



**ASSOCIATESHIP EXAMINATION  
LEVEL III  
CREDIT MANAGEMENT- LENDING  
[OLD SYLLABUS]  
APRIL 2025**

**N.B.**

- 1) Read carefully the instructions on the cover of the answer booklet.**
- 2) The total number of questions in this paper is SIX (6).**
- 3) Answer four questions as follows:**
  - a. SECTION A – TWO questions, each question carries 30 marks.**
  - b. SECTION B – TWO questions, each question carries 20 marks.**
- 4) In answering questions in Section A, candidates should note that if provision of security forms part of the answer, they should indicate the type of security required but not give detailed steps for perfecting that security.**
- 5) Disregard any current official restriction on lending.**
- 6) ASSUME GRR OF 29 % IN ALL CALCULATIONS. Answers in listed note form are acceptable provided they are clearly and logically presented and the points adequately developed.**
- 7) Silent non-programmable electronic calculations may be used in this examination. Whether or not candidates use them, it is in their interest to show the basic figures from which their calculations are made.**
- 8) Time allowed: THREE HOURS. An additional 15 minutes of reading time is allowed at the beginning of the examination when candidates may write on this paper but not in the answer booklet.**
- 9) Candidates must ensure that they answer the questions in the appropriate answer booklets and not on loose sheets which may be used only as supplementary sheets. Such answers will be cancelled.**
- 10) DO NOT WRITE YOUR NAME ON THE ANSWER BOOKLET.**
- 11) DO NOT OPEN THIS QUESTION PAPER UNTIL INSTRUCTED TO DO SO.**

## **SECTION A – ANSWER TWO (2) QUESTIONS ONLY**

### **QUESTION 1**

Nampa Manufacturing Company Ltd. has been your customer for the past fifteen (15) years. The company is engaged in the manufacture of canned mackerel for sale on both the local and international markets.

The Company has four shareholders, Jonas Ampong, aged 51, Thomas Milson, aged 53, Mary Aidoo, aged 54, and Jacob Vroom, aged 42. They also serve as the Directors and Management of the company. They are all mechanical engineers, having been mates at the Kwame Nkrumah University of Science and Technology. Jonas Ampong holds 40 % shares, while the remaining shares are held equally by the three other shareholders. Jonas Ampong serves as the CEO and Board Chairman of the company, whilst Thomas serves as General Manager, Mary Aidoo as accountant and Jacob Vroom as Human Resources Manager.

The company sells locally to restaurants and schools and retail outfits, with about 60 % of the local sales going to a five-star Hotel in Accra, The Golden Petal Hotel. The local market itself takes about 40 % of the company's output. Of the output sold on the international market 30% goes to a retailer in Australia.

The company has operated an impressive account with you until recently when you noticed a significant deterioration in account operations. Account turnover has declined significantly and you have had to approve occasional excesses over the company's approved overdraft limit of GHC 2,500,000.00.

The company has a factory located at Amrenhia in the Greater Accra Region of the country. The plant consists of a factory building, administration block and a warehouse. The company has a fleet of ten (10) delivery trucks, five (5) of which were acquired over the past year. The company also has a pool of skilled labour of twenty (20), most of whom have spent their entire working lives with the company.

A visit to the premises of the company revealed a number of weaknesses in the company's operations. First, you noticed that the existing plant has been in use for close to eight (8) years. Secondly, from the books of the business you realize that their source of supply of fish has been significantly affected by the breakdown of a fishing vessel of one of the company's major suppliers.

The Directors of the company have come to you in response to your invitation to them regarding the way forward. One of the issues that came up was the need to replace the old plant and equipment for steaming, canning and labeling of fish.

They are, for that matter, requesting for a medium-term facility of GHC 10,000,000.00 to enable them to acquire a plant to replace the existing one.

How would you respond to their proposition?

[TOTAL: 30 MARKS]

**Nampa Manufacturing Company Ltd**  
**Profit and Loss Extracts as at 31<sup>st</sup> December**

	<b>2021</b>	<b>2022</b>	<b>2023</b>
	<b>GHC</b>	<b>GHC</b>	<b>GHC</b>
<b>Sales</b>	6,400,000	9,280,000	11,600,000
Opening Inventory	560,000	960,000	1,577,600
Purchases	2,880,000	4,361,600	5,800,000
	3,440,000	5,321,600	7,377,600
Closing Inventory	<u>960,000</u>	<u>1,577,600</u>	<u>2,488,000</u>
<b>Cost of Sales</b>	<b><u>2,480,000</u></b>	<b><u>3,744,000</u></b>	<b><u>4,889,600</u></b>
<b>Gross Profit</b>	<b>3,920,000</b>	<b>5,536,000</b>	<b>6,710,400</b>
Overheads	1,088,888	1,763,000	2,152,000
Depreciation	<u>376,000</u>	<u>491,400</u>	<u>567,400</u>
<b>Operating Profit</b>	<b>2,455,112</b>	<b>3,281,600</b>	<b>3,991,000</b>
Interest Paid	453,000	675,444	776,500
Profit Before Tax	<u>2,002,112</u>	<u>2,606,156</u>	<u>3,214,500</u>

**Nampa Manufacturing Company Ltd.**  
**Balance Sheet as at 31 Dec**

Noncurrent Assets	2021(GHC)	2022(GHC)	2023(GHC)
Building	413,200	402,200	391,200
Equipment	250,000	1,025,000	1,250,000
Motor Vehicles	760,000	570,000	380,000
Furniture and Fixtures	<u>190,000</u>	<u>236,000</u>	<u>266,000</u>
<b>Total</b>	1,613,200	2,233,200	2,287,200
Current Assets			
Inventory	960,000	1,577,600	2,488,000
Receivables	1,280,000	2,134,000	2,900,000
Prepayments	150,000	160,000	175,600
Bank	<u>127,000</u>	<u>154,600</u>	<u>134,000</u>
Total Current Assets	2,517,000	4,026,200	5,697,600
Current Liabilities			
Trade Creditors	768,000	1,299,200	1,672,000
Overdraft	<u>390,000</u>	<u>1,010,692</u>	<u>1,157,854</u>
Total Current Liabilities	1,158,000	2,309,892	2,829,854
Net Current Assets	<u>1,359,000</u>	<u>1,716,308</u>	<u>2,867,746</u>
Net Assets	<u>2,972,200</u>	<u>3,949,508</u>	<u>5,154,946</u>
<b>Capital</b>			
<b>Share Capital</b>	1,000,000	1,000,000	1,000,000
Income Surplus	<u>1,972,200</u>	<u>2,949,508</u>	<u>4,154,946</u>
	<u>2,972,200</u>	<u>3,949,508</u>	<u>5,154,946</u>

<b>Ratios</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>
Sales Growth		45.00%	25.00%
Receivable Days	73	84	91
Payable Days	97	109	105
Inventory Turnover Days	141	154	186
Gross Margin	61%	60%	58%
Overhead %	17%	19%	19%
Net Margin	31%	28%	28%
Interest Cover	5.42	4.86	5.14
Current Ratio	2.17	1.74	2.01
Quick Ratio	1.34	1.06	1.13
Inventory to Sales	15%	17%	21%
Receivables to Sales	20%	23%	25%
Payables to Sales	12%	14%	14%
Gearing	13.12%	25.59%	22.46%

## QUESTION 2

Sunbeam Oil Palm Plantation Ltd (SOPP) was established fifteen (15) years ago by Mr. and Mrs. James and Estella Maison and their mutual friend Mr. John Mensah. James and John, aged 55 and 57, were mates at the School of Agriculture at the University of Ghana, Legon. They both completed with a Bachelor of Science degree in Agriculture 20 years ago. Estella, aged 53, on the other hand is a product of the School of Administration, Legon. She holds a first and second degrees in Marketing. She handles the accounts of the company as well as marketing matters while her husband serves as the Chairman and CEO of the company. John serves as the General Manager.

The company's farm and processing plant are located at Aboso in the Western Region of the country. The company has a fleet of small tractors that are used to harvest the palm nuts for transportation to the processing plant. They have a Farm Manager, an expatriate from South East Asia, Timothy Hugolong, aged 63, who has a vast experience in the business. The company also has two (2) old articulator trucks which they have been using since the inception of the business.

They have a small pool of permanent labour of ten (10). Any additional requirements are filled by hiring labour on a “by-day” basis.

The company has operated with you since its inception and your bank has been providing working capital finance to the company by way of overdraft with a limit of GHC 1.5 million over the past two years. The Account has become sticky in recent times. The company has attributed this to adverse changes in the weather this year.

The Account operation had been very healthy in the first year of the facility but started deteriorating in the second year due primarily to bad weather. SOPP sells the bulk of its products to Lever Soap Industries, though the proportion has reduced from a maximum of about 70% to the current proportion of 40%. James explains that Power Ltd, a competitor, has developed its own plantation and commenced harvesting from it, resulting in their reduced patronage of SOPP palm nuts.

The three Directors have approached you with a business plan which they say is the second phase of their original plan. This phase involves the acquisition of an Oil Mill and a Refinery Plant to produce palm oil, deodorized palm oil and palm kernel oil for both local and foreign markets. They show you an agreement they have reached with a soap and oil manufacturer in the Netherlands who promises to take 50% of their crude palm oil production.

Estimates of the Plants are as follows:

	COST (GHC EQUIVALENT)	WARRANTED USEFUL LIFE
Oil Mill	510,000.00	10
Refinery	10,310,000.00	10
Articulator Truck	5,150,000.00	10
TOTAL	15,970,000.00	

Critically examine this proposition.

**[TOTAL: 30 MARKS]**

SUNBEAM Oil Palm Plantation Ltd  
Profit and Loss  
Extracts for the year  
ending 30 Dec

	<b>2021</b> GHC	<b>2022</b> GHC	<b>2023</b> GHC
Sales	98,700,000	128,310,000	153,972,000
Opening Inventory	5,467,300	7,896,000	12,758,900
Production cost	59,220,000	79,997,600	100,100,000
	<u>64,687,300</u>	<u>87,893,600</u>	<u>112,858,900</u>
Closing Inventory	7,896,000	12,758,900	19,876,000
Cost of Sales	56,791,300	75,134,700	92,982,900
Gross Profit	<u>41,908,700</u>	<u>53,175,300</u>	<u>60,989,100</u>
Overheads	8,889,600	14,412,000	14,320,000
Depreciation	1,165,000	1,307,200	1,368,200
Operating Profit	<u>31,854,100</u>	<u>37,456,100</u>	<u>45,300,900</u>
Interest Paid	4,590,080	7,685,900	22,786,500
Profit Before Tax	<u>27,264,020</u>	<u>29,770,200</u>	<u>22,514,400</u>
Tax	<u>6,816,005</u>	<u>7,442,550</u>	<u>5,628,600</u>
Profit After Tax	20,448,015	22,327,650	16,885,800

SUNBEAM Oil  
Palm Plantation  
Ltd  
Balance Sheet as  
at 30 Dec

Noncurrent Assets	2021 GHC	2022 GHC	2023 GHC
Building	465,000	489,200	522,400
Equipment	4,200,000	3,150,000	2,100,000
Motor Vehicles	90,000	572,000	558,000
Furniture and Fixtures	270,000	253,600	266,200
Biological Asset	<u>4,935,000</u>	<u>7,615,000</u>	<u>8,765,900</u>
Total	9,960,000	12,079,800	12,212,500
Current Assets			
Inventory	7,896,000	12,758,900	19,876,000
Receivables	15,792,000	21,812,300	25,800,000
Other Receivables	45,330	47,650	54,630
Prepayments	67,800	89,760	98,750
Bank	<u>27,900</u>	<u>1,200</u>	<u>200</u>
	23,829,030	34,709,810	45,829,580
Current Liabilities			
Trade Payables	9,970,000	12,974,000	15,460,000
Overdraft	<u>1,855,130</u>	<u>687,885</u>	<u>1,011,455</u>
Total Current Liabilities	11,825,130	13,661,885	16,471,455
Net Current Assets	12,003,900	21,047,925	29,358,125
Medium Term Loan	-	-	-
Net Assets	<u>21,963,900</u>	<u>33,127,725</u>	<u>41,570,625</u>
Financed by			
Capital			
Share Capital	15,000,000	15,000,000	15,000,000
Income Surplus	<u>6,963,900</u>	<u>18,127,725</u>	<u>26,570,625</u>
	<u>21,963,900</u>	<u>33,127,725</u>	<u>41,570,625</u>



<b>Ratios</b>	2021	2022	2023
Sales Growth		30.00%	20.00%
Receivable Days	58	62	61
Payable Days	61	59	56
Inventory Turnover Days	51	62	78
Gross Margin	42%	41%	40%
Overhead %	9%	11%	9%
Net Margin	27.62%	23.20%	14.62%
Interest Cover	6.94	4.87	1.99
Current Ratio	2.02	2.54	2.78
Quick Ratio	1.35	1.61	1.58
Inventory to Sales	8%	10%	13%
Receivables to Sales	16%	17%	17%
Payables to Sales	10%	10%	10%
Gearing	8.45%	2.08%	2.43%

### QUESTION 3

Richard Banson, aged 30, is a small-scale Contract Builder who now wishes to branch fully into Speculative Building due to a reduction in contract offers over the past year. He also wishes to take advantage of the building boom in the country which has been fueled by increased money in circulation due to the oil find in the country. He has built five (5) houses in a year for various clientele including businessmen and middle-income earners. He believes now is the time to make it big, after years of modest Contract Building. He wants to make a name in the Speculative Building industry.

Richard does not have a permanent work force, but hires workers whenever he wins a contract. He is assisted by his old school mate and friend, Jacob Moore, aged 32, who is a graduate in Estate Development from the University of Science and Technology.

Richard Banson took over his father's business about four (4) years ago, at a time when he had just finished his Senior High School Examinations. He has operated an account with you since he took over the business. Although he had exceptional passes, he has not been able to proceed to university due to his preoccupation with the business.

He comes to see you with what he claims to be a hot business proposition. He has managed to secure a hundred-acre plot of land at Dodowa, a town close to Accra, for a price of GHC 1,200,000.00, and wishes to develop an estate consisting of fifty (50) three-bedroom houses.

His estimates for the development are as follows:

STAGE	CUMULATIVE COST PER HOUSE
Foundation	90,000.00
Lintel	180,000.00
Roofing	240,000.00
Plastering	330,000.00
Finishing	420,000.00

He discloses that at the moment, three-bedroom houses on the outskirts of Accra are going for GHC 1,200,000 each.

He also adds that he currently has a Bank of Ghana Bond of GHC750,000 which is due to mature in a week's time. He is requesting for a loan of GHC 30.0 million to complete the project

Critically examine the proposition, indicating the additional information you would require to enable you to take a firm decision.

**[TOTAL: 30 MARKS]**

## **SECTION B - ANSWER TWO (2) QUESTIONS ONLY**

### **QUESTION 4**

“One of the factors that precipitated the recent banking crisis in Ghana was the high incidence of Non-Performing Loans.”

Discuss the impact that Non-Performing Loans have on a financial institution.

**[TOTAL: 20 MARKS]**

### **QUESTION 5**

You have been employed as an expert credit professional to develop a Credit Management Structure in a new financial institution that has been granted a banking license.

Outline a suitable Credit Governance, Delivery and Organizational Structure you would recommend, clearly delineating the roles of the various units within this Governance Structure.

**[TOTAL: 20 MARKS]**

### **QUESTION 6**

Undertake a PESTLE and industry analysis of any one (1) of the following sectors of the Ghanaian Economy:

- (a) Mining
- (b) Manufacturing
- (c) Agro-Based Industries
- (d) Hospitality Industry

**[TOTAL: 20 MARKS]**