



**CENTRAL  
UNIVERSITY  
COLLEGE**

**DEPARTMENT OF BANKING AND FINANCE  
END-OF-FIRST SEMESTER EXAMINATION: 2014/2015  
SBBF 303: CREDIT MANAGEMENT  
LEVEL 300**

**STUDENT ID No.....**

**INSTRUCTIONS**

**SECTION A**

Answer all questions from this section (Answers should be provided in the booklet)

**SECTION B**

Attempt the Question in This Section

**Charles & Ben**

**Section A: Attempt all Questions**

1. Identify and explain two types of business risk. **2 marks**
2. Explain the concept of overtrading. **1 mark**
3. Discuss two indicators of Overtrading. **2 marks**
4. Discuss two qualities of an ideal security to support a lending proposition. **2 marks**
5. Explain two internal reasons for loan default. **2 marks**
6. Discuss two external reasons for loan default. **2 marks**
7. What is Credit default? **1 mark**
8. Explain moral hazards and adverse selection. **3 marks**
9. Explain a Credit Policy. **2 marks**
10. Discuss two contents of a good Credit Policy **2 marks**
11. Discuss two benefits of overdraft to a business customer who has to wait for two weeks to receive payments from his customers. **2 marks**
12. When applying the 'principles of good lending' in your assessment of a loan customer, what are the four things you will consider on his character? **2 marks**
13. Discuss two major factors you will consider when assessing the ability of the loan customer to manage his business to repay a loan facility on schedule. **2 marks**
14. Discuss how a hardcore is developed on a running account. **3 marks**
15. Adom Ltd is applying for an overdraft facility of Ghs25,000. Your investigation revealed that the directors of the company are retiring. What would you need to mitigate this risk? **2 mark**
16. The following the details of the stock turnover of Asempa ltd.  
Raw materials- 15 days  
Work-in-progress- 35 days  
Finished goods - 10 days  
Discuss the effect of the above turnover on production **2 marks**

17. Your customer ABC Ltd sells to 20 retailers. The following shows the spread of the customers and the volumes of their purchases:

No. of Customers	volumes of sales (%)
5	40
20	25
35	15
15	5
18	8
17	12

Discuss the risk in the customer base of the business

**2 marks**

18. Discuss four (4) benefits of a good credit policy

**4 marks**

19. Mention **two** ways in which the commitment of management of an organization can be seen in reference to credit management.

**2 marks**

20. An improvement in stock turnover would be seen in.....

**2 marks**

## **Section B(Compulsory)**

ADOM Company Limited was established in 1996 as a small carpentry shop after the founder, the late Kwesi Adom had retired from Ashanti Furniture Works as the head of wood works.

The company operated its savings and current accounts with your major competitor for more than two decades. All your efforts to win them to open an account with your bank did not yield any good result. The Company is now operating two major accounts with your bank, after you explained the benefits in operating accounts with your bank at a breakfast meeting organized by the local branch of the Full Gospel Men's Fellowship with the MD of the company.

The company now boasts of a working force of one hundred and twenty-five employees with four distinct departments, all headed by family members. The directors are members of the Adom family. Mr. Richard Adom is a 57 year management consultant with Master of Science in Management, who is also in charge of financial matters. Kwesi Adom is 56 year engineer who takes care of the company's productions. He holds Bachelor of Science in Engineering from KNUST. Ama Adom is in charge of sales, marketing and administration. She celebrated her fifty-six birthday last week. She holds an HND in marketing from Accra Polytechnic. These directors have been with the company for the past fifteen years, after their father had handed over the administration of the company to them.

As part of their commitments their father entreated them to invest an equal amount of Ghs50,000 to boost the capital base of the business. However, the old man asked them to pay him his stake in the business after ten years. This comprises of the business premises, his initial capital and accumulated returns on his investment for ten years. This was stated in his will, and the executor is charged to see to the withdrawal after the ten years. This withdrawal will reduce the capital base by a quarter.

The company now produces set of furniture to all the major organizations in Ghana, especially in the regions and some of the municipals. The major rivals are the Italian companies that have flooded the market with very attractive and cheaper products. These companies have added distribution to their operations. This has been a major challenge to the directors. Even though sales are still increasing, most government organizations have not been buying from the company again. Over fifty percent of the company's market has been from the government sector.

The MD has single-handedly prepared an expansion programme to boost sales from the current stage to an increase of one hundred and twenty percent within the next two years. He was very optimistic when you questioned the feasibility of the expansion programme. He opined that the expansion programme will bring about a diversification in the company's products.

To support the expansion programme the company has requested for a loan facility of Ghs100,000 and an overdraft limit of Ghs50,000. This will be secured by a standard debenture on the company's assets. All directors, except the MD have pledged their personal properties to support the facilities.

In a note form, show how you would respond to this request. 30 marks.

<b>Adom Company Ltd</b>				
<b>Statement of Financial Affairs as at 31<sup>st</sup> August 2014</b>				
	2012	2013	2014	2015
	Ghs	Ghs	Ghs	Ghs
<b>Fixed Assets</b>				
Land & Buildings	3,300	5,220	7,770	11,160
Equipment	4,125	6,960	9,065	13,950
Motor Vehicles	<u>3,650</u>	<u>6,090</u>	<u>9,713</u>	<u>11,200</u>
	<b>11,075</b>	<b>18,270</b>	<b>26,548</b>	<b>36,310</b>
<b>Current Assets</b>				
Stock :				
Raw Materials	825	1,305	1,943	2,790
W-I-P	2,200	3,440	4,100	5,550
Finished Goods	<u>1,100</u>	<u>2,500</u>	<u>3,600</u>	<u>4,800</u>
	4,125	7,245	9,643	13,140
Debtors	<u>3,025</u>	<u>5,100</u>	<u>9,700</u>	<u>20,500</u>
	<b>7,150</b>	<b>12,345</b>	<b>19,343</b>	<b>33,640</b>
<b>Current Liabilities</b>				
Bank	385	7,000	9,000	11,000
Creditors	<u>770</u>	<u>5,000</u>	<u>8,000</u>	<u>12,200</u>
	<b>1,155</b>	<b>12,000</b>	<b>17,000</b>	<b>23,200</b>
Working Capital	<u>5,995</u>	<u>(6,655)</u>	<u>2,343</u>	<u>10,440</u>
Net Assets	<b>17,070</b>	<b>11,615</b>	<b>24,205</b>	<b>46,750</b>
<b>Long Term Debts</b>				
Debentures	4,125	3,125	2,125	1,125
Loans	<u>3,025</u>	<u>7,150</u>	<u>5,700</u>	<u>8,800</u>
	<b>24,220</b>	<b>20,415</b>	<b>34,330</b>	<b>57,875</b>
<b>Financed By</b>				
Ord. Shares	16,600	20,000	32,821	54,000
Retain Profit b/d	9,885	8,620	6,509	6,974
Profit for the year	(1,265)	(2,116)	465	(2,074)
Drawings	<u>(1,000)</u>	<u>24,220</u>	<u>(6,089)</u>	<u>20,415</u>
	<b>(1,000)</b>	<b>24,220</b>	<b>(6,089)</b>	<b>20,415</b>
	<b>24,220</b>	<b>20,415</b>	<b>34,330</b>	<b>57,875</b>

**Adom Company Ltd**  
Trading, Statement of Profit and Loss Account

	2012	2013	2014	2015
	Ghs	Ghs	Ghs	Ghs
Sales	5,500	8,700	12,900	18,600
Cost of Sales	<u>4,125</u>	<u>6,612</u>	<u>10,062</u>	<u>14,694</u>
Gross Profit	<b>1,375</b>	<b>2,088</b>	<b>2,838</b>	<b>3,906</b>
<b><u>Selling &amp; Adm. Exp.</u></b>				
Rent	275	435	650	890
Electricity	220	348	518	990
Factory Running	825	1,305	1,440	1,800
Wages & Sal.	440	696	904	1,200
Dir. Remunerations	550	870	930	1,100
Taxation	<u>330</u>	<u>550</u>	<u>777</u>	<u>800</u>
Net Profit	<b>(1,265)</b>	<b>(2,116)</b>	<b>465</b>	<b>(2,074)</b>
	<b>2,640</b>	<b>4,204</b>	<b>2,373</b>	<b>5,980</b>

**Adom Company Ltd**  
Ratio Analysis

	2012	2013	2014	2015
Gearing	34.3%	101.9%	79%	59%
Interest Cover	(4.5 times)	(8 times)	(0.5 times)	(6 times)
Sales growth	-	58.2%	48.3%	44.2%
Gross Margin	25%	24%	22%	21%
Net Margin	(23%)	(24%)	0.8%	(11.2%)
Current Ratio	6.2:1	1:1	1:1	1.5:1
Acid Test	2.6:1	0.4:1	0.6:1	0.9:1
Credit Taken	67 days	272 days	608 days	568 days
Credit Given	198days	211days	270days	110days
Stock Turn Over	2 times	35.2 times	2 times	2 times

## SECTION C. ANSWER TWO QUESTION

### Question 1

In the quest to build the size of Credit portfolio of Large Size Bank Limited (LBL), the marketing department of the bank had decided to design flyers that clearly identify each bank's product. This promotional aid would be made available at each of the 58 branches of the bank across the entire country. It is the hope of the management of the LBL that this strategy would cut down on the clients' product orientation time, as the flyers would be made to contain all the needed information about the products.

The first sets of flyers to be printed are Overdraft and Loan facilities. A memo from the marketing manager says "Clarity, Explicitly, Get it Right the First Time" should be the essence of the flyer. The Credit Department has been identified to provide the vital information on the two facilities. The manager of the Credit department has assigned you with the responsibility. An email from the manager to you has the following content.

- a. As the bank's loan officer, distinguish between overdraft and loan facility. (5 Marks)
- b. Discuss two advantages of Overdraft. (5 Marks)
- c. Discuss two advantages of Loan facility. (5 Marks)

### Question 2

A trading Company's continuous request for increases in its overdraft limit is an indication of liquidity problems. Discuss four points.

(15 Marks)

**Question 3.**

ABC Company has given you the following summary of information for your perusal:

- i. Supply base – 90% from one source, and 10% from three sources.
- ii. Customers base:
  - 60 Customers                      50%
  - 20 Customers                      40%
  - 20 Customers                      10 %
- iii. Stock Turnover
  - Raw materials                      15 days
  - Work-in-progress                      35 days
  - Finished goods                      10 days
- iv. Sale growth                      70 %
- v. Gross margin                      25%
- vi. Net margin                      5%
- vii. Gearing                      150%
- viii. Business prospects                      75% growth
- ix. Competition                      very Keen with 2 new companies being established.

**In a note form, show how you would use the SWOT analysis to assess the Company for a credit facility.**  
**15 marks**

**Question Four**

Discuss four factors you would consider when accepting a property as security for a bank's advance  
**15 marks**



**Question Five**

You have been invited as a guest speaker at a forum of farmers and bank officials. You are to speak on the topic "Agric financing in Ghana, Prospects and Challenges"

In a note form, show the details of your speech.

**15 marks**

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