

**INSTITUTE OF BANKERS IN MALAWI**

**DIPLOMA IN BANKING EXAMINATION**

**SUBJECT: FINANCIAL CONCEPTS B (IOBM – D207)**

**Date: Monday, 4th May 2015**

**Time Allocated: 3 hours (08:00 – 11:00 am)**

**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 number 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**

(a) State **three** types of business entity. (*3 marks)*

(b) State **three** major restrictions that could prevent someone from being a director. *(3 marks)*

(c) Give **three** reasons why bankers should be focusing on individual companies and not only consolidated financial statements *(3 marks)*

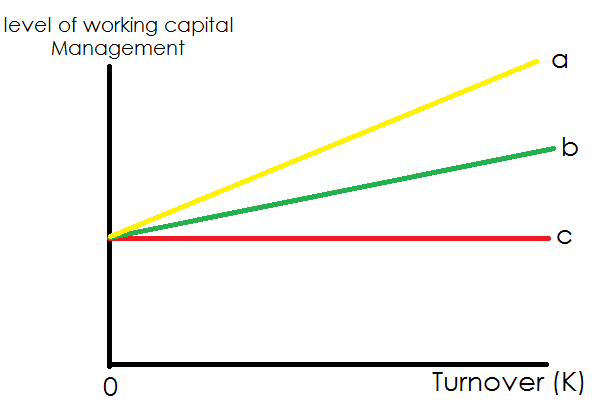
(d) Explain the effects of overtrading and list signs during financial statement analysis *(6 marks)*

**(Total 15 marks)**

**QUESTION 2**

1. Working capital management is important in determining the optimal levels of inventory, receivables, cash and cash equivalent. Different companies deploy different working capital policies which suit best their industry, using the graph illustrated below.

You are required to explain each of the working capital policies as depicted by the three graphs. (*3 marks)*

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1. Mwayi Enterprises is looking for an overdraft facility from Big Bank Limited of MK 50 Million. As a sales consultant for Big Bank Limited you are provided with the following financial information by accountant for Mwayi Enterprises Mr. Sapatsa M’Manja.

Extract of financial statements for Mwayi Enterprises limited as at 30th March 2015

**Income statement**

**31/03/2014 31/03/2015**

*MWK ‘000 MWK ‘000*

Sales 250,000 500,000

Gross Profit 50,000 50,000

Gross Profit % 20% 10%

Net Profit 15,000 1,000

Net Profit % 6% 0.2%

**Balance sheet**

*MWK ‘000 MWK ‘000*

*Non Current Assets*

Property, Plant & Equipment 40,000 60,000

*Current assets*

Inventory 10,000 10,000

WIP 10,000 25,000  
Receivables 25,000 40,000

Cash 2,500 -

*Current liabilities*

Trade and other payables 22,500 59,000

Overdraft 10,000 30,000

Financed by

Equity

Capital and reserves:

Share capital (MK 1 Ordinary shares) 50,000 50,000

Retained earnings 20,000 21,000

As part of your analysis, what would be your guiding notes in relation to the following areas?

1. Sales and sales growth. *(2 Marks)*
2. Stock growth and sales growth. *(2 marks)*
3. Surplus cash and bank overdraft. *(2 marks)*
4. Trade payables and sales growth. *(2 marks)*

(c) What would you recommend to Mr. Sapatsa M’Manja before granting the overdraft request? Give any **four** remedies *(4 Marks)*

**(Total 15 marks)**

**QUESTION 3**

You are given the following information about Mafuta Manufacturers Ltd:

The company refines cooking oil called Noninoni; the selling price for a 1 litre Noninoni bottle is MK 500.00. Following are the costs composition

MWK

Per litre

Selling price 500

Variable cost 400

Total fixed costs 100,000

1. The Human Resource Department (HR Department) has just hired a Sales Manager for Mafuta Manufacturers Limited, Mr. Zokazinga. What would be the minimum contractual sales volumes you would recommend to HR department to Mr. Zokazinga in order to breakeven on costs for the period? *(4 marks)*

(b) If the budget for the company is to make a profit of MK 50,000 during the period, what would you recommend to your HR Department as the minimum sales volumes that Mr. Zokazinga should close during the period? *(4 marks)*

1. Mr. Zokazinga says that he has done a research in superstores and has find that the competing cooking oil brands such as Kukhoma and Supasa are selling at MWK 450 per litre, he therefore suggests that Noninoni should be sold at MWK 450 per litre.
2. What would be the contractual breakeven volume you would recommend to HR Department to sign off with Mr. Zokazinga. (4 Marks)
3. What would be the contractual volume you would recommend to HR Department if the company would like to retain a profit of MK 50,000 during the period? (3 Marks)

**(Total 15 marks)**

**QUESTION 4**

1. Explain **five** major roles of Financial Managers in the bank. **(Total 15 marks)**

**SECTION B (40 MARKS)**

Answer **ANY TWO** questions from this section

**QUESTION 5**

Knight Club is planning to stage a concert. The following are the estimated costs which the company expects to incur in connection with the proposed concert:

K

Rent of premises 130,000

Advertising 100,000

Printing of tickets 25,000

Ticket sellers, security 40,000

Wages of personnel employed at the concert 60,000

Fee to artist 100,000

There are no variable costs for staging the concert. The company is considering to sell tickets at either K400 or K500 each.

**Required:**

(a) (i) Calculate the number of tickets which must be sold at each price in

order to break even. *(2 marks)*

(ii) Calculate the number of tickets which must be sold at each price in

order to break even, if the artist agrees to change from a fixed fee of

K100,000 to a fee equal to 25% of the gross sales of tickets.

*(3 marks)*

(iii) Calculate the level of ticket sales, for each price, at which the

company would be indifferent as between the fixed and percentage

fee alternatives. *(4 marks)*

(iv) Comment on the factors which you think the company might consider

in choosing to pay the artist either a fixed fee or a percentage of the

gross ticket sales.  *(4 marks)*

1. Outline **three** positive aspects and **four** limitations of the cost-volume-profit model. *(7 marks*)

**(Total 20 marks)**

**QUESTION 6**

Mimbulu Limited trade in a single product and maintain a perpetual inventory. The company has valued its stock on the LIFO basis, but is now considering a change to the FIFO method.

Their records disclose that 2,000 units were in inventory at the beginning of the current period. They have been valued on the basis of a receipt of 5,000 units priced at K25.00 of which 4,000 had been sold before the end of the period, plus 500 from a delivery in October 2008 when the cost was K20.00 per unit, plus 500 purchased in July 2007 when the cost was K5.00 per unit.

The following transactions took place in the period January to June 2009:

|  |  |  |
| --- | --- | --- |
| January  February  March  April  May  June | Purchases  10,000 units at K25.00 each  15,000 units at K26.00 each  6,500 units at K27.00 each | Sales  1,500 units at K40.00 each  8,000 units at K40.00 each  22,000 units at K40.00 each |

**Required**

(a) Calculate the inventory valuation at 30 June 2009 using:

1. the LIFO method; *(6 marks)*

(ii) the FIFO method. *(6 marks)*

(b) Calculate the trading profit for the period January to June 2009 using both methods of valuation for opening and closing inventories. *(6 marks)*

(c) Explain the possible reasoning behind the company’s decision to change to the FIFO method at the present time. *(2 marks)*

**(Total 20 marks)**

**QUESTION 7**

(a) Aunt Phokoso buys plain balloons and prints different designs on them for various occasions. The plain balloons are imported so a stock equal to the balloons needed for two months’ sales should be kept on hand at all times.

Plain balloons cost K13.50 each and must be paid for in cash.

There are 14,000 plain balloons in stock. Sales estimates, based on contracts received, are as follows for the next 6 months:

July August September October November December

5,500 8,900 6,600 7,100 4,500 3,600

**Required:**

1. Estimate purchase quantities for July to October. *(8 marks)*
2. Estimate the cash required to make purchases in July to October.*(4 marks)*

(b) (i) Define the principal budget factor and describe its importance in the budgetary planning process. *(4 marks)*

(ii) What is a cash budget and why is it important? *(4 marks)*

**(Total 20 marks)**

**QUESTION 8**

The Makata plant of Ake Plastics Limited produces an industrial chemical. At the beginning of the year, the plant had the following standard cost card:

K

Direct materials (10kg @ K16.00 per kg) 160.00

Direct materials (0.75hr @ K180.00 per hr) 135.00

Variable overhead (0.75 hr @ K30.00 per hr) 22.50

Fixed overhead (0.75 hr @ K40.00 per hr) 30.00

Standard cost per unit 347.50

The plant calculates its overhead rates using practical capacity which is 7,200 units. The actual results for the year are as follows:

1. 7,000 units were produced.
2. 74,400 kg of direct materials were purchased at K15.00 per kg.
3. 73,600 kg of direct materials were used.
4. 5,600 hours of direct labour were worked at a rate of K179.00 per hour.
5. Variable overhead amounted to K175,400.
6. Fixed overhead amounting to K214,000 was incurred.

**Required:**

(a) Calculate the following variances:

(i) Price and usage variances for direct materials. *(4 marks)*

1. Direct labour rate and direct labour efficiency variances. *( 4 marks)*
2. Variable overhead expenditure and efficiency variances. *(4 marks)*
3. Fixed overhead expenditure and volume variance. *(4 marks)*

(b) What does the fixed overhead volume variance mean? *(4 marks)*

**(Total 20 marks)**

**END OF EXAMINATION PAPER**