

Chartered Banker

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Business Banking

Assignment 2

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Charitable Body: The Chartered Institute of Bankers in Scotland (CIOBS) – Reg No.: SC013927



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)

Your customers, Devlin & Sharp Limited, are a small but fast growing firm of printers based in Edinburgh.

The partners are ambitious, aggressive and actively seeking to grow their business. Their balance sheet is attached.

You presently make overdraft facilities of £100,000 available to the company and these are secured by a floating charge together with unlimited but unsupported directors' guarantees.

They see an opportunity to acquire premises in Cumbernauld for £150,000 which would be ideal for their expansionist programme. The new premises could accommodate a new, high technology printing machine costing £200,000. The process would give them an edge over their competitors in price and quality and would also enable them to effect a significant increase in volume of business.

When Mr. Devlin and Mr. Sharp call to see you requesting borrowing facilities to assist with their acquisitions, they indicate that grants of £80,000 could be available.

Describe how you would handle the meeting.

(15 marks)

Devlin & Sharp Ltd	Balance Sheet as at	
	Audited	Draft
	31/05/01	31/05/02
	<u>£000s</u>	<u>£000s</u>
Liabilities		
Hire Purchase	132	128
Taxation	30	50
Creditors	80	100
Overdraft	40	80
Loan – Mrs Sharp (Mr Sharp's mother)	40	40
Capital	<u>200</u>	<u>270</u>
	<u>522</u>	<u>668</u>

(Continued over)

Assets		
Debtors	299	443
Stock	40	45
Plant & Machinery	160	155
Motor Vehicles	20	20
Furniture, Fittings & Fixtures	<u>3</u>	<u>5</u>
	<u>522</u>	<u>668</u>
Sales	1,500	2,000
Net Profit before Tax	80	130
Depreciation	30	35
Directors' Remuneration	50	58

(b)

John Smith, a civil engineer, has been a customer for many years. Aged 50, married with a grown-up family, Mr. Smith calls to advise you that he has been made redundant. He is contemplating buying a well-known franchise to start up in business. His wife, who earns £15,000 pa as a nursing sister, will give up her present job to help him.

Their personal assets are as follows:

House (joint names) MV	£100,000	
<i>Less</i> Mortgage	<u>30,000</u>	£70,000
National Savings Certificates		£15,000
Stock Exchange Securities		£15,000
Life Policies (surrender values)		£10,000
Redundancy lump sum		<u>£60,000</u>
		<u>£170,000</u>

Mr. Smith will receive a pension of £17,000 pa. He advises you that the franchise will cost £40,000 and the setting up cost will be £15,000.

Mr. Smith feels he may require a working capital facility of £30,000 and asks for your support.

Describe how you would respond to the request. Your answer should include a description of franchising and a list of 5 of the key benefits to the franchisee.

(25 marks)

(TOTAL 40 MARKS)

Question 2

(a)

Compare and contrast operating leases with finance leases.

(4 marks)

(b)

Compare and contrast finance leases with hire purchase.

(4 marks)

(c)

Ian Sharp is Managing Director of your customers Sharp Engineering Limited. This highly profitable precision engineering company is experiencing rapid growth and there is continual strain on the bank overdraft limit which is secured only by a floating charge.

The company's premises are leased and most of the engineering equipment is on hire purchase.

Ian Sharp is becoming increasingly frustrated with his bank which he sees as a barrier to Sharp Engineering Limited making progress. You explain that on normal banking terms you are being as generous as possible.

A friend has advised Mr Sharp that factoring his debts could be a solution to his problem. He asks you to explain how factoring works and also its advantages and disadvantages.

(12 marks)

(TOTAL 20 MARKS)

Question 3

Your customers, Dixie Motors Limited, who are garage proprietors, have been struggling for some time with an increase in hard core borrowing apparent. Petrol sales have fallen dramatically following the opening of a new filling station nearby.

The borrowing stands at £150,000 and is secured by a floating charge plus standard security over the garage premises (market value £60,000) plus Directors' guarantees for all advances with a second standard security over their houses (total reversion £50,000).

Mr Dixie calls to see you and hands you draft accounts to 31 October 200X which show losses of £25,000 in the previous 12 months trading, with capital and reserves having reduced to £23,000. The garage premises are included in the balance sheet at £20,000.

Mr Dixie says that he has closed the petrol pumps and is hoping to rent out the garage forecourt with effect from 1 May 200Y. He is negotiating to sell part of the premises at the rear of the garage for £30,000. If he is successful with these negotiations he is hopeful that the borrowing will soon reduce to £120,000, at which level he feels the debt can be serviced.

In the meantime he requests you to increase the overdraft to £180,000 to cover sundry creditors totalling £30,000. Failure to pay these will mean that the business will probably cease trading.

How would you deal with Mr. Dixie's request?

(TOTAL 20 MARKS)

Question 4

(a)

Write brief notes on the duties of the following, highlighting the differences in their respective roles particularly on the implications for a lending banker:

- (i)** Receiver
- (ii)** Liquidator
- (iii)** Administrator

(12 marks)

(b)

Joseph Griggs & Son Limited, plant hirers, have overdraft facilities of £175,000 secured as follows:

- (i) A floating charge
- (ii) A second standard security over their business premises
- (iii) An unsupported guarantee for £50,000 from Joseph Griggs.

This family business has been on the decline for some time and due to the current recession heavy losses are being incurred. The bank is not prepared to increase the overdraft facilities without a substantial capital injection or an increased guarantee which is collaterally supported.

Mr Griggs is a wealthy man and he would prefer to see the business cease trading rather than plough more money into the company when there is little prospect of a return to profitability.

Mr Griggs calls to see you with a copy of the latest Management Accounts (detailed below). He asks for your advice on how to proceed to wind up the company and for your estimate of how much he will require to pay under his personal guarantee.

Describe how you would respond.

(8 marks)

JOSEPH GRIGGS & SON LIMITED			
BALANCE SHEET AS AT 31/12/0X			
		<u>Management Accounts</u>	<u>Mr Griggs's assessment of asset worth</u>
Bank – Overdraft	143,000		
Wages A/C	<u>25,000</u>	168,000	
Trade Creditors		230,000	
VAT		20,000	
PAYE/NIC		25,000	
Hire Purchase		<u>130,000</u>	
		573,000	
Property Loan		120,000	
Capital		50,000	
Profit & Loss A/C		<u>72,000</u>	
		<u>815,000</u>	

(Continued over)

Debtors	250,000	170,000
Land & Buildings	150,000	150,000
Plant & Machinery	280,000	90,000
Motor Vehicles	120,000	50,000
Fixtures & Fittings	<u>15,000</u>	<u>1,500</u>
	<u>815,000</u>	<u>461,500</u>

Assume expenses for winding up will be in region of £25,000.

(TOTAL 20 MARKS)

TOTAL ASSIGNMENT MARKS – 100