

**INSTITUTE OF BANKERS IN MALAWI**

**DIPLOMA IN BANKING EXAMINATION**

**SUBJECT: CREDIT RISK ASSESSMENT 1 (IOBM-204)**

**Date: Sunday, 11th November 2018**

**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 the following types of companies to display your understanding of the clients that banks deal with;
2. Public Companies
3. Private Companies
4. Limited companies
5. Unlimited companies
6. Companies limited by shares
7. companies limited by guarantees. *(12 marks)*
8. What happens when a registered company carries on business for more than six months with less than the appropriate minimum number of members? *(3 marks)*

**(Total 15 marks)**

**QUESTION 2**

Following incidences of default from companies that have subsidiaries or are a part of a group of companies, your bank's Credit Risk Department has insisted that all lending to such companies must be processed at the same time and supported by consolidated group financial statements.

**Required**

1. In terms of the Companies Act, mention any **four** conditions that must be met for group of companies to exist. *(8 marks)*
2. In terms of the Companies Act under what **three** conditions would accounts of a subsidiary be exempted from group accounts? *(7marks)*

**(Total 15 marks)**

**QUESTION 3**

Your immediate subordinate has brought financial statements for one of your business clients and is seeking your input on deferred expenditure and disclosures when a company invests money in other business.

**Required**

1. Briefly explain the meaning of deferred expenditure.  *(3 marks)*
2. Explain the **four** major details that need to be disclosed when a company invests money into other businesses.  *(6 marks)*
3. Briefly describe how the following items are supposed to be treated in financial statements
4. Financial lease (*3 marks)*
5. Mortgage loans *(3 marks)*

**(Total 15 marks)**

**QUESTION 4**

1. Briefly discuss the importance of trend (ratio) analysis. *(3 marks)*
2. Briefly describe the **two** techniques for trend analysis. *(6 marks)*
3. You have been provided with the following information relating to two clients who are looking for additional loan facilities from your bank but your Manager has advised that the bank can provide the facility to only one of the two clients.

**Company A** **Company B**

Current Ratio 3.1 4.5

Quick ratio 3.0 1.5

Interest coverage 2.9 1.2

Debt/equity ratio 0.5 2.5

**Required**

Using any **three** of the ratios provided above, make a recommendation to your manager, which of the two companies should be considered for additional facilities clearly stating the basis of your recommendation with respect to each ratio. *(6 marks****)***

**(Total 15 marks)**

**SECTION B (40 MARKS)**

Answer **ANY TWO** questions from this section

**QUESTION 5**

1. One of your clients who is involved in agricultural activities would like to use his land on which they carry out the agricultural activities as security for credit facilities that they have applied for at your bank. In order to facilitate consideration of the land as satisfactory security, your bank's Credit Risk Department have requested you to submit an estimate of the value of the land offered as security.

The client has provided the following additional information as part of the details to enable the bank assess the credit facilities application:

Size of Farm: 4,000ha

Loan amount to finance capital,

livestock and current requirements MK20,000,000

Required ROI 10%

NFI per Year MK60,000,000

Owners Annual Upkeep MK10,000,000

Number of employees 23

Number of Boreholes 3

**Required**

1. Mention the **three** factors that influence the value of farming land. *(6 marks)*
2. Using the information provided above, estimate the value of the farm land offered by your client clearly showing the formula. *(8 marks)*
3. How are values of the following items determined in financial statements for farmers?
4. Breeding and commercial livestock.  *(2 marks)*
5. Crops. *(2 marks)*
6. Machinery and farming equipment. *(2 marks)*

**(Total 20 marks)**

**QUESTION 6**

1. Bwanje Textiles Ltd is one of your borrowing clients who have been requesting for temporary and permanent increases in their overdraft facilities frequently. You have been furnished with the following information relating to Bwanje Textiles:

Excerpts from the current account with overdraft limit of MK10,000,000

Lowest Debit balance in January 2018: MK9,899,855.23Dr

Highest Debt balance in January 2018: MK10,526,698.66Dr

Lowest Debit balance in February 2018: MK9,900,828.12Dr

Highest Debt balance in February 2018: MK10,701,222.11Dr

Lowest Debit balance in March 2018: MK9,700,445.91Dr

Highest Debt balance in March 2018: MK10,444,323.96Dr

Lowest Debit balance in April 2018: MK9,922,333.16Dr

Highest Debt balance in April 2018: MK10,755,861.25Dr

Selected payments above MK1,000,000 made in March and April 2018

**Amount**  **Payee**

MK2,500,000 Cash

MK3,000,000 Cash

MK1,500,000 Cash

MK2,000,000 Cash

Mk3,600,000 Cash

Mk2,200,000 Cash

**Required**

Using the details above, identify any **four** signs of overtrading clearly linking them to the evidence available. *(12 marks)*

1. Briefly discuss the items below and how they affect the analysis of financial statements
2. Off-Balance Sheet Financing. *(4 marks)*
3. Contingent Liabilities.  *(4 marks)*

**(Total 20 marks)**

**QUESTION 7**

1. Briefly discuss the **three** stages involved in the planning process including the level of personnel responsible for each stage. *(12 marks)*
2. Briefly discuss the following components of the master budget:
3. The production and inventory budget. *(2 marks)*
4. The capital expenditure budget. *(2 marks)*
5. The marketing and advertising costs budget. *(2 marks)*
6. The overhead/fixed costs budget. *(2 marks)*

**(Total 20 marks)**

**QUESTION 8**

1. Discuss any **four** types of cooperatives**.** *(12 marks)*
2. Briefly describe a partnership and discuss **two** categories of partnerships. *(8 marks)*

**(Total 20 marks)**

**END OF EXAMINATION PAPER**