



**CHARTERED INSTITUTE OF BANKERS, GHANA**  
**ASSOCIATESHIP EXAMINATIONS**  
**LEVEL III**  
**CREDIT MANAGEMENT- LENDING**  
**OCTOBER 2022**

N.B.

- 1) Read carefully the instructions on the cover of the answer book.
- 2) 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.
- 3) 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.
- 4) Disregard any current official restriction on lending.
- 5) ASSUME BASE RATE OF 22 % IN ALL CALCULATIONS. Answers in listed note form are acceptable provided they are clearly and logically presented and the point adequately developed.
- 6) Silent non-programmable electronic calculators 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.
- 7) Time allowed: THREE HOURS. An additional 15 minutes' reading time is allowed at the beginning of the examination when candidates may write on this paper but not in the answer book. The total number of questions in this paper is six.
- 8) Candidates must ensure that they answer the questions in the appropriate answer books and not on loose sheets which are used only as supplementary sheets. Such answers will be cancelled.
- 9) DO NOT WRITE YOUR NAME ON THE ANSWER BOOKS.
- 10) DO NOT OPEN THIS PAPER UNTIL INSTRUCTED TO DO SO.

## SECTION A - ANSWER TWO (2) QUESTIONS ONLY

### Question 1

Joojo Metals Ltd., has been your customer for the past twenty years. The company manufactures iron rods used in the construction of roads and houses and supplies wholesalers in Accra, Akim Oda, Nkawkaw, Nsawam and its environs.

The company sources its raw materials of iron scraps and ingots both locally and abroad, with about 70 % coming from abroad.

The company has seen its profits eroded in 2021 due to the rapidly depreciating exchange rate of the cedi against foreign currencies. The company has also faced increasing competition from other producers in Accra and Takoradi as well as cheaper imports from China.

Joojo Banful owns 60% of the shares of the company, whilst the remaining 40 % is held by his childhood friend, Fiifi Awotwe who takes no active part in the management of the company.

Joojo serves as the CEO and General Manager of the company, whilst his wife, Mama Nelson, a chartered accountant serves as the Finance Director of the company. His factory Manager is Jonas Dadzie, aged 62, a vastly experienced factory manager he recruited only a year ago. In addition, he has a pool of twenty skilled workers many of whom were poached from other companies.

The principal shareholder of the company, Joojo Banful is a noted supporter of the ruling government though he persistently denies that he has provided funding for the government.

The company's factory is located at Tema in the Greater Accra Region of the country on a wide expanse of land. It is fitted with three huge warehouses, which are well stocked at all times. The company also has three articulator trucks which it uses for its supplies.

Jonas comes to you with a business proposition involving the provision of working capital finance for the supply of iron rods to major government building construction projects running across the country. He tells you that this could give the business a major breakthrough and bring gains also to your bank. He is asking for working capital finance of GHC 3.0 million for this major expansion in scope of operations.

How would you respond to this proposition with respect to the provided financial statements and ratios on pages 3, 4 & 5? **[30 Marks]**

Joojo Metals Ltd.  
Profit and Loss Extracts for the year ending 30 Dec

	<b>2019</b> GHC	<b>2020</b> GHC	<b>2021</b> GHC
Sales	1,500,000	1,750,000	1,850,000
Opening Inventory	95,500	105,000	120,000
Purchases	<u>784,000</u>	<u>970,520</u>	<u>1,078,540</u>
	879,500	1,075,520	1,198,540
Closing Inventory	105,000	120,000	145,000
Cost of Sales	<u>774,500</u>	<u>955,520</u>	<u>1,053,540</u>
Gross Profit	725,500	794,480	796,460
Overheads	138,000	165,200	194,820
Depreciation	<u>467,000</u>	<u>471,400</u>	<u>494,400</u>
Operating Profit	120,500	157,880	107,240
Interest Paid	<u>45,000</u>	<u>65,000</u>	<u>78,500</u>
Profit Before Tax	75,500	92,880	28,740
Tax	<u>18,875</u>	<u>23,220</u>	<u>7,185</u>
Profit After Tax	<u><u>56,625</u></u>	<u><u>69,660</u></u>	<u><u>21,555</u></u>

Joojo Metals Ltd.  
Balance Sheet as at 31 Dec

Noncurrent Assets	2019	2020	2021
Building	448,200	439,200	430,200
Equipment	675,000	540,000	585,000
Motor Vehicles	870,000	580,000	290,000
Furniture Fixtures	<u>138,000</u>	<u>129,000</u>	<u>97,000</u>
Total	2,131,200	1,688,200	1,402,200
Current Assets			
Inventory	105,000	120,000	145,000
Receivables	148,000	434,580	714,250
Prepayments	5,500	20,800	30,500
Bank	<u>10,250</u>	<u>28,000</u>	<u>35,000</u>
	<u>268,750</u>	<u>603,380</u>	<u>924,750</u>
Current Liabilities			
Trade Creditors	85,000	120,000	157,000
Overdraft	208,000	29,800	17,392
Total C Liabilities	293,000	149,800	174,392
Net Current Assets	(24,250)	453,580	750,358
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Net Assets	<u>2,106,950</u>	<u>2,141,780</u>	<u>2,152,558</u>
Capital			
Share Capital	1,500,000	1,500,000	1,500,000
Income Surplus	<u>606,950</u>	<u>641,780</u>	<u>652,558</u>
	<u>2,106,950</u>	<u>2,141,780</u>	<u>2,152,558</u>

Ratios	2019	2020	2021
Sales Growth		16.67%	5.71%
Receivable Days	36	91	141
Payable Days	40	45	53
Inventory Turnover Days	49	46	50
Gross Margin	48%	45%	43%
Overhead %	9%	9%	11%
Net Margin	5%	5%	2%
Interest Cover	2.68	2.43	1.37
Current Ratio	0.92	4.03	5.30
Quick Ratio	0.56	3.23	4.47
Inventory to Sales	7%	7%	8%
Receivables to Sales	10%	25%	39%
Payables to Sales	6%	7%	8%
Gearing	9.87%	1.39%	0.81%

## Question 2

Afram River Plantations Ltd. is an exporter of bananas to North America, the EU countries and China. The business was established fifteen years ago by John Abaidoo, aged 55, who is the sole shareholder of the company. The company has been your customer since its inception and has operated satisfactorily until in recent times when you noticed a significant deterioration in account operations. There is a hard core of GHC 1,500,000 on the account as a result of the problems faced by the business. You granted them an overdraft facility which expired a week ago with the balance standing at GHC 1,894,700 DR

The company has a plantation located at Asesewa in the Eastern Region on the banks of the River Volta. The plantation is fitted with a sprawling warehouse and a packaging plant for the packaging of the bananas for export. The company has two articulated trucks it uses in conveying the produce to the harbor for export.

From your interaction with John you learnt that their operations were affected significantly by the poor weather experienced in 2021 which significantly reduced the volume of harvest. Furthermore, bushfire burnt down a significant number of the banana trees.

John, the CEO and Board Chairman has a first degree in Agriculture from the University of Cape Coast, whilst his wife, Eunice, a holder of an MBA in Banking and Finance serves as General Manager for Operations. She also has a first degree in B. Com, University of Cape Coast.

The Farm Manager is Egya Afedzie aged 61, who has a diploma in farm management from the Asuansi Agric Institute. He has been in the company since its inception.

Customer is asking for working capital support to help revive the operations of the farm. He estimates that he would require an increase in the existing overdraft limit from GHC 2,000,000.00 to GHC 3,000,000.00.

How would you respond to his proposition?

[30 Marks]

### **Afram River Plantations Ltd. Income Statement for the Period ending 31st Dec**

	<b>2019</b>	<b>2020</b>	<b>2021</b>
Sales Revenue	1,525,000.00	1,896,000.00	1,978,000.00
Direct Costs	990,000.00	1,285,400.00	1,398,200.00
Gross Profit	535,000.00	610,600.00	579,800.00
Expenditure	67,200.00	136,500.00	187,500.00
Overheads	150,000.00	185,000.00	185,000.00
Depreciation	<u>217,200.00</u>	<u>321,500.00</u>	<u>372,500.00</u>
Operating Profit	317,800.00	289,100.00	207,300.00
Interest Expense	35,210.00	58,000.00	82,500.00
Net Profit	<u><u>282,590.00</u></u>	<u><u>231,100.00</u></u>	<u><u>124,800.00</u></u>

**Afram River Plantations Ltd.**  
**Balance Sheet as at 31st December**

<b>Noncurrent Assets</b>	<b>GHC 2019</b>	<b>GHC 2020</b>	<b>GHC 2021</b>
Freehold	250,000.00	247,000.00	244,000.00
Farm Building	195,000.00	193,000.00	191,000.00
Equipment	250,000.00	275,000.00	245,000.00
Motor Vehicle	1,550,000.00	1,395,000.00	1,937,400.00
Livestock	<u>250,000.00</u>	<u>550,000.00</u>	<u>350,000.00</u>
	2,495,000.00	2,660,000.00	2,967,400.00
 <b>Current Assets</b>			
Inventory	382,000.00	456,000.00	925,000.00
Receivables	458,000.00	795,000.00	846,500.00
Crops for own use	125,000.00	354,500.00	458,700.00
Other debtors	<u>15,000.00</u>	<u>35,000.00</u>	<u>185,000.00</u>
	<u>980,000.00</u>	<u>1,640,500.00</u>	<u>2,415,200.00</u>
 <b>Current Liabilities</b>			
Bank Overdraft	541,000.00	854,400.00	1,652,000.00
Trade Creditors	<u>258,000.00</u>	<u>539,000.00</u>	<u>698,700.00</u>
	<u>799,000.00</u>	<u>1,393,400.00</u>	<u>2,350,700.00</u>
 Net Current Assets	181,000.00	247,100.00	64,500.00
 Net Total Assets	<u>2,676,000.00</u>	<u>2,907,100.00</u>	<u>3,031,900.00</u>
 <b>Capital</b>			
Share Capital	2,000,000.00	2,000,000.00	2,000,000.00
Income Surplus	<u>676,000.00</u>	<u>907,100.00</u>	<u>1,031,900.00</u>
	<u>2,676,000.00</u>	<u>2,907,100.00</u>	<u>3,031,900.00</u>

	<b>2019</b>	<b>2020</b>	<b>2021</b>
Debt Equity Ratio	20.22%	29.39%	54.49%
Gross Margin	35.08%	32.20%	29.31%
Overhead %	4.41%	7.20%	9.48%
Net Margin	18.53%	12.19%	6.31%
Current Ratio	1.23	1.18	1.03
Quick Ratio	1.07	0.92	0.83
Inventory Days	187	230	361
Receivables Days	110	153	156
Payables Days	95	153	182
Interest Cover	6.17	5.54	4.52
Sales Growth		24.33%	4.32%

### **Question 3**

Bolombo Property Investors Ltd. is a property investment company that is involved in the renting of commercial property to various commercial interests throughout the country. Their modus operandi is to purchase existing property, renovate them and rent them out, or to develop property from the scratch and rent them out. Occasionally they sell out property to improve their cash flows.

Bolombo Property Investors Ltd. is a company owned by Mr. Joshua Borson, aged 62 and his wife Mabel, aged, 52 holding 60 % and 40 % shares respectively. The couple have been wedded for the past five years and have three children of school going age. Management roles in the company are shared between the couple who are both qualified Civil Engineers by profession. Joshua serves as the CEO whilst his wife serves as General Manager and Accountant. To support them they have employed an accounts clerk Kwesi Mendson, aged 35 who has a diploma in accounting from the University of Ghana, Legon.

Bolombo Property Investors has five properties in Accra, one in Takoradi and three in Kumasi.

The company has identified a ten-storey property in Takoradi that has been put on sale by an expatriate Property Developer who is leaving the country. The price on offer is GHC 5,000,000.00. They think they can quickly



renovate the property and either sell it or rent it out to various businesses provided they are able to secure these tenants.

The unit is in a poor state of repair but Bolombo believes it could fetch a good price if properly renovated. The building is located in the heart of the city and along the main high street of the city.

Bolombo's plan is to rent the ground floor to a bank or savings and loans company, and the units in the upper floor to various types of businesses including supermarkets, restaurants and business offices.

His estimates for the renovation are as follows:

Rewiring and Plumbing	750,000.00
Internal fittings	850,000.00
Alucobond panelling	450,000.00
Painting	150,000.00
Parking lot	100,000.00
	2,300,000.00

Estimated Rental for the property is as follows:

Floor	Rent Per Month
1st	100,000.00
2nd	65,000.00
3rd	65,000.00
4th	65,000.00
5th	65,000.00
6th	65,000.00
7th	65,000.00
8th	65,000.00
9th	65,000.00
10th	65,000.00
	685,000.00

He brings the proposal to you for consideration. He proposes that the building would serve as security. In addition a joint and several guarantee would be provided by the directors of the company. He is therefore requesting for a five year loan facility of GHC 7,300,000.00 to finance the purchase and renovation of the project. He is expecting a rate of return of 25%

Critically examine his proposition.

**[30 Marks]**

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

### **Question 4**

James Addington has been your customer for the past forty years, and is due for retirement in the next three years. He has applied for a short term loan of three years to enable him to roof his building and internal fittings and painting of the house. He estimates that it would cost him GHC 80,000.00. He is currently residing in rented accommodation for which he is paying a monthly rent of GHC 1,500.00 per month. He is the Principal Director of the Ministry of Agriculture and earns a net monthly salary of GHC 12,000.00.

He has operated a satisfactory account until in recent times when his revolving overdraft of GHC 5,000.00 has been drawn to the hilt. His retirement home is a four bedroom storey building located close to Aburi. In addition to the revolving overdraft he has a car loan balance of GHC 18,000 with six months to pay. He is already in arrears of two monthly installments. The monthly installment on the car loan amounts to GHC 3,000.00

You notice the following outgoings on his account with you:

Standing order to Hire Purchase Company	500.00
Electricity Bill	350.00
Water Bill	200.00
Life Insurance	300.00
Health Insurance	200.00

The following information is also gleaned from his personal loan application form

Petrol expenses	1,000.00
Housekeeping expenses	1,000.00 per week

You have observed that he uses two different cars, a Mercedes Benz, which your bank financed and an Opel cadet Car, which he indicates to you is ten years old. He has been a source of good business introductions to you and so you really wish to assist him. He has offered to support the application with a security over his share certificate in an unlisted company, Bonreve Ltd., a manufacturer of cocoa beverages. The shares have a nominal value of GHC 5.00 per share and he holds four thousand of the shares.

James is married and has seven children who are all still in school. The first three are in the university and he pays school fees of GHC 5,000.00 per semester for each of them.

The next three are in senior high school and he pays GHC 1,000.00 per semester for each of them.

The last child is in Junior High School and he pays school fees of GHC 1,500.00 per term.

He is pleading with you to consolidate all his outstanding loans with you as well as the facility owed the hire purchase company.

How would you respond to his proposition?

**[20 Marks]**

### **Question 5**

(a) What is Credit Portfolio Management?

**[5 Marks]**

(b) Identify five (5) key principles and/or procedures for the management of Credit Portfolio Management?

**[15 Marks]**

**[Total: 20 Marks]**

### **Question 6**

(a) What is Credit Appraisal and what is its primary objective?

**[5 Marks]**

(b) Enumerate and discuss the five (5) key principles underlying credit appraisal.

**[15 Marks]**

**[Total: 20 marks]**