



**CHARTERED INSTITUTE OF BANKERS, GHANA
ASSOCIATESHIP EXAMINATIONS
LEVEL III
CREDIT MANAGEMENT- LENDING
APRIL 2023**

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 forms are acceptable provided they are clearly and logically presented and the point adequately developed.**
- 6) 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.**
- 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.**
- 8) The total number of questions in this paper is six.**
- 9) 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.**
- 10) DO NOT WRITE YOUR NAME ON THE ANSWER BOOKS.**
- 11) DO NOT OPEN THIS PAPER UNTIL INSTRUCTED TO DO SO.**

SECTION A – ANSWER TWO (2) QUESTIONS ONLY

Question 1

Mr. Bampoh Humphrey is the Board Chairman and CEO of Gold Coast Shipping Company Ltd. He owns 80 percent of the shares of the company with his foreign Partner Jones Smith, a retired Chairman of Elder Demspster Shipping Company owning the remaining 20%.

The two shareholders acquired the company from the Divestiture Implementation Committee in 1995 when the government divested its shareholding in the national shipping line the Black Star Line. Mr. Bampoh is known to be highly connected with the government in power at the time of AFC.

The company is engaged in transportation of primary products such as bauxite, gold and manganese ore from the country abroad and the transportation of consumer goods in container ships throughout the world.

The company has a fleet of ten cargo ships and ten container ships. It has three main offices located in Tema, Takoradi and London in the UK.

The company has operated an impressive account with you since the acquisition of the national shipping line, until in recent times when you noticed a sharp deterioration in its account operations. Following your painstaking investigation you established that the company incurred a huge loss when a cargo of bauxite was diverted on the high seas and the goods stolen. The ship was later discovered to have been sunken in the high seas to hide the evidence. Another problem you observed was that their fleet was becoming aged and one of them needs immediate replacement.

Each office of the company has an Office Manager all of whom are experienced expatriate shipping managers poached from international shipping companies.

The cost of purchase and delivery of one ship is estimated at USD 5.0 million, and the company is requesting for financial support from the bank to make a down payment of USD 2.0 million

for the ship. The company proposes to pay the bank over a period of five years whilst the remainder of the cost of the ship is to be paid over the next period of ten years.

Critically examine this proposition using the information above and the related financial statements provided below.

Gold Star Shipping Ltd
Statement of Comprehensive Income as at 31 Dec

	2020 GHC	2021 GHC	2022 GHC
Total Revenue	13,700,000	14,400,000	14,920,000
Cost of Revenue	6,165,000	6,912,000	7,758,400
Gross Profit	7,535,000	7,488,000	7,161,600
Overheads	1,575,500	1,843,200	2,333,488
Depreciation	1,337,000	1,514,000	1,564,000
Operating Profit	4,622,500	4,130,800	3,264,112
Interest Paid	480,000	352,000	312,500
Profit Before Tax	4,142,500	3,778,800	2,951,612
Tax	1,035,625	944,700	737,903
Profit After Tax	3,106,875	2,834,100	2,213,709

Gold Star Shipping Ltd
Balance Sheet as at
31st Dec

	2020	2021	2022
Noncurrent Assets			
Building	147,000	238,000	327,000
Equipment	9,000,000	11,325,000	10,150,000
Motor Vehicles	720,000	480,000	432,000
Furniture and Fixtures	350,000	260,000	170,000
Total	<u>10,217,000</u>	<u>12,303,000</u>	<u>11,079,000</u>
Current Assets			
Inventory	135,000	185,000	197,000
Receivables	245,000	254,000	1,998,000
Prepayments	146,200	158,400	268,700
Bank	950,800	241,250	746,805
	<u>1,477,000</u>	<u>838,650</u>	<u>3,210,505</u>
Current Liabilities			
Trade Payables	125,000	135,600	156,400
Overdraft	45,000	65,000	85,200
Total Current Liabilities	<u>170,000</u>	<u>200,600</u>	<u>241,600</u>
Net Current Assets	1,307,000	638,050	2,968,905
Net Assets	11,524,000	12,941,050	14,047,905
Capital			
Share Capital	10,000,000	10,000,000	10,000,000
Income Surplus	1,524,000	2,941,050	4,047,905
	<u>11,524,000</u>	<u>12,941,050</u>	<u>14,047,905</u>

RATIOS	2020	2021	2022
Sales Growth		5.11%	3.61%
Receivable Days	7	6	49
Payable Days	7	7	7
Inventory Turnover Days	8	10	9
Gross Margin	55%	52%	48%
Overhead %	12%	13%	16%
Net Margin	30.24%	26.24%	19.78%
Interest Cover	9.63	11.74	10.45
Current Ratio	8.69	4.18	13.29
Quick Ratio	7.89	3.26	12.47
Tax Rate	25%	25%	25%
Dividend Payout RATIO	50%	50%	50%
Inventory to Sales	0.01	0.01	0.01
Receivables to Sales	0.02	0.02	0.13
Payables to Sales	0.01	0.01	0.01
Gearing	0.39%	0.50%	0.61%

Question 2

Aduane Restaurants and Mobile Food Ltd. has operated an account with us for the past ten years since the inception of the company. The company has ten restaurants located at strategic parts of Accra, two at Takoradi and two in Kumasi.

The CEO of the company Mr. Sampson Arthur has come to see you for a discussion about the future of the company. Due to road construction, his key head office restaurant branch located at East Legon is no longer viable. He has identified another premises located close to the center of Accra which he wishes to acquire. According to him the vendors, who are siblings who inherited the property from their deceased parents, wish to dispose of the property in order to avoid unnecessary disputes among themselves. The property is also a bit dilapidated and would need to be overhauled. The company has been given a favourable price of GHC 800,000.00 to facilitate a quick sale. The company is able to provide 20% of the purchase and is asking the bank to finance the difference.

The company provides services primarily to workers within their vicinity. The company has become a household name due to the quality of their food and services. The company has a fleet of vans which assist in the delivery, one van for each branch. The ambience of their premises is also attractive and their restaurants are always milling with clientele mostly bank staff, civil servants and staff of private companies, at lunch time. They are also a favorite choice for wedding and other social occasions.

Their bank account operations however declined due to the onset of Covid and its impact on workers having to work from home. You have nonetheless discerned a slight improvement in their operations from the current bank account operations.

Management team comprises, Mr. Samson Arthur, aged 46, Chairman and CEO of the Company, Mrs. Mary Arthur, aged 45, COO and Chief Matron of the company and Mr. Kweku Johnson, aged 32 CFO of the company. Mr., Samson Arthur is a graduate in Economics from University of Ghana Legon and an MBA in Marketing. He worked in one of the top banks in the country for

ten years prior to his resigning to take over his aged mother's restaurant. Mrs. Mary Arthur, his wife has a degree in Food Science and Nutrition from the Ho University. She served as a matron at Wesley Grammar High School prior to joining the company at its inception. Kweku Johnson is a close family friend of the CEO and holds a Diploma in Accounting from the University of Professional Studies, Accra. Prior to joining the company Kweku worked at the Labone Polyclinic as an accounts staff.

Each branch has a manager and a chief cook, supported by two matrons. In addition, they hire waiters and waitresses on temporary basis and put them through some rigorous training before deploying them.

Critically examine this proposition as per information above and the related financial statements below.

Aduane Restaurant and Mobile Food Ltd
Profit and Loss Extracts for the year ending 31st Dec

	2020	2021	2022
	GHC	GHC	GHC
Sales	1,899,500	2,796,460	3,215,929
Opening Inventory	204,570	321,215	503,363
Production cost	968,945	1,482,124	1,768,761
	1,173,515	1,803,339	2,272,124
Closing Inventory	321,215	503,363	643,186
Cost of Sales	852,300	1,299,976	1,628,938
Gross Profit	1,047,200	1,496,484	1,586,991
Overheads	44,880	235,386	268,292
Depreciation	131,000	162,500	256,500
Operating Profit	871,320	1,098,598	1,062,199
Interest Paid	38,000	54,000	102,000
Profit Before Tax	833,320	1,044,598	960,199
Tax	208,330	261,150	240,050
Profit After Tax	624,990	783,449	720,149

**Aduane Restaurant
and Mobile Ltd**
Balance Sheet as at 31
Dec

	2020	2021	2022
Noncurrent Assets			
Building	615,000	600,000	585,000
Equipment	75,000	118,500	232,000
Motor Vehicles	210,000	200,000	395,000
Furniture and Fixtures	114,000	123,000	118,000
Total	<u>1,014,000</u>	<u>1,041,500</u>	<u>1,330,000</u>
Current Assets			
Inventory	321,215	503,363	643,186
Receivables	445,880	701,150	1,010,560
Prepayment	19,250	45,210	55,610
Bank	15,000	14,800	25,600
	<u>801,345</u>	<u>1,264,523</u>	<u>1,734,956</u>
Current Liabilities			
Trade Payables	322,915	531,327	675,345
Overdraft	125,000	15,542	270,382
Total Current Liabilities	<u>447,915</u>	<u>546,869</u>	<u>945,727</u>
Net Current Assets	353,430	717,654	789,229
Net Assets	<u><u>1,367,430</u></u>	<u><u>1,759,154</u></u>	<u><u>2,119,229</u></u>
Financed by			
Capital			
Share Capital	800,000	800,000	800,000
Income Surplus	567,430	959,154	1,319,229
	<u><u>1,367,430</u></u>	<u><u>1,759,154</u></u>	<u><u>2,119,229</u></u>

Ratios

	2020	2021	2022
Sales Growth		47.22%	15.00%
Receivable Days	86	92	115
Payable Days	122	131	139
Inventory Turnover Days	138	141	144
Gross Margin	55%	54%	49%
Overhead %	2%	8%	8%
Net Margin	43.87%	37.35%	29.86%
Interest Cover	22.93	20.34	10.41
Current Ratio	1.79	2.31	1.83
Quick Ratio	1.07	1.39	1.15
Tax Rate	25%	25%	25%
Inventory to Sales	17%	18%	20%
Receivables to Sales	23%	25%	31%
Payables to Sales	17%	19%	21%
Gearing	9.14%	0.88%	12.76%
Dividend Payout Ratio	50%	50%	50%

Question 3

Pistashio Cashew Nuts Ltd. is a producer of roasted cashew nuts for sale in the local and international markets. The company was established fifteen years ago by Professor Joel Amo, a professor in Agriculture at the University of Ghana with some support from his expatriate friend Mr. Peter Deitrich, a German national. Mr. Deitrich aged 75 is an experienced industrialist with vast experience in many agro-based outfits. He serves as the Board Director of the Company. Mr. Joel aged 70 also serves as the CEO and COO for the business.

Mrs. Amo aged 65 a seasoned chartered accountant serves as the CFO and Head of HR for the company. She joined the company five years ago when she retired as Head of Internal Audit for Bank of Ghana.

Mr. Kweku Dadzie aged 68 has served as the factory manager for the company since his retirement from Gold Coast Aluminum Works as factory supervisor eight years ago.

The company is embarking on an expansion project in order to meet the burgeoning demand for its product which is selling very fast on the international market as well as the local market. The company supplies roasted cashew to a number of hotels and supermarkets in the country (about 40 % of its output and exports the rest to UK, France, Greenland USA and South America.

The company has a state of the art factory located at Ada a few miles drive from Tema. Your visit to the premises show that the machinery in use are rather aged which Joel explains as the reason for the fast deterioration in account performance over the past year.

The customer tells you he has received an increase in orders from overseas which makes it imperative to procure a larger set of cashew roasting and packaging equipment. He shows you an invoice for a set costing in total USD 540,000 including equipment cost, transportation costs and installation costs. (USD exchange rate is GHC13.00/USD)

Critically examine this proposition using the information above and the related financial statements provided below.

Pisticashio Cashew Nuts Ltd

Profit and Loss Extracts for the year ending 31 Dec

	2020 GHC	2021 GHC	2022 GHC
Sales	1,850,000	2,571,500	3,985,825
Opening Inventory	245,000	289,000	442,800
Cost of Prod. & Purchases	1,239,500	1,748,620	2,790,078
	1,484,500	2,037,620	3,232,878
Closing Inventory	<u>289,000</u>	<u>442,800</u>	<u>770,500</u>
Cost of Sales	<u>1,195,500</u>	<u>1,594,820</u>	<u>2,462,378</u>
Gross Profit	654,500	976,680	1,523,447
Overheads	175,000	298,000	476,800
Depreciation	<u>259,000</u>	<u>312,400</u>	<u>372,400</u>
Operating Profit	220,500	366,280	674,247
Interest Paid	125,000	145,000	158,000
Profit Before Tax	<u>95,500</u>	<u>221,280</u>	<u>516,247</u>
Tax	23,875	55,320	129,062
Profit After Tax	<u>71,625</u>	<u>165,960</u>	<u>387,185</u>

Pisticashio Cashew Nuts Ltd
Balance Sheet as at 31 Dec

Noncurrent Assets	2020	2021	2022
Building	684,000	831,600	929,200
Plant & Machinery	360,000	240,000	390,000
Motor Vehicles	270,000	380,000	360,000
Furniture and Fixtures	110,000	160,000	110,000
Total	1,424,000	1,611,600	1,789,200
Current Assets			
Inventory	289,000	442,800	770,500
Receivables	258,000	254,700	574,000
Prepayments	25,600	36,800	47,800
Bank	125,000	85,400	75,800
	697,600	819,700	1,468,100
Current Liabilities			
Trade Creditors	148,000	184,700	435,200
Overdraft	854,900	1,544,920	1,426,827
Total Current Liabilities	1,002,900	1,729,620	1,862,027
Net Current Assets	-305,300	-909,920	-393,927
Net Assets	1,118,700	701,680	1,395,273
	1,118,700	701,680	1,395,273
Capital			
Share Capital	1,000,000	500,000	1,000,000
Income Surplus	118,700	201,680	395,273
	1,118,700	701,680	1,395,273

	2020	2021	2022
Ratios			
Sales Growth		39.00%	55.00%
Receivable Days	51	36	53
Payable Days	44	39	57
Inventory Turnover Days	88	101	114
Gross Margin	35%	38%	38%
Overhead %	9%	12%	12%
Net Margin	5%	9%	13%
Interest Cover	1.76	2.53	4.27
Current Ratio	0.70	0.47	0.79
Quick Ratio	0.41	0.22	0.37
Tax Rate	25%	25%	25%
Dividend Payout RATIO	50%	50%	50%
Inventory to Sales	16%	17%	19%
Receivables to Sales	14%	10%	14%
Payables to Sales	8%	7%	11%

SECTION B – ANSWER TWO (2) QUESTIONS ONLY

Question 4

Banks and Specialized Deposit-Taking Institutions including savings and loans companies, finance companies and microfinance companies, are the main sources of *traditional* business finance be it short, medium or long term business finance. This may be by way of overdraft, personal loan, or term loans. There are however other sources of business funds alternative to what is available in banks and specialized deposit taking institutions.

Discuss any such five key *alternative* source of business finance.

[20 Marks]

Question 5

Three KEY departments responsible for credit in bank are:

1. Credit Origination Departments
2. Credit Administration
3. Credit Risk Management

Discuss up to five (5) functions of any two (2) of these departments.

[20 Marks]

Question 6

Property advances can be a very lucrative source of income for banks due to the large ticket size of credit propositions. Discuss the features and risk dynamics entailed in lending to any two of the following:

- (a) Speculative Builders
- (b) Contract Builders
- (c) Commercial Property Builders
- (d) Commercial Property Investor

[20 Marks]