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**INSTITUTE OF BANKERS IN MALAWI**

**DIPLOMA IN BANKING EXAMINATION**

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

**Date: Sunday, 3rd November 2013**

**Time Allocated: 3 hours (1:30 – 4:30 pm)**

**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 sheets without examination numbers will not be marked.**

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

**SECTION A (60 MARKS)**

Answer **ALL** questions from this section.

**QUESTION 1**

### Briefly explain five limitations in the Financial Statements of a farmer that the Banker must be aware of. *(15 marks)*

**QUESTION 2**

Explain in details **three** reasons why businesses must manage their working capital.

### *(15 marks)*

**QUESTION 3**

Discuss **five** methods that lenders use to mitigate credit risk. *(15 marks)*

**QUESTION 4**

### Discuss any five components of Working Capital that must be managed? *(15marks)*

**SECTION B (40 MARKS)**

Answer **ANY TWO** questions from this section.

**QUESTION 5**

1. Mention **four** specific credit risks in relation to a sole trader. *(4 marks)*
2. What are the **four** advantages and **four** disadvantages of operating as a sole trader? *(16 marks)*

**(Total 20 marks)**

**QUESTION 6**

1. Explain **five** reasons why is overtrading discouraged. *(10marks)*

### What are the five common signs of overtrading when doing a financial analysis*?*

### *(10 marks)*

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### (Total 20 marks)

**QUESTION 7**

1. What are the assumptions and limitations of Break-Even analysis? *(10 marks)*

### Briefly discuss four limitations of Financial Statements Analysis. *(10 marks)*

**(Total 20 marks)**

**QUESTION 8**

1. What is the objective of the International Financial Reporting Standards (IFRS)? *(2 marks)*
2. Mention and briefly explain any **four** reports that must be included in a set of Annual Financial Statements in terms of Companies Act Number 18 of 1984. *(18marks)*

**(Total 20 marks)**

**END OF EXAMINATION PAPER**