5 marks)*
2. Describe the characteristics of an individual borrowing client of a bank and identify any **four** credit facilities such a client may require from a bank.  *(7marks)*

**(Total 15 marks)**

**QUESTION 3**

One of the bank’s borrowing clients is facing problems in servicing the loan facilities with your bank and your Manager has requested that you should approach the client to provide the bank with latest financial statements because he suspects that the company has been incurring excess expenses for some activities.

1. Describe any **five** items you expect to be shown in the income statement according to internationally accepted accounting standards. *(10 marks)*
2. Explain any **three** items that may be included under other income in the income statement.  *(5 marks)*

**(Total 15 marks)**

**QUESTION 4**

1. Briefly discuss the things a bank needs to consider regarding authority to borrow and to give guarantees as security when dealing with limited companies. *(6 marks)*
2. Your client, Jigsaw Enterprise is in default and owes your bank K20 million. The company did not provide any security to the bank and its assets are worthy K5million. The company is owned by Mr M Jere whose has assets are worthy K10million and Mr Y Mbewe who has assets worthy K15 million. The two individuals do not owe any one else at the moment.
3. What would be your sources of recovering the debt if the business was a limited company (limited by shares that have been fully paid for) and how much would you expect to recover from the company? *(2 marks)*
4. What would be the sources of recovering the debt if the business was a partnership between Mr M Jere and Mr Y Mbewe and how much would you expect to recover?  *(4 marks)*
5. What would be your sources of recovery if the company was limited by guarantee for K5 million by Mr M Jere and K10 Million by Mr Y Mbewe?

*(3 marks)*

**(Total 15 marks)**

**SECTION B (40 MARKS)**

Answer **ANY TWO** questions from this section

**QUESTION 5**

Using Extracts of Financial Statements for XYZ Ltd provided in Appendix, prepare a cash flow statement for the year ended 31 December 2018.

Additional Information: During 2018, the company sold old equipment at a price of K500,000 and acquired new equipment at a cost of K950,000. **(Total 20 marks)**

**QUESTION 6**

Discuss the **five** critical success factors for a business when it comes to management of its finances. **(Total 20 marks)**

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**QUESTION 7**

1. One of your bank’s clients has applied for increased overdraft facilities to finance purchase of additional stock. Your Manager feels that the client has enough stock and runs the risk of incurring expenses that arise from holding too much stock. Briefly discuss the costs that arise from holding excess stock. *(10 marks)*
2. Briefly describe the cash flow budget and its **three** components. *(10 marks)*

**(Total 20 marks)**

**QUESTION 8**

1. Identify and describe the **five** categories of ratios that are used in the analysis of financial statements.*(15 marks)*

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1. Briefly describe contingent liabilities and how bankers should treat them when considering lending to a client who has such liabilities to other parties. *(5 marks)*

**(Total 20 marks)**

**Appendix 1**

**Extracts of Financial Statements for XYZ Ltd**

**Statement of Financial Position (Balance Sheet) as at 31 December 2018**

|  |  |  |  |
| --- | --- | --- | --- |
|  | NOTES | 2018 | 2017 |
|  |  | K | K |
| CAPITAL EMPLOYED |  |  |  |
| SHARE CAPITAL |  | 2,545,000 | 2,545,000 |
| RETAINED PROFIT |  | 3,425,000 | 2,500,880 |
|  |  | 5,970,000 | 5,045,000 |
| SHAREHOLDERS’ LOANS |  |  |  |
| DIRECTOR’S LOAN |  |  |  |
| LONG TERM LIABILITIES |  | 900,000 | 1,000,000 |
|  |  | 6,870,000 | 6,045,000 |
|  |  |  |  |
| EMPLOYMENT OF CAPITAL |  |  |  |
| FIXED ASSETS |  | 3,200,000 | 3,000,000 |
| INVESTMENTS IN SUBSIDIARY |  | 3, 500,000 | 2, 900,000 |
|  |  | 6,700,000 | 5,900,000 |
| CURRENT ASSETS |  |  |  |
| Stock |  | 600,000 | 550,000 |
| Accounts Receivable |  | 400,000 | 500,000 |
| Bank and Cash |  | 120,000 | 120,000 |
|  |  | 1,120,000 | 1,170,000 |
| CURRENT LIABILITIES |  |  |  |
| Accounts payable |  | 800,000 | 900,000 |
| Bank Overdraft |  | 150,000 | 125,000 |
|  |  | 950,000 | 1,025,000 |
|  |  |  |  |
| NET CURRENT ASSETS |  | 170,000 | 145,000 |
|  |  | 6,870,000 | 6,045,000 |

**Income statement for the year ended 31 December 2018**

|  |  |  |  |
| --- | --- | --- | --- |
|  | NOTES | 2018 | 2017 |
|  |  | K | K |
| TURNOVER |  | 8,610,711 | 7,998,855 |
| Cost of Sales |  | 3,195,957 | 3,108,858 |
| GROSS PROFIT |  | 5,414,754 | 4,889,997 |
| OPERATING AND ADMINISTRATIVE EXPENSES |  |  |  |
| Salaries and Wages |  | 2,522,511 | 2,110,000 |
| Rentals |  | 200,000 | 200,000 |
| Utilities |  | 591,555 | 551,440 |
| Depreciation |  | 250,000 | 280,000 |
| Operating Profit |  | 1,850,688 | 1,748,557 |
|  |  |  |  |
| Auditor’s remuneration |  | 100,000 | 120,000 |
| PROFIT ON SALE OF ASSETS |  | 110,000 | 132,000 |
| INTEREST RECEIVED |  | 50,000 | 45,000 |
|  |  | 1,910,688 | 1,805,557 |
|  |  |  |  |
| Accounting fees |  | 0 | 0 |
| Directors emoluments |  | 0 | 0 |
| Management fees |  | 0 | 0 |
| Interest paid |  | 120,258 | 130,455 |
| Taxation |  | 470,258 | 530,455 |
| NET (LOSS) /PROFIT BEFORE TAX |  | 1,320,172 | 1,144,647 |
| TAXATION |  | 396,052 | 343,394 |
| NET (LOSS)/PROFIT AFTER TAX BUT BEFORE EXTRAORDINARY ITEMS |  | 924,120 | 801,253 |
| EXTRAODINARY ITEM |  |  |  |
| ACCUMULATED PROFIT RETAINED INCOME FOR THE YEAR |  | 924,120 | 801,253 |
| ACCUMULATED PROFIT AT BEGINNING OF YEAR |  | 2,500,880 | 1,699,627 |
| ACCUMULATED PROFIT AT END OF YEAR |  | 3,425,000 | 2,500,880 |

**END OF EXAMINATION PAPER**