



**CHARTERED INSTITUTE OF BANKERS, GHANA
ASSOCIATESHIP EXAMINATION
LEVEL III
CREDIT MANAGEMENT- LENDING
APRIL 2024**

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 GRR OF 30 % 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 of 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

Your valued customers of twenty years, BA Brazil Nuts Ltd was established twenty-six years ago by Herbert Obeng, aged 62 and his wife Martha Obeng, aged 58, both graduates in Agricultural Engineering from the University of Science, Industry and Technology. They also have MBA certificates in Marketing. Prior to this, they both worked with the Gold Coast Food Production and Distribution Service, a State Corporation engaged in the cultivation, purchase and distribution of food supplies. Herbert serves as both Board Chairman and CEO of the company. He is also in charge of Farming Operations. The Farm Managers at the company's farms report directly to Herbert. Martha serves as the CFO and Executive in charge of Marketing. She is supported by an Accounts Clerk, Jones Pino, aged 25 who has just completed his professional examination in Accounting, ICA (Ghana). The company also has a pool of skilled workers poached from other reputable industrial establishments.

The company is located at Ekumfi Swedru in the Central Region of the country and boasts of a state of the art Brazil nut production plant and a five storey office building. The company has two articulator trucks which are used in the carting of the Brazil nuts to the ports for export. The company is engaged in the production, roasting, packing and export of processed Brazil nuts primarily to the EU and Great Britain which take 60% of its products. The rest is sold locally (20 %) and to other parts of the world (20%) including Australia and the US.

The company has operated an impressive account over the years until a year ago when you saw a sharp dip in the company's turnover. In your interaction with Herbert, you learnt that there had been a fire outbreak which affected a significant part of the company's farm holdings in the Bono Region of the country. He had to replenish his stock of Brazil nuts at a higher cost from his colleagues who also have farms in this part of the country. Your latest investigations show that the company has replanted the burnt area with Brazil nut seedlings.

In one of your visits, it came to your attention that Herbert was building a new factory at Winneba about eighty (80) kilometers away. When you queried him, he told you he was anticipating expanding his market in US and Australia.

The company's Overdraft Facility of GHC 5,000,000.00 is showing a hard core at around GHC 3,000,000.00. The company is requesting for:

1. An increase in the Overdraft Facility to GHC10 million in support of Working Capital.
2. A Term Loan of USD 500,000 for the purchase of new Brazil Nut Roasting and Packaging Plant for the new factory. GHS/USD = GHS 13.5/USD1

Critically examine this proposition.

[30 MARKS]

BA Brazil Nuts Ltd.			
Profit and Loss Extracts for the year ending 31 Dec			
	2021	2022	2023
	GHC	GHC	GHC
Sales	5,750,000	6,900,000	7,690,000
Opening Inventory	472,610	534,100	758,420
Cost of Materials and production	3,150,000	4,142,000	4,605,800
	3,622,610	4,676,100	5,364,220
Closing Inventory	<u>534,100</u>	<u>758,420</u>	<u>985,400</u>
Cost of Sales	<u>3,088,510</u>	<u>3,917,680</u>	<u>4,378,820</u>
Gross Profit	2,661,490	2,982,320	3,311,180
Overheads	690,000	779,700	991,580
Depreciation	<u>405,000</u>	<u>417,400</u>	<u>777,400</u>
Operating Profit	1,566,490	1,785,220	1,542,200
Interest Paid	439,600	574,000	684,500
Profit Before Tax	<u>1,126,890</u>	<u>1,211,220</u>	<u>857,700</u>
Tax	281,723	302,805	214,425
Profit After Tax	<u>845,167</u>	<u>908,415</u>	<u>643,275</u>

BA Brazil Nuts Ltd.
Balance Sheet as at 31 Dec

Noncurrent Assets	2021	2022	2023
Building	4,975,200	4,925,200	4,875,200
Plant & Machinery	300,000	225,000	150,000
Motor Vehicles	960,000	870,000	1,800,000
Furniture and Fixtures	<u>270,000</u>	<u>320,000</u>	<u>340,000</u>
Total	6,505,200	6,340,200	7,165,200
Current Assets			
Inventory	534,100	758,420	985,400
Receivables	1,540,000	2,110,000	2,978,600
Prepayments	115,000	125,000	135,000
Bank	<u>56,000</u>	<u>58,151</u>	<u>149,250</u>
	2,245,100	3,051,571	4,248,250
Current Liabilities			
Payables	780,000	856,000	986,161
Overdraft	<u>1,346,000</u>	<u>1,457,263</u>	<u>3,027,144</u>
Total Current Liabilities	2,126,000	2,313,263	4,013,305
Net Current Assets	<u>119,100</u>	<u>738,308</u>	<u>234,945</u>
Net Assets	<u>6,624,300</u>	<u>7,078,508</u>	<u>7,400,145</u>
Financed by			
Capital			
Share Capital	4,000,000	4,000,000	4,000,000
Income Surplus	<u>2,624,300</u>	<u>3,078,508</u>	<u>3,400,145</u>
	<u>6,624,300</u>	<u>7,078,508</u>	<u>7,400,145</u>

Ratios

	2021	2022	2023
Sales Growth	-	20.00%	11.45%
Receivable Days	98	112	141
Payable Days	90	75	78
Inventory Turnover Days	63	71	82
Gross Margin	46%	43%	43%
Overhead %	12%	11%	13%
Net Margin	20%	18%	11%
Interest Cover	3.56	3.11	2.25
Current Ratio	1.06	1.32	1.06
Inventory to Sales	9%	11%	13%
Receivables to Sales	27%	31%	39%
Payables to Sales	14%	12%	13%
Gearing	20.32%	20.59%	40.91%

QUESTION 2

John Mensah aged 45 is the CEO of Jmens Hardware Dealers Ltd., your valued customers. He rose to the position of CEO when his father, Joseph Mensah passed away two years ago. He holds a first degree in Business Administration and has worked in his father's company since he completed his National Service. Jmens has operated an account with your bank since inception, fifteen years ago.

The company's account operations have deteriorated drastically following the passing of John's father and John has explained to you that the situation arose from a dispute with his father's friend, Joel Dadzie, aged 65, who had been the CEO since the inception of the company. This impasse was only settled when he agreed to the payment of a package for him to leave the business.

Now that he is in full control, John tells you that he has been able to streamline the operations of the business with the help of his bosom friend, Kweku Bonsu aged 42 a Chartered Accountant, who worked for a construction company for ten years, prior to joining John to turnaround the business. John has also brought in an Operations Manager, Stephen Ogoe, aged 47, a Procurement Management professional with vast experience in retail business having worked with Ogon Ventures, a well-known chain of supermarkets for a very long time. John holds an MBA in Finance from the University of Ghana.

The company has five outlets located on the outskirts of Tema and Accra where business is booming. Each of these outlets have an articulator truck that are devoted to the carting of the iron rods and cement and other goods from the manufacturers. He has now added two outlets, one at Mfansa on the Nsawam Road, and the other on the Cape Coast Road, just beyond Kasoa. These outskirts have seen a boom in building activities in recent times and John plans to take advantage of this. He tells you that he would need two (2) more articulator trucks to serve the region.

John has established contact with manufacturers who are quoting a price of USD 240,000.00 per truck. The manufacturers are ready to give him a grace period of 6 months if he is able to secure Letters of Credit from a reputable bank covering the amount.

John is asking if your bank would agree to issue the Letters of Credit on behalf of his company to the manufacturers. He says he can come up with 20% of the cost of the vehicles and asks you if you could fund the difference and make full payment for the required Letters of Credit when it matures in six months' time. He is willing to repay the bank back over a period of seven years.

GHS/USD = GHS 13.5

Critically examine this proposition.

[30 MARKS]

Jmens Hardware Ltd.			
Profit and Loss Extracts for the year ending 31 Dec			
	2021	2022	2023
	GHC	GHC	GHC
Sales	6,910,000	7,350,000	7,834,000
Opening Inventory	550,000	670,200	1,118,000
Purchases	3,685,000	4,456,000	4,780,000
	4,235,000	5,126,200	5,898,000
Closing Inventory	<u>670,200</u>	<u>1,118,000</u>	<u>1,250,000</u>
Cost of Sales	<u>3,564,800</u>	<u>4,008,200</u>	<u>4,648,000</u>
Gross Profit	3,345,200	3,341,800	3,186,000
Overheads	434,000	520,900	680,000
Depreciation	<u>534,750</u>	<u>783,900</u>	<u>837,900</u>
Operating Profit	2,376,450	2,037,000	1,668,100
Interest Paid	246,000	356,200	458,900
Profit Before Tax	<u>2,130,450</u>	<u>1,680,800</u>	<u>1,209,200</u>

Jmens Hardware Ltd.
Balance Sheet as at 31 Dec

Noncurrent Assets	2021	2022	2023
Building	493,000	1,340,600	1,588,200
Equipment	412,500	475,000	527,500
Motor Vehicles	1,800,000	2,270,000	1,710,000
Furniture and Fixtures	<u>26,000</u>	<u>37,000</u>	<u>39,000</u>
Total	2,731,500	4,122,600	3,864,700
Current Assets			
Inventory	670,200	1,118,000	1,250,000
Receivables	862,000	922,340	1,760,500
Prepayments	105,000	115,000	125,000
Bank	<u>150,200</u>	<u>254,150</u>	<u>321,540</u>
	1,787,400	2,409,490	3,457,040
Current Liabilities			
Payables	752,400	855,070	970,500
Overdraft	<u>505,200</u>	<u>1,785,420</u>	<u>2,006,190</u>
Total Current Liabilities	1,257,600	2,640,490	2,976,690
Net Current Assets	<u>529,800</u>	<u>(231,000)</u>	<u>480,350</u>
Net Assets	<u><u>3,261,300</u></u>	<u><u>3,891,600</u></u>	<u><u>4,345,050</u></u>
Financed by Capital			
Opening Capital	2,500,000	2,500,000	2,500,000
Income Surplus	<u>761,300</u>	<u>1,391,600</u>	<u>1,845,050</u>
	<u><u>3,261,300</u></u>	<u><u>3,891,600</u></u>	<u><u>4,345,050</u></u>

Ratios

	2021	2022	2023
Sales Growth	-	6.37%	6.59%
Receivable Days	46	46	82
Payable Days	75	70	74
Inventory Turnover Days	69	102	98
Gross Margin	48%	45%	41%
Overhead %	6%	7%	9%
Net Margin	31%	23%	15%
Interest Cover	9.66	5.72	3.63
Current Ratio	1.42	0.91	1.16
Gearing	15.49%	45.88%	46.17%
Inventory to Sales	10%	15%	16%
Receivables to Sales	12%	13%	22%
Payables to Sales	11%	12%	12%
Quick Ratio	0.89	0.49	0.74

QUESTION 3

Arikpo Properties Ltd. a properties development company has been your customer over the past ten years since its inception, bringing your bank impressive inflows of cash. Arikpo Properties was founded by Mr. Jacob Arikpo-Agyapong and Mrs. Mary Arikpo-Agyapong, aged 55 years and 53 years respectively. The business operates by hiring contractors to put up commercial properties on their behalf for sale to property investors, businesses, banks, supermarkets and professional services firms such as lawyers and accountants.

They have a Project Manager in the person of John Adjei, aged 40. He holds a BSc in Building Technology from the University of Business and Technology in Assin Fosu. He has been with the company since inception. Prior to this, he worked with the 21st Century Builders Ltd. for five years after his first degree.

Mrs. Arikpo takes care of the Accounts. She is a trained teacher. She left the teaching field ten years ago to join hands with her husband in establishing the business. She is now in the final stage of her ACCA Course.

The company's office is located on the ground floor of one of their edifices in Kasoa, which he had reserved for his business after sale of the other spaces to clients.

The business is mostly engaged in property development now as they got their fingers burnt during the first years of operation when they had devoted some of their properties to property investment.

Their account in the previous year took a downward trend and your investigations show that they took a hit with the last project when the original contractor did some shoddy work and absconded. They had to employ a new contractor who did a good job and the spaces are now up for sale. He shows you copies of cheques he has received from buyers totaling GHC8,100,000.00.

He comes to you with a new proposition. His wife has brought in additional capital by way of a ten (10) acre plot of land with an estimated value of GHC1,500,000.00 which she inherited from her late parents. The land is located in a prime area in Tema. They intend to break down the old colonial building on the property and put up a ten-storey office complex for sale to property investors, banks, supermarkets and training facilities. He has also entered into a Memorandum of Agreement with a host of property investors to take up a significant portion of the available space.

The Project details are as follows:

Cost of Plot of Land	1,500,000.00
Cost of Facilities (Roads, Utilities and Sewage)	1,500,000.00
Cumulative Project Cost	
Foundation	1,800,000.00
1st to 5th Floor	10,800,000.00
5th to 10th Floor	22,800,000.00
Finishing	28,800,000.00
Estimated Selling Price per Floor	4,590,000.00

Assumptions

The bank's policy is to provide two-thirds of the funding, if the customer is able to come up with one-third of the cost of the project plus half of the value of land and cost of installing facilities.

Critically evaluate this proposition.

[30 MARKS]

SECTION B – ANSWER TWO (2) QUESTIONS ONLY

QUESTION 4

Discuss the relevance of **ESG** considerations in **Bank Credit Strategy**.

[20 Marks]

QUESTION 5

Credit Administration as a tool of **Credit Management** is unnecessary. Discuss. **[20 Marks]**

QUESTION 6

Bridging Facilities are credit facilities that are of large value and for that matter provide significant income to the Lender. However, they also pose a lot of risk to the Lender.

- What is a **Bridging Facility**? [2 Marks]
- Distinguish between a **Closed Bridge Facility** and an **Open Bridge Facility**. [4 Marks]
- Discuss **four (4)** key risks associated with **Closed Bridge Facilities**. [8 Marks]
- Discuss risks associated with **Open Bridge Facilities**. [6 Marks]

[TOTAL MARKS 20]