

CENTRAL UNIVERSITY

END OF FIRST SEMESTER EXAMINATIONS 2021/2022



CENTRAL BUSINESS SCHOOL

DEPARTMENT OF BANKING AND FINANCE

CBBF 305: CREDIT MANAGEMENT (3 CREDITS)

TIME ALLOWED: 3 HOURS

INSTRUCTIONS

STUDENT ID NO:.....

ANSWERS ANY FOUR (4) QUESTIONS

EACH QUESTION CARRY EQUAL MARKS

LECTURERS: MICHAEL E. ASAMOAH & BAAH A. KUSI

QUESTIONS ONE [25 MARKS]

The government of Ghana through its 2022 budget presentation made its intention known to introduce e-levy. The e-levy is aimed at charging 1.75% as tax on all electronic transactions in the bid to generate revenue for fiscal investment purposes. The potential introduction of the e-levy has generated a lot of debates among academics, policymakers, and citizens of Ghana. As a student of banking and finance, indicate how the e-levy is likely to influence banking operations and transactions.

QUESTION TWO [25 MARKS]

In evaluating loan applicants, bankers employ several canons of lending in order to arrive at a sound and informed lending decision. Popular among these lending canons is the CAMPARI model. You are required to explain into detail each component of the CAMPARI model.

QUESTION THREE [25 MARKS]

The financial intermediation functions undertaken by banks is clouded with several risk and uncertainty exposures. You are required to outline and explain at least 5 major risks that banks face during the financial intermediation process and how they practically deal with the risks you have outlined and explained.

QUESTION FOUR [25 MARKS]

You have been employed as a banker with one of the top banks in Ghana. Your boss who is the President of Association of Bankers in Ghana has been invited to deliver a speech during the annual general meeting of the Association of Bankers in Ghana. Your boss has instructed you write on information asymmetry, moral hazard, adverse selection, credit risk management, credit scoring, overdraft and overtrading so that he can include them in his speech. In your write-up, provide the meaning, implications, effects and examples of each of the items mentions.

QUESTION FIVE [25 MARKS]

Bankers are concerned with clients providing adequate security in order to secure the bank against credit default or risk in the worst-case scenario. In view of this, there are standard (good) features that securities for lending must possess. Outline and explain 5 good features of every lending security must have.

QUESTION SIX [25 MARKS]

Financial statement using ratio analysis is a critical component of evaluating corporate loans. As a banker, a company submitted its financial statement to your bank for a loan consideration. Your boss tasked you to compute the financial ratios of the company and write a report to help your bank understand the financial position of the business applying for the loan. Using the Income Statement and Balance Sheet of the company, compute and show trend analyses on profitability, liquidity, asset utilization and leverage ratios and indicate your opinion on whether the company is qualified for the loan based on the ratios computed. Which qualitative factors would you consider in your decision to either grant or reject the loan application and why?

STATEMENT OF COMPREHENSIVE INCOME AND EXPENDITURE

	2020	2019	2018	2017
	GH¢'000	GH¢'000	GH¢'000	GH¢'000
Revenue	437,348	330,645	321,017	292,318
Cost of sales	(334,174)	(259,585)	(228,793)	(192,923)
Gross profit			92,224	99,395
Advertising and marketing expenses	(32,029)	(32,685)	(28,986)	(24,895)
Administrative expenses	(52,431)	(28,481)	(13,350)	(14,022)
Other Expenses	(35,622)	(27,145)	(20,810)	(20,197)
Other income	21,502	22,918	(20,810)	339
Results from operating activities	4,594	5,667	31,163	40,620
Finance income	54	30	31,163	40,620
Finance costs	(53,755)	(17,176)	815	354
			(4,110)	(7,575)
Profit/ Loss before taxation	(49,107)	(11,479)	27,868	33,217
Income tax expenses	-	-	(9,591)	(8,212)
Profit /loss for the year			18,277	25,005
Other comprehensive income for the year	3-	95	640	(445)
Total comprehensive income for the year	(45,437)	(8,527)	640	(445)

STATEMENT OF FINANCIAL POSITION (BALANCE SHEET)

Assets	2020	2019	2018	2017
Non-current assets				
Property, plant & equipment	336,091	291,473	225,900	161,329
Intangible assets	2,698	3,234	3,154	3,615
	<u>338,789</u>	<u>294,707</u>	<u>229,054</u>	<u>164,944</u>
Current assets				
Inventories	66,370	79,121	45,108	33,537
trade & other receivables amount due from other related companies	24,391	33,182	11,109	9,501
	2,278	632	1,201	887
cash & cash equivalents	-	-	11,519	35,390
Income tax assets	-	-	-	290
Bank assets	48,826	11,736	-	-
Total current assets	<u>141,865</u>	<u>124,671</u>	<u>68,937</u>	<u>79,155</u>
Total assets	<u>480,654</u>	<u>419,378</u>	<u>297,991</u>	<u>244,099</u>
Equity & liabilities				
Share capital	96,252	96,252	96,252	96,252
Retained earnings	(1,070)	44,367	56,550	42,705
Total equity	<u>95,182</u>	<u>140,619</u>	<u>152,802</u>	<u>138,957</u>
Non-current liabilities				
Deferred tax liability	3,522	10,102	15,309	13,619
Medium-term loans	-	-	2,941	7,583
Obligation under finance lease	8,548	5,586	2,356	2,102
Employee benefit obligation	1,481	1,259	1,390	1,429

Intercompany loan	196,896	159,663	-	-
Total non-current liabilities	210,447	176,610	21,996	24,733
Current liabilities				
Bank overdraft	24,018	18,414	15,688	-
Income tax liability	-	-	146	-
Current tax liability	276	203	5,670	10,333
Short term loans	-	2,941	-	-
Obligation under finance lease	3,299	2,081	956	596
Trade & other payables	87,386	44,657	40,251	49,078
Amount due to related companies	59,278	28,141	28,424	20,402
Provisions	768	5,712	24,543	-
			7,512	-
Total current liabilities	175,025	102,149	123,193	80,409
Total liabilities	385,472	278,759	145,189	105,142
Total equity & liabilities	480,654	419,378	297,991	244,099