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Business Banking

Assignment 1

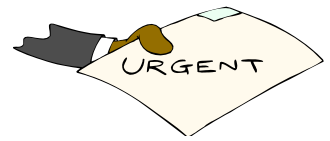
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Important Assignment Information

ASSIGNMENT LENGTH

For assignments submitted on or after **1st September 2008**, there is a **maximum** word count of **2,500 words**.

From that date, if you fail to adhere to the maximum word count, a deduction will be made to your final assignment mark. Specifically, if you exceed the 2,500 limit, you will be deducted **1%** for every **100** words or **part** of **100** words over the limit.

For example, if you write a total of **2,614** words, a **2%** deduction will be made to your mark. For clarification, the word count includes all references and attached appendices.

PASS COMPENSATION AWARD

In recognition of the importance attached to the assignments, an award of **Pass Compensation** will be made to you if you score between 45% and 54% in the final exam and if you complete the required assignment(s) under the following conditions:

1. The assignment mark must be 60% or above – where two assignments are required, then the average mark must be 60% or above **and**
2. Assignments must be in the hands of the Tutor **at least** one month prior to the **chosen examination date for each subject**.

For example, if you enrol to sit a **full** credit subject examination on **15th December**, you must have sent **both** assignments to your tutor by **15th November**.

Similarly, if you enrol to sit a **half** credit subject examination on **2nd March**, you must have sent the **sole** assignment to the tutor by **2nd February**.

Please also note the following:

- (a) Where an assignment is marked at less than 60%, this may show up as **'Fail'** in the web-based student record – this is purely with reference to the Pass Compensation award and does not necessarily mean it is a sub-standard submission
- (b) You are **not** permitted to **re-submit** an assignment in order to gain a higher mark
- (c) In the event that you fail an exam and have not completed the required assignment(s), you can subsequently complete the required assignment(s) – these will then count towards any re-sit examination undertaken. Submission dates for these assignments must comply with the relevant timescales as stated in **2** above.

Question 1

- (a) 21st Century Rock operates a chain of public houses. Utilising published industry studies, list 5 key factors that you would take cognisance of as part of your assessment when considering facilities.

(20 marks)

- (b) When considering a request for overdraft facilities from the directors, the study of the company's Balance Sheets and Profit and Loss Accounts is essential. Briefly list the essential information you would look for.

(12 marks)

- (c) List four important ratios of particular significance which can be calculated from the figures supplied on these accounts indicating the conclusions that may be drawn from each in relation to the lending proposition.

(8 marks)

(TOTAL 40 MARKS)

Question 2

Mr. Robertson has been a personal customer for 15 years. He is aged 43, married with two of a family and they live in their semi-detached house valued at £80,000 on which there is an outstanding mortgage of £30,000.

In the mid 1980s he ran his own pharmacy but gave this up to join an international pharmaceutical company. Becoming disillusioned, he wishes to manage his own business again.

A chemist's business in a fairly large town is up for sale. The previous owner, due to advancing years and ill-health, has let the business run down and it is for sale at a fairly modest price of £80,000. Mr Robertson can put up £25,000 from his own resources and wishes to borrow £55,000.

A viability study has been carried out which demonstrates that the business could be materially improved – it is excellently sited in the main shopping thoroughfare and is the nearest chemist to a very busy 6-person doctors' surgery and a Health Centre.

You are handed the last three years audited accounts of the business (see undernoted Balance Sheet). Based on the information available, how would you handle Mr. Robertson's request for financial assistance?

(TOTAL 20 MARKS)

BALANCE SHEET	31.3.0X	31.3.0Y	31.3.0Z
	£	£	£
Bank (loan)	60000	55000	60000
Trade Creditor	15000	14500	15000
Accrued Charge	<u>1000</u>	<u>500</u>	<u>1000</u>
	76000	70000	76000
Proprietor's Capital	<u>34000</u>	<u>36000</u>	<u>32500</u>
	<u>110000</u>	<u>106000</u>	<u>108500</u>
Bank	2000	1000	2500
Stock	18500	18000	20000
Trade Debtors	<u>12500</u>	<u>12000</u>	<u>13000</u>
	33000	31000	35500
Property	35000	35000	35000
Fixtures & Fittings	16500	15500	14500
Computer	2000	1500	1000
Motor Car	3500	3000	2500
Goodwill	<u>20000</u>	<u>20000</u>	<u>20000</u>
	<u>110000</u>	<u>106000</u>	<u>108500</u>
Sales	140000	135000	130000
Net Profit / Loss (before Proprietor's Earnings)	10000	9000	8000

Question 3

Information about a fictional company called Tip Top Enterprises Ltd is given below and should be referred to throughout this section.

Company Name:	Tip Top Enterprises Limited	
Business:	Fishing (Company leases two trawlers)	
Fully owned Subsidiary Companies:	(1) Alpha Hotel Limited (2) Omega Building Company Ltd	
Directors:		
Gerald Torbiler	Chairman & Managing Director	58
Penelope Torbiler (Mrs)	Director	56
Tobias Torbiler	Director & Company Secretary	31
Edward Torbiler	Director	29
Felicity Torbiler	Director	27
Alfred Bloggs	Director	44

The companies are largely family-owned businesses with the Torbiler family holding the majority of the ordinary voting shares. Mr Bloggs has been with the principal company since its inception 25 years ago. The company has had its bank accounts with the Scottish Commercial Bank for the past seven years.

The family home, in Mrs Torbiler's name, is worth around £220,000 with an outstanding mortgage of £120,000. Mother, father and Felicity live there, and Tobias and Edward, both married, live elsewhere.

The Tip Top account operates in credit with average balances of around £125,000, the hotel account has a borrowing limit (on overdraft) of £150,000 secured against the hotel valued at £250,000 and the building company has not traded for the past two years. Mrs Torbiler has a mixed portfolio of Stock Exchange investments worth around £80,000 and the three younger directors 'dabble' in the stock market from time to time.

(a) Types of security

Read through the information provided so far on the company Tip Top Enterprises Ltd, its two subsidiary companies and the six directors. Without going into detail, give examples of the types of security you might expect to be available from either the companies or the directors.

(5 marks)

(b) Assessing Customer Needs

The principal company Tip Top Enterprises Limited has decided to install a new freezing plant at its factory, costing £200,000. The bank advises the directors that the normal method for this type of borrowing is a term loan repayable over say, eight years, in 32 quarterly instalments.

How best can the bank ‘sell’ this method of borrowing to its customers?

(5 marks)

(c)

After Tip Top Enterprises Limited had successfully paid off the borrowing used to finance the new freezing plant, the directors have decided that it is now essential that the company refurbishes and modernises the four retail fish shops which it owns. Professional costings reveal that the cost of these projects will amount to £200,000 and the directors have approached the bank for assistance.

The most recent audited Balance Sheet reveals the following:

LIABILITIES		ASSETS		
	£000's			£000's
Capital (Issued)		Goodwill		50
£1 Shares fully paid	265	<u>Fixed Assets</u>		
General Reserves	150	Factory & Shops	320	
Profit & Loss A/C	55	Plant & Machinery	90	
	470	Fixtures & Fittings	30	
Loan Capital		Vehicles	<u>40</u>	<u>480</u>
(Secured against Factory)	50			530
Unsecured Loans	170	Quoted Investments		40
(from Directors)		Trade Investments		20
Taxation	42	<u>Current Assets</u>		
Trade Creditors	290	Stock in Hand	160	
Hire Purchase Creditors	160	Work in Progress	80	
Dividend Payable	8	Debtors	260	
		Cash	<u>100</u>	<u>600</u>
	<u>1190</u>			<u>1190</u>

After discussion, the Directors request that the bank provides the company with a borrowing facility of £140,000, the balance being provided from the company's own resources. The period of repayment will be over six years.

Gerald Torbiler holds 120,000 £1 shares in the company, but has no other investments. Mr Bloggs has little in the way of capital outside his house (valued at £120,000 less a mortgage of £40,000, life policies with a current surrender value of £25,000 and his shares in Tip Top).

The provision of adequate and suitable security for the proposed borrowing is the subject of much discussion. Gerald Torbiler, the Managing Director (ably assisted by his trusted colleague Alfred Bloggs) feels that the responsibility for providing any security required should be his and should not be placed on the shoulders of his 'young' family. He therefore proposes that the security for the borrowing should comprise a guarantee from himself for £40,000 and a security over the family home for £100,000.

Would these be acceptable? Give reasons.

What other items of security might be available?

Remember at all times that the customer must make the decisions regarding possible security, and no pressure must be exerted by the bank as to the security "it would prefer".

(10 marks)

(TOTAL 20 MARKS)

Question 4

Explain why the following can be regarded as 'lending situations'. Brief examples of each type of situation should be given in your answers.

(a) Performance Bonds

(5 marks)

(b) Forward Contracts

(5 marks)

(c) Documentary Credits

(5 marks)

(d) Acceptance Credits

(5 marks)

(TOTAL 20 MARKS)

TOTAL ASSIGNMENT MARKS – 100