

**INSTITUTE OF BANKERS IN MALAWI**

**DIPLOMA IN BANKING EXAMINATION**

**SUBJECT: FINANCIAL CONCEPTS B (D-207)**

**Date: Monday, 12th November 2018**

**Time Allocated: 3 hours (08:00 – 11:00 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. Explain **five** challenges or problems that budgets create in an organization.

*(5 marks)*

1. Explain the **five** advantages and disadvantages of budgets in an organization.

*(5 marks)*

Net sales = K3,000,000

Cost of Goods Sold = K2, 100,000

Gross Profit = Net sales – Cost of goods sold = K3,000,000 – K2, 100,000 = K900,000

Net income = K360,000

**Using the above information, you are required:**

1. Calculate the Gross Profit Rate. *(3 marks)*
2. Calculate the Profit Margin Ratio. *(2 marks)*

**(Total 15 marks)**

**QUESTION 2**

1. Explain **five** Duties that Auditors have to an Organization. *(3 marks)*
2. i) Define what Control is in a group of companies. *(2 marks)*
3. Explain how a company may gain control. *(3 marks)*
4. Calculate the direct material price variance if the standard price and actual unit price per unit of direct material are K4.00 and K4.10 respectively; and actual units of direct material used during the period are 1,200. Determine whether the variance is favorable or unfavorable. *(3 marks)*
5. Mention **four** limitations of financial statement analysis? (*4 marks)*

**(Total 15 marks)**

**QUESTION 3**

Tikule Company had the following balances at December 31, 2017

|  |  |
| --- | --- |
| Current assets | = K700,000 |
| Total assets | = K1,600,000 |
| Current liabilities | = K500,000 |
| Total liabilities | = K800,000 |
| Cash provided by operations | = K900,000 |
| Capital expenditures | = K200,000 |
| Cash dividends | = K100,000 |
| Net income | = K360,000 |
| Preferred stock dividends | = K50,000 |
| Average common shares outstanding | = 100,000 shares |

1. Calculate the Earnings Per Share for Tikule Company? *(5 marks)*
2. Calculate the Current Ratio for Tikule Company. *(4 marks)*
3. Calculate the amount of working capital that is in Tikule Company? *(4 marks)*
4. Calculate the Debt to Total Assets Ratio. *(2 marks)*

**(Total 15 marks)**

**QUESTION 4**

1. Calculate inventory turnover and days inventories outstanding for Lato Holdings Limited based on the information given below: *(5 marks)*

|  |  |
| --- | --- |
| Opening inventories | K25,000 |
| Closing inventories | K30,000 |
| Cost of goods manufactured | K245,000 |

1. Explain what Inventory Turnover is used to measure and its meaning to a company?*(2 marks)*

1. i) Define Related Party Transactions. (*1 mark)*
2. List **five** examples of such transactions. *(4 marks)*

1. Give **three** reasons why Related Party Transactions can distort financial statements. *(3 marks)*

**(Total 15 marks)**

**SECTION B (40 MARKS)**

Answer ANY **TWO** questions from this section

**QUESTION 5**

1. Calculate break-even point in sales units and Amount from following information:

*(5 marks)*

|  |  |
| --- | --- |
| Price per Unit | 15 |
| Variable Cost per Unit | 7 |
| Total Fixed Cost | 9,000 |

1. The information below is related to sales mix of product A, B and C.

|  |  |  |  |
| --- | --- | --- | --- |
| Product | A | B | C |
| Sales Price per Unit | 15 | 21 | 36 |
| Variable Cost per Unit | 9 | 14 | 19 |
| Sales Mix Percentage | 20% | 20% | 60% |
| Total Fixed Cost | 40,000 | | |

**Required**

Calculate the break-even point in units and in amounts. *(5 marks)*

1. Richards Holdings went public by issuing 1 million shares of common stock @ 25 per share. The shares are currently trading at 30 per share. Current risk free rate is 4%, market risk premium is 8% and the company has a beta coefficient of 1.2.

During last year, it issued 50,000 bonds of 1,000 par paying 10% coupon annually maturing in 20 years. The bonds are currently trading at $50.The tax rate is 30%.

**Required**

Calculate the weighted average cost of capital. *(10 marks)*

**(Total 20 marks)**

**QUESTION 6**

Joy Inc. is a telecommunication services provider looking to expand to Zambia; it is analyzing whether it should install its own telecom towers or lease them out from a prominent tower-sharing company T-share, Inc.

Leasing out 100 towers would involve payment of 5,000,000 per year for 5 years.

Erecting 100 news towers would cost 18,000,000 including the cost of equipment and installation, etc. The company has to obtain a long-term secured loan of 18 million at 5% per annum.

Owning a tower has some associated maintenance costs such as security, power and fueling, which amounts to 10,000 per annum per tower.

1. The company’s tax rate is 40% while its long-term weighted average cost of debt is 6%. The tax laws allow straight-line depreciation for 5 years.

**Required**

Determine whether the company should erect its own towers or lease them out.

*(15 marks)*

1. Define a lease and how a company would make a decision between leasing or buying? *(5 marks)*

**(Total 20 marks)**

**QUESTION 7**

TTL is a company engaged in production and distribution of computers and printers. It has two main operating departments: department C specializes in design, production and marketing of computers and Department P deals in printers.

Department C has earned net operating profit of 300 million for the FY 2017 while department P has earned operating profit of 130 million for the same period. Department C had opening operating assets of 1 billion and its closing operating assets are 1.1 billion while department P had opening operating assets of 0.5 billion while its closing operating assets are 0.7 million.

**Required**

1. CP Inc. has minimum return requirement of 12%, Calculate the Return On investment on the two departments? *(14 marks)*
2. Define the following and provide clear examples of each one of them?
3. Fixed Cost
4. Variable Cost
5. Mixed Cost *(2 marks each)*

**(Total 20 marks)**

**QUESTION 8**

1. Explain **three** advantages and **three** limitations of Ratio Analysis. *(6 marks)*
2. Total assets and total liabilities of Dube Holdings on Jan 1, 2016 were 2,342,000 and 1,383,000. During the year ended December 31, 2017 it made a net profit of 242,000 and its shareholders' equity increased by 302,000.

**Required**

Calculate ROE of Dube Holdings. *(4 marks)*

1. SATO Limited is planning to undertake another project requiring initial investment of 50 million and is expected to generate 10 million in Year 1, 13 million in Year 2, 16 million in year 3, 19 million in Year 4 and 22 million in Year 5.

**Required**

Calculate the payback value of the project. *(10 marks)*

**(Total 20 marks)**

**END OF EXAMINATION PAPER**