

THE INSTITUTE OF BANKERS OF ZIMBABWE

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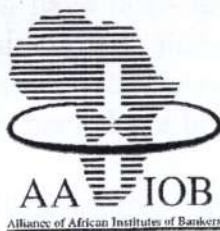


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HARARE

CHAIRMAN: A KANDLELA FIBZ
VICE CHAIRMAN: DR S P MOYO

DIPLOMA LEVEL	
SUBJECT	PRACTICE OF BANKING II
DATE	28 OCTOBER 2021
TIME	3 HOURS
MARKS	100
EXAM TYPE	CLOSED BOOK
READING TIME	FIFTEEN MINUTES READING TIME IS ALLOWED FOR THIS PAPER. DURING THIS TIME YOU ARE PERMITTED TO WRITE ON THE QUESTION PAPER BUT NOT IN YOUR ANSWER BOOK
EQUIPMENT REQUIREMENTS	NON -PROGRAMMABLE AND NON SCIENTIFIC CALCULATOR



INSTRUCTIONS TO CANDIDATES

1. Read the instructions CAREFULLY before answering the paper
2. This paper has two sections A and B
3. Section A: Question 1 and 2 are compulsory.
4. Answer any other 2 questions from Section B
5. Please be neat – illegible handwriting cannot be marked
6. Use black or blue ink
7. Ensure that all information on the cover of your answer book is completed in full.
8. Cheating is not allowed. If anyone is caught cheating, disciplinary measures will be taken by the Institute of Bankers.

GOOD LUCK !

PRACTICE OF BANKING II

QUESTION PAPER

OCTOBER 2021

SECTION A (COMPULSORY QUESTIONS)

QUESTION 1 (30 MARKS)

Inyathi Safaris Lodge (Pvt.) Ltd was incorporated under the Zimbabwe Company Act Chapter 24:03 in 2016 mainly to buy out a Safari Lodge in Bhumi Hills. The agreement was signed and sealed in 2017 for a purchase price of US\$4 125 000 of which US\$3 million was advanced by you and the balance by the promoters of the company.

The promoters had no previous experience of such a venture but had to rely upon a house keeper, already on site, to run the business. The intention was to operate the business for some time to generate income and then sell it off as a going concern.

The company directors intended to use general management responsibility in roles which they all had previous successful experience and whose competence in this field was undoubted.

The lodge has 150 single and 60 double rooms. Daily activities are the responsibility of a qualified house keeper with the directors exercising general management responsibilities.

The business commenced operations in April 2017 but, due to heavy interest rates, profits could not be booked by the business. As a result, the directors contributed additional capital to make up for the shortfall and gave the bank personal guarantees in support of their security (a first mortgage bond over the lodge). Despite the directors' initiative, no repayments were effected on the initial principle loan amount and excess overdrafts have been recurring to meet operating expenses.

Recently the lodge occupancy has been falling to 45 residents of whom 36 were funded by non-governmental organisations (NGOs) at a fee of US\$1 450 per head per week. (Private Holiday maker's fees are negotiable on an individual basis but usually in the region of US\$1 500 per head per week).

You have been increasingly concerned about the account position more so when the business was intended to be sold in the medium term. You have requested audited financial statements which have now been submitted. You note that the following comments have been attached to the reports.

1. The promoters forecast for the year to December 2011 shows projected profits of US\$75 000 and cash generation of US\$60 000. However, this forecast assumes a

higher occupancy rate (80%) than is currently being achieved. If occupancy remains at its present level, the company will probably incur a net loss of US\$100 000.00

2. Market research indicates national occupancy rate of 85% with the lodges doing the best being those offering high standards of accommodation, e.g. single rooms with en-suite bathrooms, flat screen TVs and DSTV. Your customer's lodge has only 5 en-suite rooms.
3. Staff levels are set by the local health authority and pay is at market rates. **HENCE:**
4. The company and bank have the following options:
 - a) Continue to trade, with further assistance from the bank and/or the promoters
 - b) Go into voluntary liquidation
 - c) Seek a creditors management order for judicial management
 - d) Sell the business as a going concern.

REQUIRED

Set out clearly and concisely the options available to the company. Using the calculations and information set out below, analyse the banks position and indicate which of the options available you would follow and why?

INYATHI SAFARI LODGE
TRADING RESULTS FOR THE YEAR ENDED 30 JUNE 2021

USD (000)	2018 AUDITED	2019 AUDITED	2020 AUDITED	2021 DRAFT	3 MONTHS ENDED 30/09/21 MANAGEMENT ACCOUNTS
Occupancy %	83%	77%	74%	60%	52%
Fees	1725				
Wages & Purchases	(1225)				
Gross profit	500				
Gross profit %	29%	34%	40%	39%	32%
Selling costs	(5)	(10)	(10)	-	-
Administration costs	(185)	(200)	(240)	(230)	(45)
Promoters remuneration	(125)	(100)	(100)	(90)	(20)
Depreciation	(15)	(15)	(20)	(15)	(5)
	(330)	(325)	(370)	(335)	(70)
Trading profit	170	265	305	315	30
Bank charges and interest	(580)	(475)	(385)	(300)	(90)
H/P interest	(5)	(5)	(5)	(5)	-
Net profit/(Loss)	(415)	(215)	(85)	10	(60)

Question 1 (Cont'd)**STATEMENT OF AFFAIRS AS AT 30 JUNE 2021**

	USD (000)	<i>Estimated to Realize</i>	
		Open Market	Forced Sale
Assets specifically pledged	<i>Book Value</i>		
Freehold property	4 445	10 475	4 475
Bank	(3 280)	(3 280)	(3 280)
Surplus (shortfall) to secured creditors	1 165	(7 195)	(1 195)
Assets not specifically pledged			
Fixed & Fittings	350	450	400
Motor vehicles	100	250	200
Debtors & prepayments	300	-	-
	750	700	600
Available to preferential creditors	1 915	700	600
Preferential creditors PAYE/NSSA	(350)	(350)	(350)
Available to unsecured creditors	1 565	350	250
Trade creditors	(735)	(735)	(735)
Directors loans	(2 005)	(2 005)	(2 005)
Shortfall to shareholders	(1 175)	(2 390)	(2 490)

QUESTION 2: (30 Marks)

You have been approached by P C Construction Co (Pvt) Ltd to grant them a short term excess of ZWL5 000 000 for 3 months pending a progress payment of the same amount in respect of a dam they are building in the Mazowe Valley.

Checking in the file you see the following file note:

Note for file

15 October, 2020

P C Construction Co (Pvt) Ltd have banked with us for 20 years and in that time they have conducted a good account. Recently the founding shareholder Mr. Patson Chikonzo passed away and the remaining shareholders have agreed to pay out his shareholding to his widow hence the changes in the balance sheet which has been given to us today. The loan accounts reflected in the accounts in the name of the shareholders partly reflect work carried out by the company on the bonded property not yet settled in full be the shareholders.

The company has a number of ongoing contracts with Rural District Councils including this Dam in Mazowe area which has a contract value of ZWL 25 million dollars. This is the largest contract the company has ever handled. Currently the contract is slightly behind schedule but the directors are confident that they will soon be back on track.

Your records also provide the following information: -

The current facility is ZWL 30 million. There has been no excess in the past 12 months and the account has had an average balance of ZWL12 967 360 DR.

The current security is as follows:

1st Mortgage Bond ZWL 40 million over an industrial property currently valued by a reputable valuation firm at ZWL 50 million.

Registered cession over an adequate fire policy.

Required

1. Examine the following information given and comment in abbreviated form on the state of the company. [20 marks]
2. What action do you think the Bank should take in the light of the above? [10 marks]

The summarized financial accounts referred to in this note are as shown below: -

Statement of Financial Position of P C Construction Co (Pvt) Ltd
As at 31/12/2020

<u>Capital Employed</u>	2020	2019
Share Capital	20	20
Retained Income	767 010	35 419 200
Long Term Loan	15 834 560	-
Total	16 601 590	35419 220
<u>Use of Capital</u>		
<u>Fixed Assets</u>	19 125 120	23 568 650
<u>Current Assets</u>		
Stocks	215 670	936 780
Debtors	13 215 670	1 9 820 030
Shareholders loans	4 819 070	-
Work in progress	4 569 860	3 820 200
<u>Current Liabilities</u>		
Bank Overdraft	22 938 470	2 281 100
Creditors	1 286 810	10 359 100
Provisions	218 530	86 240

Statement of Comprehensive Summary

Turnover	367 369 750	35 231
7490		
Contract costs	356 394 050	30 463
2910		
Net contract income	10 975 700	4 768 4580
Overheads	10 627 890	17 538 520
Inc. interest	3 910 600	1 752 490
Directors emoluments	4 362 860	3 186 700
Net Profit before tax	347 810	30 146 060
Tax	-	3 462 780
Net Profit after tax	347 810	26 683 280
Retained profit b/fwd.	35 419 200	8 735 920
Dividends	35 000 000	-
Retained Income	767 010	35 419 200

SECTION B

(Answer any two (2) Questions)

QUESTION 3 [20 marks]

1. List and discuss the elements of overtrading. In your opinion what effect, if any will overtrading have on the cash flow of a business? (5 marks)

2. It is often said that "Profit is not the same as Cash." Explain this statement with specific reference to some of the fundamental accounting concepts. In your opinion, what effect will this have on a lending Manager's decision when considering a loan application?

(10 marks)

3.
 - a. What is meant by qualified accounts? (2 marks)
 - b. Give an example of qualified accounts that would be of concern to the lending banker? (2 marks)
 - c. Why would your example given above give concern to the Bank? (1 mark)

[Total 20 marks]

QUESTION 4 [20 MARKS]

Banks routinely ask customers for Cash Flow forecasts:

- (a) List the major items that Bankers would expect to find in a cash flow forecast.

(10 marks)
- (b) What should banks use these forecasts for? (5 marks)
- (c) What are the differences between a cash flow forecast and a cash flow statement?

(5 marks)

[Total 20marks]

QUESTION 5 [20 MARKS]

- (a) It is often said that "Profit is not the same as Cash." Explain this statement with specific reference to some of the fundamental accounting concepts. In your opinion, what effect will this have on a lending Manager's decision when considering a loan application?

(10 marks)

- (b) "Shareholders Loans should not be considered as part of shareholder's equity". Evaluate this statement in the context of the "Business Entity Concept" and loan capital repayment. Under what circumstances would it be acceptable to consider Shareholders Loans as part of equity? (10 marks)

[Total 20marks]