



**INSTITUTE OF BANKERS IN MALAWI**

**CERTIFICATE IN BANKING STUDY PROGRAM**

**CHIEF EXAMINERS' REPORTS ON OCTOBER 2007  
EXAMINATIONS**

**NOVEMBER 2007**

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*Promoting Professionalism in Banking*

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## 1.0 REPORT SUMMARY

This report is the Institute of Bankers Certificate in Banking Examinations held in October 2007. The examinations were held for six subject thus; Introduction to Accounting, Customer Service, Introduction to Banking, Introduction to Business Communication, Introduction to Economics and Basic Elements of Law.

The examinations were held from 6<sup>th</sup> to 8<sup>th</sup> October 2007 at three examination centres in Blantyre, Lilongwe and Mzuzu. Each centre was manned by a team of invigilators who were assisted by staff from the Institute.

## 2.0 SUMMARY OF RESULTS

A total of 130 candidates sat for the examinations in six different subjects. The results show that the candidates have generally not done well in a number of subjects. The worst performance was in Economics where only one candidate passed the examination out of a group of ten students representing a 10% pass rate.

The best performance was in Introduction to Business Communication where 65 out of 87 candidates passed the examinations representing a 74.7% pass rate.

The table below provides a summary of the overall results.

<b>Subject</b>	<b>No. of candidates</b>	<b>No. passed examination</b>	<b>Number failed examination</b>	<b>% pass rate</b>	<b>Distinction passes</b>	<b>Credit passes</b>	<b>General passes</b>
Accounting	79	14	65	17.7	-	4	10
Customer Service	7	2	5	28.6	-	-	2
Banking	85	63	22	74.1	18	26	18
Communication	87	65	22	74.7	11	24	29
Economics	10	1	9	10	-	-	1
Principles of Law	61	36	25	59	3	18	19

The standard of examinations was just right as the examiners confined themselves within the provisions of the syllabi. The general performance in the examinations has clearly shown that most candidates were ill prepared.

However, there is hope that future examination results will show a different pattern as candidates are now aware of the standard of examinations and are therefore likely to be well prepared. It is nevertheless important to note that some students performed very well and passed all subjects they attempted.

## **3.0 SUBJECT CHIEF EXAMINERS' REPORTS**



**3.1 CHIEF SUBJECT EXAMINER'S REPORT FOR  
INTRODUCTION TO BUSINESS ACCOUNTING  
(IOBM-C101)**

**CERTIFICATE IN BANKING EXAMINATION**

**OCTOBER 2007**

### **3.1.1 GENERAL COMMENTS**

The report is on the examination paper for Introduction to Business Accounting. The examination panel consisted of three examiners which brought in a fair contribution to the final examination paper. The paper covered most part of the syllabus right from Introduction to interpretation. Out of 79 candidates who sat for the exam only 14 passed and 63 failed representing a pass rate of 17.7 percent. The highest mark was 73% while the lowest was 4%.

Performance in general was very poor which made the marking exercise very difficult and time consuming. There was a clear indication of candidates not being well prepared and lack of seriousness in most of their answers. In certain cases there was a clear display of lack of knowledge of the topic being examined.

There was also lack of good communication skills and for most candidates the marker had to guess what the candidate was trying to say. The vocabulary was mostly broken and incomplete. It was common practice for candidates not to use rulers but just underline anyhow. This made most of their work look very untidy and unpresentable.

Time management was also a problem to a good number of candidates though given the bad performance it was difficult to tell whether this was due to lack of knowledge of the subject matter or not.

However it was encouraging to note that those candidates who passed did very well and they knew what they were doing.

### **3.1.2 COMMENTS ON INDIVIDUAL QUESTIONS**

#### **SECTION A: Four compulsory questions**

#### **QUESTION 1**

The question tested the students' knowledge on users and purpose of accounting information and accounting concepts.

On average very few students attempted to answer the question correctly.

## **QUESTION 2**

The question was about bank reconciliation statements. Again the question was not properly answered. Students could not even prepare a proper cash book which is one of the basic knowledge expected at the introduction stage to accounting.

## **QUESTION 3**

The question tested the students' knowledge on preparation of final accounts, trading and profit and loss account. The question was well attempted however presentation and making sure that headings are complete and correct was a problem to most students.

Most students ignored adjustments for returns, carriage and prepayments in their solutions. Again it seems most of them were not prepared in this area.

## **QUESTION 4**

The question was on depreciation which included preparation of cost accounts and provision of depreciation accounts including causes.

Most students could not do T-accounts neither could they explain causes of depreciation nor why it had to be provided for. The performance of this question was generally very poor as well.

## **SECTION B: Any two questions to be answered**

## **QUESTION 5**

The question was on errors and use of suspense accounts. Most students did not answer the question correctly as they were doing journal entries instead of explaining whether the error will affect net profit.

## **QUESTION 6**

The question was on stock valuation using FIFO and LIFO. On average 90% of the students did well in this question.

## **QUESTION 7**

Part (a) was a theoretical question on various definitions including credit note, drawings and books of original entry. Most students could not define most of these which was quite disappointing as this was a give way question for 20 marks.

Part (b) was a question on partnerships. Surprisingly most students who attempted it did very well, though in certain cases students could not differentiate between the appropriation account and the current account.

## **QUESTION 8**

This was another theoretical question testing the student's knowledge on double entry, control accounts and importance of trial balance and balance sheet. Any student well prepared could have got this question right because it was another give away question for twenty marks.

### **3.1.3 OVERALL ASSESSMENT AND RECOMMENDATIONS**

- The syllabus needs to be relooked at so that there is good cohesion from introduction to the end at that level.
- There is need for a meeting between lecturers and examiners to understand the reasons behind the bad performance.
- There is also need to look at the entry qualifications in future. At least a pass or credit in English and Mathematics would do and some years banking experience for those who are already in the system. This would improve on communication.

## **CHIEF SUBJECT EXAMINER**

### 3.1.4 THE EXAMINATION PAPER



## INSTITUTE OF BANKERS IN MALAWI

### CERTIFICATE IN BANKING EXAMINATION

#### SUBJECT: INTRODUCTION TO BUSINESS ACCOUNTING (IOBM-C101)

Date: Sunday 7<sup>th</sup> October 2007

Time Allocated: 3 hours (08.00 to 11.00am)

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#### INSTRUCTIONS TO CANDIDATES

- 1 Read the instructions on the cover of the answer book.
- 2 This paper consists of **TWO** Sections, A and B.
- 3 Section A consists of 4 questions, each question carries 15 marks.  
Answer **ALL** questions.
- 4 Section B consists of 4 questions, each question carries 20 marks.  
Answer any **TWO** questions.
- 5 DO NOT open this question paper until instructed to do so.

## **SECTION A: (60 marks)**

**Answer ALL questions from this section.**

### **QUESTION: 1**

The International Accounting Standards Board (IASB) as well as the Institute of Bankers in Malawi (IOB) advocates that:

“The objectives of financial statements are to provide information on financial position, performance and cash adaptability of an enterprise that is useful to a wide range of users for assessing the stewardship of management and for making economic decisions”.

#### **Required:**

a) Mention three types of users of financial statements and describe in general the information needs of each type of user identified.

**(3 marks)**

b) Identify and explain the four important qualities of financial information that makes the financial statements useful to its users.

**(8 marks)**

c) Briefly explain two fundamental accounting concepts.

**(4 marks)**

**(Total 15 marks)**

### **QUESTION: 2**

Wilson is preparing his bank reconciliation at 31<sup>st</sup> August 2007. His bank statement shows a balance of MK228,000 cash at the bank. The balance in his nominal ledger is MK113,000 (credit).

He has noted the following reasons for the difference:

- i) Cheque number 958602 was incorrectly recorded in Wilson's cash book as MK760,000. The cheque was correctly debited on the bank statement on 2<sup>nd</sup> August as MK670,000.
- ii) Bank charges and standing order of MK428,000 were debited by the bank on 4<sup>th</sup> August.
- iii) A customer cheque for MK320,000 was returned by Wilson's bank in August as the customer had insufficient funds in his account. Wilson has not recorded the return of the cheque in his records.
- iv) The bank has incorrectly credited Wilson's account with interest of MK220,000. This is interest on deposit account held by Wilson personally. The bank had not corrected the error by 31<sup>st</sup> August.
- v) A lodgement of MK850,000 entered in Wilson's cash book on 31<sup>st</sup> August was credited on 3<sup>rd</sup> September.
- vi) Five cheques have not been presented at the bank. These are:

<u>Cheque No.</u>	<u>Amount (MK)</u>
956784	625,000 (see note vii)
956892	326,000
958452	469,000
958541	122,000
958668	<u>87,000</u>
	<u>1,629,000</u>

- vii) Cheque number 956784 was lost in the post and cancelled. Wilson has not recorded the cancellation of the cheque.

**Required:**

- a) Show Wilson's nominal ledger bank account including the necessary correcting entries. **(6 marks)**
- b) Prepare a bank reconciliation statement using the corrected nominal ledger balance. **(7 marks)**
- c) Indicate how the bank balance will be reported in Wilson's final accounts. **(2 marks)**

**(Total 15 marks)**

**QUESTION: 3**

Gareth Banda has been in business as a sole trader since 1<sup>st</sup> May 2005. He has prepared the draft profit and loss account shown below and has asked you to check if it is correct.

Draft profit and loss account as at 30<sup>th</sup> April 2007.

	MK	MK
Sales		97,600
Purchases	46,840	
Rent	15,000	
Electricity	4,800	
Telephone	2,750	
Returns inwards	954	
Carriage and delivery	1,846	
Wages	31,580	
Other Expenses	<u>839</u>	
	104,609	
Trade discount on purchases	<u>1,523</u>	
		<u>103,086</u>
		<u>(5,486)</u>

**Additional information:**

1. Closing stock cost MK6,378.00. This includes damaged items which cost MK1,564.00. These could be repaired for MK375.00 and sold for MK1,820.00.
2. The figure for rent is the total paid in the year to 30<sup>th</sup> April 2007. Five equal payments were made for the three months period commencing on:
  - 1<sup>st</sup> May 2006
  - 1<sup>st</sup> August 2006
  - 1<sup>st</sup> November 2006
  - 1<sup>st</sup> February 2007
  - 1<sup>st</sup> May 2007
3. Carriage and delivery comprises MK1,428.00 for carriage on goods received and MK418.00 for delivering goods to customers.
4. The charge for wages is made up of MK28,000.00 paid to Gareth and MK3,580.00 paid to a part time employee.

**Required:**

Prepare Gareth's corrected Trading and Profit and Loss Account for the year ended 30<sup>th</sup> April 2007, clearly showing both the gross profit and net profit.

**(Total15 marks)**

**QUESTION: 4**

- a) Mention **three** causes of "depreciation". **(3 marks)**
- b) A manufacturer bought three machines on 1 January 2004. Each machine cost K20,000. The business normally provides depreciation at the rate of 20% per annum using reducing balance method. On 2 January 2006, another machine was acquired at K22,000 and on 30 June 2006, one of the machines which originally cost K20,000 was sold for K8,000 cash. A full

year's depreciation is made in the year of purchase and none is charged in the year of disposal.

**Required:**

Prepare the following accounts for each of the years ended 31 December 2004, 2005 and 2006 respectively.

- i) Machinery accounts **(4 marks)**
- ii) Provision for depreciation accounts **(4 marks)**
- iii) Asset disposal account **(2 marks)**

- c) The owner of the business was not happy with the amount of profit shown in his accounts. He felt that if it were not for the depreciation charge his profit would have been higher.

**Required**

Explain to the owner giving two reasons why depreciation must be charged in his Accounts. **(2 marks)**

**(Total 15 marks)**

**SECTION B: (40 marks)**

**Answer any TWO questions from this section.**

**QUESTION: 5**

Howard calculated his net profit for the year as MK75,886 but is not sure how to treat the MK90 (debit) balance on the suspense account. Control accounts are not maintained.

On reviewing Howard's records you note that:

- i) A cash sale of MK900 was recorded in the cash book but no other entry was made.
- ii) The purchase day book was under cast by MK900.
- iii) A cheque paid to a supplier was correctly entered in the cash book as MK540 but MK450 was posted to the suppliers account.
- iv) A cheque received from a customer for MK11,700 was accepted in full settlement of a balance of MK11,790. No entries were made for the discount.
- v) Travel expenses include payment for MK405 for Howard's holiday.

**Required:**

- a) Indicate whether or not Howard's calculation of net profit was affected by each of the errors and calculate his corrected net profit. **(11 marks)**
- b) Show Howard's suspense account including the correction of the errors. **(5 marks)**
- c) Indicate and define which of the errors identified in (i) to (v) above are examples of:-
  - error of transposition
  - error of omission
  - arithmetical error
  - error of principle **(4 marks)**

**(Total 20 marks)**

**QUESTION SIX**

The following analysis relates to the details of sales and purchase transactions for the month of September 2006 for a retailer trading in soft drinks.

1 September balance brought forward 200 bottles at K12 each.

3 September purchased 500 bottles at K14 each.

5 September sold 400 bottles at K20 each.

8 September purchased 300 bottles at K14 each.

11 September purchased 600 bottles at K15 each.

15 September sold 700 bottles at K20 each.

20 September purchased 200 bottles at K16 each.

25 September purchased 600 bottles at K20 each.

**Required:**

a) Calculate the value of stock at the end of the month of September, 2006 using:

(i) First In First Out (FIFO) method **(6 marks)**

(ii) Last In First Out (LIFO) method **(8 marks)**

b) Draw up a Trading Account using FIFO to show the gross profit for the month. **(6 marks)**

**(Total 20 marks)**

**QUESTION SEVEN**

a) Define the following accounting terms:

i) Credit Note **(1 mark)**

ii) Revenue **(1 mark)**

iii) Drawings **(1 mark)**

iv) Inventories **(1 mark)**

v) Books of original entry **(1 mark)**

- b) Kondwani, Joseph and Ruth are in partnership with an agreement to share profits in the ratio 2:3:1. They also agree that:
- All the three should receive interest at 12% per annum on capital.
  - Ruth should receive a salary of K6,000 per annum.
  - Interest will be charged on drawings at the rate of 5% per annum (charged on the end of the year drawings balances).
  - The interest rate on the loan by Kondwani is 5% per annum.
  - The balance sheet of the partnership as at 31 December 2006 revealed the following:

	K	K
<u>Capital accounts</u>		
Kondwani	20,000	
Joseph	8,000	
Ruth	<u>6,000</u>	34,000
 <u>Current accounts</u>		
Kondwani	3,500	
Joseph	(700)	
Ruth	<u>1,800</u>	4,600
Loan account (Kondwani)		<u>6,000</u>
Capital employed to finance net assets		<u>44,600</u>

Drawings made during the year to 31 December 2007:

	K
Kondwani	6,000
Joseph	4,000
Ruth	7,000

The net profit for the year to 31 December 2007 was K24,530 before deducting loan interest.

**Required:**

- i) Prepare the profit and loss appropriation account for the year to 31 December 2007 **(5 marks)**
- ii) Prepare the partners current accounts **(4 marks)**
- iii) Prepare the balance sheet of the partnership as at 31 December 2006. **(6 marks)**

**(Total 20 marks)**

**QUESTION: 8**

- a) Explain why every transaction is recorded using both a debit entry and a credit entry. **(4 marks)**
- b) Explain and identify two reasons for using Control Accounts. **(5 marks)**
- c) Explain the purpose of a trial balance. **(4 marks)**
- d) State the main reason for preparing a balance sheet. **(3 marks)**
- e) Identify six items of data that would normally be recorded in a fixed assets register and state why each item is required. **(6 marks)**

**(Total 20 marks)**

**END OF THE EXAMINATION PAPER**

**3.1.5 REQUIRED ANSWERS**

**MODEL ANSWERS**

**INTRODUCTION TO BUSINESS ACCOUNTING (IOBM-C101)  
EXAMINATIONS**

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## QUESTION 1

### Requirement (a)

Users of financial statements are listed below:

- 1) Management
  - a. They need information on the current financial situation in order to be able to make strategic decisions.
  - b. They also want to see what effect these are going to have on stakeholders
- 2) Shareholders/ Owners
  - a. They want to assess the effectiveness of management in key performance areas like profits, dividends, etc.
- 3) Investors
  - a. They need financial statements in order to make decisions on which company to invest in or to assess the profitability of the business.
- 4) Lenders/ providers of finance to the company
  - a. They need financial statements to ascertain if the company has adequate cover for interest payments and security of capital they have invested in form of loans or advances.
- 5) Suppliers and Customers
  - a. They need financial statements to assess the credit worthiness of the company
- 6) Employees

- a. They need financial statements to determine their security of employment with the company, bargain for better salaries and good working conditions.

7) Financial Analysts and Journalists

- a. They need financial statements to scrutinize published accounts of companies and provide guidance on best investment advice to clients and readers.

8) Government and their agencies

- a. They need financial statements to make decisions like awarding contracts, tax collection, regulation and keeping central statistics for economic measurement.

Requirement (b)

Important qualities of financial information that makes the financial statements useful to its users are explained below:

i) Timely

The financial information should be available when it is needed. It should not be outdated.

ii) Fit for its purpose

The information provided should be relevant. It should inform managers on the issues surrounding a decision problem.

iii) Economic

The information provided should have a greater value to the user than the cost of obtaining it.

iv) Understandability

The financial information provided should be easy to understand. It must be presented in a language that is appropriate for the users.

Requirement (c)

Any two of the following fundamental accounting concepts:

i) Matching/Accruals

This requires companies to match their costs to the period's revenues. Effects of transactions and other events are recognized as they occur and not as cash is received or paid.

ii) Going Concern Concept

This assumes that the enterprise has neither the need nor the intention to liquidate nor curtail the scale of its operations. An assumption is made that the business will continue in existence for the foreseeable future.

iii) Prudence Concept

This is where the company recognizes immediately potential losses but does not take potential gains.

iv) Consistency Concept

This requires items to be accounted for in a consistent manner both within a period and from one period to the next and ensures that accounts are comparable from year to year.

v) Substance over form

This is where the final accounts of the company reflect the commercial reality rather than the legal position.

## QUESTION 2

a)

### BANK ACCOUNT

Emorin cheque	90,000	Opening balance	113,000
Cancelled cheque	625,000	Charges/standing orders	428,000
Closing balance	146,000	Returned cheque	320,000
	<u>861,000</u>		<u>861,000</u>

Mark allocation - 1 mark for each entry

**(6 marks)**

b) Balance per statement	MK	MK	
Balance per statement		228,000	<b>(1 mark)</b>
ix) Deposit account interest		(220,000)	<b>(1 mark)</b>
x) Outstanding lodgements		850,000	<b>(1 mark)</b>
xi) Outstanding cheques	(1,629,000)		<b>(1 mark)</b>
xii) Less cancelled cheque	<u>625,000</u>	<u>(1,004,000)</u>	<b>(1 mark)</b>
Revised balance – agreed to ledger		<u>(146,000)</u>	<b>(2 marks)</b>

**(7 marks)**

(c) As the corrected ledger balance is a credit balance, the bank account is overdrawn. This is confirmed by the reconciliation statement. Therefore the bank balance will be reconciled as a current liability on the balance sheet.

Current Liability **(1 mark)**

Balance sheet

(1 mark)

(Total 15 marks)

### QUESTION 3

GARETH BANDA

### TRADING AND PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 30<sup>TH</sup> APRIL 2007

	MK	MK	marks
Sales (w1)		96,646	1.5
Purchases (w2)	46,745		2
Closing stock (w3)	<u>(6,259)</u>	<u>(40,486)</u>	3
Gross Profit		56,160	1
Rent (w4)	12,000		1
Electricity	4,800		.5
Telephone	2,750		.5
Delivery	418		1
Wages (w5)	3,580		1
Other expenses	<u>839</u>	<u>24,387</u>	.5
Net profit for the year		<u>31,773</u>	1

(Total 15 marks)

	MK
W1 Sales as reported	97,600
Less returns inwards	<u>954</u>
Corrected figure	<u>96,646</u>
W2 Purchases as reported	46,840
Less trade discount	<u>1,523</u>

	45,317
Add carriage in	<u>1,428</u>
	<u>46,745</u>
W3 Closing Stock – cost	6,378
Less write down	<u>119</u>
	<u>6,259</u>
Write down	
Cost of damaged good	1,564
Net realizable value (1,820 – 375)	1,445
Thus write down to NRV	119
For comparison of cost and NRV	
W4 Rent paid	15,000
Less prepaid	<u>3,000</u>
	<u>12,000</u>

W5 wages figure reported includes Gareth's drawings. This should be excluded from the wages charge. The amount paid to the employee (3,580) is the correct charge for wages.

#### **QUESTION 4**

a) Causes of depreciation are:

- (i) Physical deterioration
  - Wear and tear
  - Erosion, rust and decay
- (ii) Economic deterioration
  - Obsolescence
  - Inadequacy
- (iii) Time
- (iv) Depletion

b) Part (i)

Machinery Account

2004		2004	
	K		K
1 Jan bank	60,000	31 Dec balance c/d	60,000
2005		2005	
1 Jan bank	60,000	31 Dec balance c/d	60,000
2006		2006	
1 Jan balance b/d	60,000	30 June disposals	20,000
2 Jan bank	<u>22,000</u>	31 Dec balance c/d	<u>62,000</u>
	<u>82,000</u>		<u>82,000</u>

Part (ii)

Provision for Depreciation

2004		2004	
	K		K
31 Dec balance c/f	12,000	31 Dec Profit and Loss	12,000
2005		2005	
31 Dec balance c/f	21,600	1 Jan balance b/f	12,000
	_____	31 Dec Profit and Loss	<u>9,600</u>
	<u>21,600</u>		<u>21,600</u>

2006		2006	
30 June Disposal	7,200	1 Jan balance b/f	21,600
31 Dec balance c/f	<u>23,920</u>	31 Dec profit and loss	<u>9,520</u>
	<u>31,120</u>		<u>31,120</u>

Workings to Support Depreciation Charges in part (ii)

Machine 1	Machine 2	Machine 3	Total
	K	K K	
Year 1	20,000*20% 12,000 =K4,000	20,000*20%  K4,000	20,000*20%  K4,000
Year 2 4000)*20%	(20,000-4000)*20% 9,600 =3,200	(20,000-4000)*20%  =3,200 =3,200	(20,000- 4000)*20%
Year 3 3200)*20%	NONE 5,120	(16,000-3200)*20%  = 2,560 = 2,560	(16,000- 3200)*20%
Year 3	Fourth machine acquired at K22,000		
	Depreciation = 22,000* 20% = K4,400		
	Therefore, year total depreciation charge = 5,120+4,400		
			= <u>9,520</u>

Part (iii)

Asset Disposal Account

2006		2006	
	K		K
30 June Machinery	20,000	30 June bank	8,000
		30 June depreciation	7,200
	<hr/>	31 Dec Loss on disposal	<u>4,800</u>
	<u>20,000</u>		<u>20,000</u>

Requirement (c)

Depreciation must be charged in books of accounts for the following reasons:

- (i) To reflect the cost of using non-current assets in the business which generate revenue from them.
- (ii) The value of the non-current asset diminishes in its value as it is being utilized in the year and so this must be shown in the books of accounts.

**QUESTION 5**

a)	Errors	Net profit affected	Adjustment
i)	Cash sale not recorded	yes	+ 900
ii)	Day book under cast	yes	-900
iii)	Cheque incorrectly recorded	no	-
iv)	Discount not recorded	yes	-90
v)	Drawing treated as expenses	yes	<u>+405</u>

	Total	<u>+315</u>
Reported net profit	75,886	
Corrected net profit	76,201	

Marks allocation

Whether Net profit is affected **(5 marks)**  
 (1 mark for each item)

Adjustment for profit	
1 mark for each item	<i>5 marks</i>
Revised profit	<u>1 mark</u>
Total	<u>11 marks</u>

b)

#### SUSPENSE ACCOUNT

Balance as given	90	Day book under cast 900	900
Cash sale	<u>900</u>	Error in cheque	<u>90</u>
	<u>990</u>		<u>990</u>

Mark allocation

½ mark each for each correct entry	4.5 marks
Balance correctly brought to nil	<u>0.5 mark</u>
	<b>(5 marks)</b>

c) Type of error

- |   |  |
|---|--|
| <ul style="list-style-type: none"> <li>- Error of transposition</li> <li>- Error of omission</li> </ul> | <ul style="list-style-type: none"> <li>iii) Cheque incorrectly recorded in personal account</li> <li>i) Cash sale not recorded</li> <li>iv) Discount not recorded</li> </ul> |
|---|--|

- Arithmetical error                      ii) Day book under cast
- Error of principle                        v) Drawings treated as expenses

Mark allocation

½ mark for each error correctly identified

**(4 marks)**

**QUESTION 6**

Requirement (a)

Part (i)

Workings

<u>Date</u>	<u>Balance b/f</u>	<u>Receipts</u>	<u>Issues</u>	<u>Closing Stock</u>
1.09.06	200 bottles @ K12			200 bottles @ K12
	Each =K2,400			each = K2,400
3.09.06	200 bottles @ K12	500 bottles @ K14		200 bottles at K12
	Each = K2,400	each =K7,000		each = K2,400
				500 bottles @
				Each = K7,000
				<u>TOTAL =</u>
				<u>K9,400</u>
5.09.06	200 bottles @ K12		200 bottles @ K12	300 bottles @ K14
	Each = K2,400		each = K 2,400	each = K4,200

500 bottles @ K14  
Each = K7000

200 bottles @ K14  
each = K 2,800

TOTAL = K 9,400

8.09.06	300 bottles @ K 14	300 bottles @ K14	600
bottles @ K14			
Each = K 4,200	each = K4,200	each = K8,400	

11.09.06	600 bottles @ K 14	600 bottles @ K15	600 bottles @ K 14
Each = K8,400	each = K 9,000		each = K 8,400

600 bottles @ K15  
Each = K 9,000

TOTAL = K17,400

15.09.06	600 bottles @ K 14	600 bottles @ K14	500 bottles @ K 15
Each = K8,400		each = K 8,400	each = K 7,500

600 bottles @ K15  
Each = K 9,000

100 bottles @ K15  
each = K1,500

TOTAL = K 17,400

25.09.06  
Each = K 7,500  
200 bottles @ K 16  
Each = K 3,200

500 bottles @ K 15

600 bottles @ K20  
Each = K 12,000

TOTAL = K 22,700

**VALUE OF CLOSING STOCK IS K 22,700**

Requirement (a)

Part (ii)

Workings

<u>Date</u>	<u>Balance b/f</u>	<u>Receipts</u>	<u>Issues</u>	<u>Closing</u>
				<u>Stock</u>
1.09.06	200 bottles @ K12			200
	bottles @ K 12			
	Each = K2,400			each = K2,400
3.09.06	200 bottles @ K12	500 bottles @ K 14		200
	bottles @ K14			
	Each = K2,400	each = K7,000		each = K2,400
				500 bottles @ K14
				Each = K7,000
				<u>TOTAL = K9,400</u>
5.09.06	200 bottles @ K12			200
	bottles @ K12			
	Each = K2,400			each = K2,400
	500 bottles @ K14		400 bottles @ K14	100 bottles @ K14
	Each = K7,000		each	each = K1,400
	<u>TOTAL = K9,400</u>			<u>TOTAL = K3,800</u>
8.09.06	200 bottles @ K12	300 bottles @ K14		200
	bottles @ K12			
	Each = K2,400	each = K4,200		each = K2,400
	100 bottles @ K14			100 bottles @ K14

Each = K1,400

each = K1,400

TOTAL= K3,800

300 bottles @ K14  
Each = K4,200

TOTAL = K17,000

15.09.06 200 bottles @ K12

600 bottles @ K15 200

bottles @ K12

Each = K2,400

each = K9,000

each = K2,400

100 bottles @ K14

100 bottles @ K14

100 bottles @ K14

Each = K1,400

each = K1,400

each = K1,400

300 bottles @ K14

200 bottles @ K14

Each = K4,200

each = K2.800

600 bottles @ K15

TOTAL = K6,600

Each = K9,000

TOTAL = K17,000

25.09.06

200 bottles @ K12

Each = K2,400

100 bottles @ K14

Each = K1,400

200 bottles @ K14

Each = K2,800

200 bottles @ K14

Each = K3,200

600 bottles @ K20

Each = K12,000

TOTAL= K21,800

THE VALUE OF CLOSING STOCK IS K21,800

Requirement (b)

Workings

Opening Stock = 200\* K12 = K2,400

SALES

	K
400 bottles @ K 20 each	8,000
700 bottles @ K 20 each	<u>14,000</u>
	<u>22,000</u>

PURCHASES

500 bottles @ K 14 each	7,000
300 bottles @ K 14 each	4,200
600 bottles @ K 15 each	9,000
200 bottles @ K 16 each	3,200
600 bottles @ K20 each	<u>12,000</u>
	<u>35,400</u>

Closing Stock = K 22,700

## TRADING ACCOUNT

	K	K
Sales		22,000
Less: Cost of goods sold		
Opening stock	2,400	
Add purchases	<u>35,400</u>	
		37,800
Less: Closing stock	<u>(22,700)</u>	
	<u>15,100</u>	
<u>Gross Profit</u>		<u>6,900</u>

### **QUESTION 7**

#### Requirement (a)

- i) Credit Note is a withdrawal of a demand for payment or a negative invoice.
- ii) Revenue is the price of goods sold and services rendered during a given accounting period.
- iii) Drawings are amounts of money taken out of a business by its owner.
- iv) Inventories are stocks recorded as assets to the business.
- v) Books of original entry are books of initial entry point of business transaction into the accounting system.

Requirement (b)

Workings

Interest payable by each partner on their drawings during the year is:

		K
Kondwani	5%*6000	300
Joseph	5%*4000	200
Ruth	5%*7000	<u>350</u>
		<u>850</u>

Payments are debited to current accounts and credited to the profit and loss appropriation account.

Interest payable to Kondwani on his loan is  $5\% * K6000 = K300$ .

Now begin to work out the appropriation of profits.

	K	K
Profit, less loan interest deducted in Profit and Loss a/c (24,530-300)		24,230
Interest on drawings		<u>850</u>
		25,080
Ruth's Salary		<u>6,000</u>
		19,080

Interest on Capital

Kondwani (12%*20,000)	2,400	
Joseph (12%*8000)	960	
Ruth (12%*6000)	<u>720</u>	
		<u>4,080</u>
		<u>15,000</u>

K15,000 would be shared as follows:

Total ratio = 2+3+1 = 6 thus K 15,000/6 = K2,500

Kondwani	2* K2,500 =	5,000	
Joseph	3*K2,500 =	7,500	
Ruth	1*K2,500 =	2,500	
			<u>15,000</u>

Requirement (b)

Part (i)

APPROPRIATION ACCOUNT: KONDWANI: JOSEPH: RUTH FOR YEAR ENDED 31 DECEMBER 2006

	K	K		K	K
Salary: Ruth		6,000	Net profit b/f		24,230
Interest on capital			Interest on drawings:		

Kondwani	2,400		Kondwani	300
Joseph	960		Joseph	200
Ruth	<u>720</u>	4,080	Ruth	<u>350</u>
850				

Share of profits:

Kondwani	5,000			
Joseph	7,500			
Ruth	<u>2,500</u>	<u>15,000</u>		<u>          </u>
	<u>25,080</u>			<u>25,080</u>

Part (ii)

PARTNERS CURRENT ACCOUNTS

K	K	K	K	K	K
Balance b/f		700	balance b/f	3,500	1,800
Interest on Drawings	300	200	350	loan Interest	300
Drawings	6,000	4,000	7,000	Interest on Capital	2,400
720					960
			Salary		6,000

Balance c/f	<u>4,900</u>	<u>3,560</u>	<u>3,670</u>	Share of profits	<u>5,000</u>	<u>7,500</u>
<u>2,500</u>						
	<u>11,200</u>	<u>8,460</u>	<u>11,020</u>		<u>11,200</u>	<u>8,460</u>
<u>11,020</u>						
				Balance b/f	4,900	3,560
						3,670

Requirement (b)

Part (iii)

The balance sheet of the partnership as at 31 December 2006

	K	K
<u>Capital accounts</u>		
Kondwani	20,000	
Joseph	8,000	
Ruth	<u>6,000</u>	34,000
<u>Current accounts</u>		
Kondwani	4,900	
Joseph	3,560	
Ruth	<u>3,670</u>	<u>12,130</u>
		46,130
		=====
<u>Net Assets</u>		44,600

As at 31 December 2005

Added during period:

Net profits	24,230
-------------	--------



transactions to be checked will be lower and this will make it easier to locate errors.

- iii) To locate total errors for inclusion in the final accounts. This can assist in speeding up preparation of final accounts. If there is reasonable certainty that there are no material errors (usually as a result of regular checking above). The balances from the control accounts can be used in the preparation of final accounts.
- iv) To calculate missing figures. If accounting records are incomplete, control accounts can be used to calculate missing figures. If we know the opening and closing values for creditors and the amount paid to suppliers in the accounting period, we can calculate the value of purchases.

**Marks allocation: 1 mark for each valid reason to maximum of 2**

- c) The main purpose of trial balance is to provide a basic check on the accuracy of postings.

**(1 ½ marks)**

The trial balance checks the accuracy of postings by confirming whether the total value of the debit balances equals the total value of the credit balances.

**(1 ½ marks)**

- d) A balance sheet is prepared to provide a statement of the financial position of the business at a particular time. It reports the assets, liabilities, and capital at a specified date, usually end of an accounting period.

**(3 marks)**

- f) Data recorded in a fixed asset register ( and reason for recording the data) normally includes:

- Date of purchase - For calculating depreciation
- Cost of Asset - For calculating depreciation
- Expected sale value - For calculating depreciation
- Invoice number - To provide audit trail
- Internal reference number - To identify a specific asset

- Description of asset - To identify the type of asset
- Location of the asset - To assist in finding the asset
- Serial number - In case of warranty or claim

Mark allocation: ½ mark for each item up to a maximum of 6 3 marks

½ mark for each reason up to a maximum of 6 3 marks

6 marks

**(Total 20 marks)**

**3.2 CHIEF SUBJECT EXAMINER'S REPORT FOR  
CUSTOMER SERVICE (IOBM-C102)**

**CERTIFICATE IN BANKING EXAMINATION**

**OCTOBER 2007**

### 3.2.1 GENERAL COMMENTS

The exam papers were marked professionally through meticulous marking process and results represent a consensus of the three examiners including the undersigned.

The exam setting had gone through a similar process and represented what should be expected of the level at international level.

Using 50 per cent as the pass point, only two students passed and the rest have failed to qualify for this level of the professional programme representing a 28.6% pass rate. The highest mark scored by a candidate was 57% while the lowest was 31%.

### 3.2.2 COMMENTS ON INDIVIDUAL QUESTIONS

As demanded by the programme and reflected in the marking scheme, questions setting was meant to be as represented of the syllabus as possible as possible but also balanced in order to develop and measure skills in dealing with problems in the banking business.

This question spectrum therefore covered in the following:-

<b>Question(s)</b>	<b>Skills/Expectations</b>
1(a) & (b) Q3(ii) Q4,Q6(b)	Analysis & Application evaluation
Q2(b),Q3(a) Q3(i) Q6(a)	Comprehension
Q2(a) Q5(a) & (b) Q7(a) & (b)	Recall

### **3.2.3 GENERAL RECOMMENDATIONS**

The high failure rate is mostly attributable to poor performance in analysis, evaluation and application skills. The students seem to have been geared for recall kind of questions, in which they did well. Comprehension was on average well demonstrated though on lower end.

**CHIEF SUBJECT EXAMINER**

### 3.2.4 THE EXAMINATION PAPER



**INSTITUTE OF BANKERS IN MALAWI**

## **CERTIFICATE IN BANKING EXAMINATION**

**SUBJECT: CUSTOMER SERVICE (IOBM-C102)**

**DATE: Saturday 6<sup>th</sup> October 2007**

**Time Allocated: 3 hours (13:30 to 16:30 pm)**

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### **INSTRUCTIONS TO CANDIDATES**

- 1 Read the instructions on the cover of the answer book.
- 2 This paper consists of **TWO** Sections, A and B.
- 3 Section A consists of 4 questions, each question carries 15 marks.  
Answer **ALL** questions.
- 4 Section B consists of 3 questions, each question carries 20 marks.  
Answer any **TWO** questions.
- 5 **DO NOT** open this question paper until instructed to do so.

**SECTION A: (60 Marks)**

Answer **ALL** questions in this Section.

**QUESTION: 1**

- (a) How does the concept of “internal customer” borrow from the concept of external customer? **(5 marks)**
- (b) Using illustrations, explain how the “Internal Customer” concept approach might be used in banking? **(10 marks)**

**(Total 15 marks)**

**QUESTION: 2**

- (a) Discuss five variables that determine service quality? **(10 marks)**
- (b) Explain the relevance of the SERVQUAL in the evaluation of service quality of an organization? **(5 marks)**

**(Total 15 marks)**

**QUESTION: 3**

- (a) Discuss popular strategies for customer retention? **(10 marks)**
- (b) Customer Service and Customer Care proponents or advocates argue that “customer complaints are effectively opportunities for the organization and should therefore be looked at and handled with positivity”.
- (i) How are complaints viewed as opportunities? **(2 ½ marks)**
- (ii) How would you go about converting complaints into opportunities in a banking environment? **(2 ½ marks)**

**(Total 15 marks)**

**QUESTION: 4**

Malawi would definitely be classified as a “High Context Culture Country” according to the Context Culture Theory. Given the foregoing conclusion, how would you formulate your communication strategies in a bank for effectiveness?

**(15 marks)**

**(Total 15 marks)**

**SECTION B (40 Marks)**

Answer any TWO questions from this Section.

**QUESTION: 5**

(a) What are the rights and duties of a customer to a bank? **(5 marks)**

(b) Discuss what rights and duties a banker should have towards a customer on customer service and exceptions if any. **(15 marks)**

**(Total 20 marks)**

**QUESTION: 6**

(a) Why do you think there has been an increased demand in service delivery systems over the past five years? **(12 marks)**

(b) Illustrate with aid of a diagram the necessity for corporate integration in the key phases for service delivery. **(8 marks)**

**(Total 20 marks)**

**QUESTION: 7**

(a) Identify two main reasons why Ted Johns created a model for customer service?

**(5 marks)**

(b) Explain Reichheld's service profile cycle?

**(15 marks)**

**(Total 20 marks)**

**END OF THE EXAMINATION PAPER**

### **3.2.5 REQUIRED ANSWERS**

## **MODEL ANSWERS FOR**

## **CUSTOMER SERVICE (IOBM-C102)**

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## SECTION A

### QUESTION: 1

#### Service Excellence

- (a) The approach is that other units sections departments or SBU within the organization need to be looked at as “external customers and deal with them as such. Looking at their outputs as what you buy” and input so what you sell. Therefore, “value creation” is enhanced for the outputs and inputs and thereby enhancing effectiveness and efficiency within the organization, and its ability to deliver to the outside world.

*(5 marks)*

- (b) The student needs to identify various sections units, departments SBU's within a bank that use each other's outputs and as inputs matrix and how value would be created using the internal marketing approach.

*(10 marks)*

**(Total 15 marks)**

### QUESTION: 2

- (a) Five variables that determine service quality.
- (i) **Tangibles** Physical appearance of a service e.g. detailed monthly statement
- (ii) **Reliability** Consistency and dependability of service providers e.g. always sending out correct statements
- (iii) **Responsiveness** Willingness and readiness of the service provider's staff to provide service e.g. returning calls.

- (iv) **Assurance** Knowledge and technical competence to customers e.g. possession of necessary skills.
- (v) **Empathy** Provider's efforts to understand customer's needs and personalize service delivery. **(10 marks)**
- (b) (i) Student needs to first of all link the definition of service quality in the content of SERV-QUAL
- i. That Service Quality is simply the difference between customer expectations and what they eventually obtain. If zero then there is quality.
- ii. The service – quality actually identifies and measures these gaps basically (5 gaps) and acknowledges that Quality is in the ambit of the customer. **(5 marks)**

**(Total 15 marks)**

### QUESTIONS 3

- (a) Companies that want to form strong customer bonds need to pay attention to the following basics:
  - Getting cross departmental participation in planning and managing the customer satisfaction and retention process.
  - Creating superior products, services for the target markets.
  - Organizing and making accessible a database for information and customer needs, preferences contacts and satisfaction.
  - Making it easy for customers to reach appropriate company personnel and express their needs, perceptions and complaints.
  - Running award programs recognizing outstanding employees.

Additional approaches as identified by Berry and Parasuraman include:

- Adding financial benefits, two of them are frequency programs and club marketing programs. Frequency programs reward customers who buy frequently and in substantial amounts.

- Adding social benefits

Company personnel working on increasing social bonds with customers by individualizing and personalizing customer relationship.

- Adding structural ties

The company may supply customers with special equipment or computer linkages that help customers manage orders and inventory.

**(10 marks)**

(b)

- (i) Complaints can be viewed as opportunities in the sense that they normally provide feed-back for improvement. Point is that most customers complain with their “feet”.

If properly handled and satisfied “complainants” become company ambassadors that spread the word of mouth.

**(2 ½ marks)**

- (ii) By following the 8 stages of handling complaints as prescribed by the marketer.

**(2 ½ marks)**

**(Total 15 marks)**

#### **QUESTION 4**

Cultural Diversity and Its Impact on Customer Service:-

High context culture tends to be a lot more sensitive to product and service unrelated aspects of delivery. These would therefore need emphasis in the case of Malawi. Strategies for communication would therefore need to take into account **identifiable Malawi cultural values** within the banking sector.

These would border on for instance : space  
: Friendship  
: Body language  
: Time  
: Place of communication  
: Mode of communication

The student needs to bring out Malawian cultural value and interpretations in the six areas outlined above and in principles show how they would gear their communications in line with cultural expectations.

**(15 Marks)**

**(Total 15 marks)**

## **SECTION B (40 marks)**

**Answer any TWO questions**

### **QUESTION 5**

- (a) Customers rights and duties include
- (i) Taking reasonable care in drawing his cheques to minimize risk of the bank making payment that has not been authorized.
  - (ii) Informing the bank of any known or suspected forgeries without delay.
- (5 marks)**
- (b) Bankers rights and duties towards its customers include

- (i) Payment of cheques and other instruments as authorized by the customer
- (ii) Keeping in confidence all which the bank knows about the customer and his affairs both in connection with his account and otherwise.
- (iii) Exceptions are:

The bank may refuse to pay a customer's cheques under the following circumstances

- o Insufficient funds in the account
- o Defective cheque
- o Legal bar

The bank may disclose information under the following circumstance

- o Where the bank is required by law to disclose
- o Where there is a public duty to disclose
- o Where the interest of the bank requires disclosure

**(15 marks)**

**(Total 20 marks)**

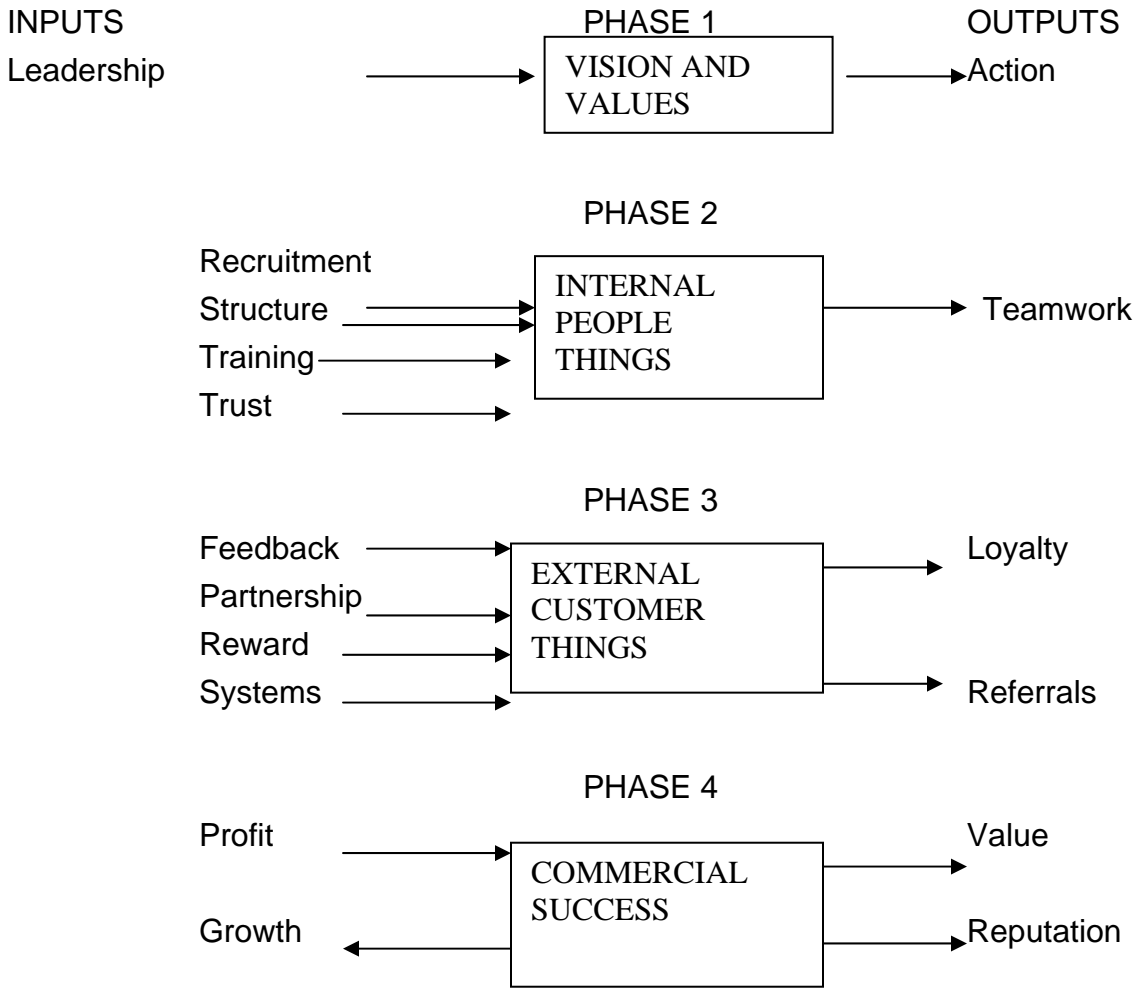
## **QUESTION 6**

- (a) Increased demand for delivery systems because customers now:-
- (ii) Demand more access time often 24 hours service, seven days a week.
- (iii) Are less willing to wait in one organization, the average time callers are prepared to wait on hold before they hang up has fallen in just two years from 130 seconds to 30 seconds.
- (iv) Demand faster responses – customers now expect the person who answers the phone to be able to deal with their request or query, there

- and then. It does not matter whether the person works directly for the respondent organization or for a call centre the same expectations operate.
- (iv) Want more information – they want it delivered directly and they are less willing to wait to receive something in the post.
  - (v) Have less patience with broken promises – for example should a loan to be approved, the customer is promised three days, customers complain if they do not receive in three days.
  - (vi) Complain more and more and are more aggressive in their communication. Customers are no longer afraid to complain and are quicker to demand to speak to the Manager, to demand compensation or threaten legal action.

**(12 marks)**

- (b) For customer service and customer care to be source of competitive advantage, several key aspects of corporate functioning have to work together.



**(8 marks)**

**(Total 20 marks)**

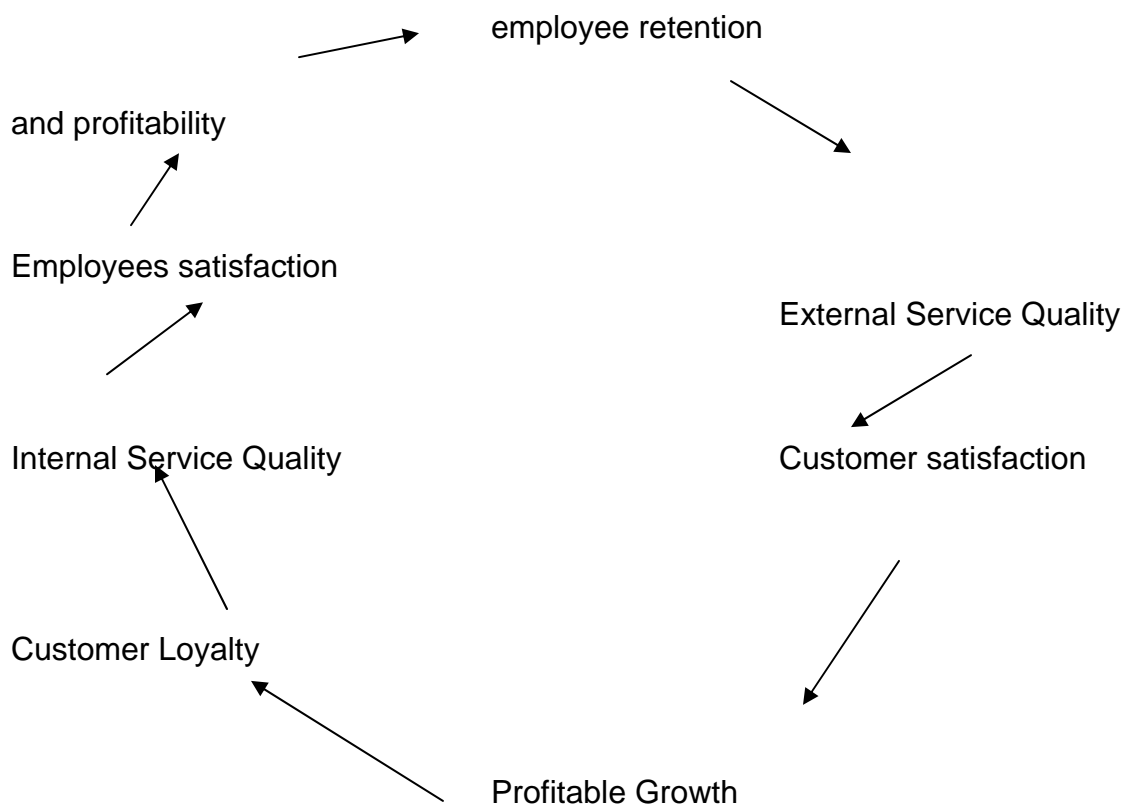
### QUESTION 7

- (a) Reasons for customer service model

- (i) In order to specify the desirable mix of internal, external and strategic components needed by an organization which majors on service as a source of competitive advantage.
- (ii) In order to evaluate the actions needed by organizations if they seek to establish themselves as contenders or world class players.

**(5 marks)**

(b) The Service Profile Cycle



The model establishes beyond doubt the linkage between external service performance and internal strategic instruments.

- (i) If the organization has a respectable level of profitability, then it can more easily afford to produce external service quality.
- (ii) External service quality generates customer satisfaction.
- (iii) Satisfied customers will display customer loyalty.

- (iv) Customer loyalty leads to more profitable growth because it is more economical for an organization to service its existing customer than to acquire new ones.
- (v) Profitable growth is likely to be correlated with internal service quality because retained customers enable service providers to move more rapidly up the experience of learning service.
- (vi) If internal service quality is high, employees satisfaction will increase. Staff feel good about themselves, they receive a lot of favourable feedback about their performance and they are rewarded accordingly.
- (vii) Employee's satisfaction will almost certainly mean that employee retention accelerates again with consequential benefits so far as service standards are concerned.

***(15 marks)***

**(Total 20 marks)**



**3.3 CHIEF SUBJECT EXAMINER'S REPORT FOR  
INTRODUCTION TO BANKING (IOBM-C104)**

**CERTIFICATE IN BANKING EXAMINATION**

**OCTOBER 2007**

### 3.3.1 GENERAL COMMENTS

While many candidates passed this paper well, performing strongly on all questions, a significant proportion was unable to answer any of the questions to an **adequate standard**. The paper was relatively straightforward and gave reasonably well-prepared candidates a good opportunity of success if they could display knowledge of a range of uncomplicated topics. The highest mark was 92% and the lowest was **exceptional** with a very low mark of 6%. 74.1% of candidates passed the examination.

The exam comprised a total of seven questions, four compulsory questions, each carrying 15 marks and a choice of two carrying 20 marks. Most candidates attempted all four compulsory questions and two choices, and some answered well on all questions. However, many candidates submitted answers which were **short, poorly presented, and sometimes convoluted**. Other answers were often extremely brief, displayed very little knowledge of the relevant subject matter.

Few candidates displayed excellent exam technique, but it was also apparent that a significant number of candidates appeared to have reasonable technique but simply lacked the level of knowledge in language skills. A trait common to many candidates was the inability or desire to write answers of **sufficient length** and depth to individual parts of questions. Candidates should be aware that where a part of a question offers anything between, for example, three and six marks for an explanation or brief comment, there is still an expectation that answers will be of a minimum length if they are to cover the points expected from the question requirement.

### 3.3.2 COMMENTS ON INDIVIDUAL QUESTIONS

#### QUESTION 1 (COMPULSORY)

This was a compulsory question and was based on fundamental knowledge in banking and related aspects. It was very pleasing to note that it was, on the whole, well answered by candidates.

Part (a) offered 2 marks for an explanation of the term 'banker/customer'. While majority of candidates were very familiar with the term 'banker/customer', and

gave sound explanations, a few of answers gave rather vague and brief responses. Some merely explained that the term related to debtor/creditor relationship, while others mistakenly referred 'banker' to mean the person working for the bank, which was wrong in this context, since it meant the organization.

Part (b) of the question was for 2 marks and required candidates to highlight only 4 responsibilities of a banker to a customer. A large majority of candidates outlined activities of a banker, in the process collecting maximum marks by fluke as the responsibilities can easily be mistaken for activities. There is evidence that quite a number of candidates did not understand the word 'responsibility' in this sense.

Part (c), was for 3 marks and required candidates to state sources of revenue for banks. A number of candidates displayed a sound appreciation of the issues arising, and this part was well answered. The small minority was awarded only a small fraction of the marks due to negligence, e.g. some students just wrote "loans" or "Foreign exchange" as sources of revenue, but more appropriately it should be "interest from loans" and "Commission from foreign exchange" transactions.

Part (d), 4 marks, on "lender of last resort" was well done. Most students collected maximum marks. However, most students, over 50%, simply regurgitated a paragraph from the module. That may not show understanding.

Part (e), 2 marks, on hedging was well attempted. A few worrying cases who skirted around or provided too short an answer and most did not identify hedging as a strategy, rather as holding of foreign exchange.

Part (f), 2 marks, was poorly attempted. Most students failed to mention stability as the main reason for holding the US\$ and mentioned that the US\$ is not affected by local inflation.

## **QUESTION 2 (COMPULSORY)**

Part (a), 6 marks, was one of the strengths of this paper. Most students did well in recalling the reasons but failed to explain properly, which is a language problem.

Part (b), 4 marks, with only a reasonable understanding of general banking issues should have been able to answer Part (b). Unfortunately, a significant number struggled to identify the link between LRR and money supply.

Parts (c), 3 marks, (d) tested candidates' knowledge on circumstances under which a banker may divulge customer information. From answers submitted, it was apparent that a majority of candidates had only knowledge of the circumstances but the answers were superficial. Since it was a **mention** question, most students collected maximum marks.

Part (d), double coincidence was straightforward and not surprising, was straightforwardly pasted on the answer sheet, by most students, directly recalled from the example in the module.

## **QUESTION 3 (COMPULSORY)**

Overall, this was a highest quality question. The quality of answers submitted varied, it was apparent throughout that candidates had no difficulty in answering Part (a) of the question than Part (b). Part (a) offered 2 marks for defining money laundering.

In Part (b), there was a need to describe negative effects of money laundering. Good candidates would have given examples to their descriptions. A proportion of candidates answered this question inadequately, although a further significant minority displayed excellent knowledge. Significantly, the majority of candidates were clearly confused by the term 'negative', with a relatively high proportion mistakenly asserting that this term described the situation when a banker is involved in money laundering.

Most students had knowledge of what roles government and banks can play in combating money laundering but did not explain properly.

#### **QUESTION 4 (COMPULSORY)**

In Part (a), candidates were required (for 3 marks) to **discuss** the functions of money. This question was not adequately answered by the majority of the candidates.

In part (b) while many candidates took the opportunity to choose two, a relatively high number did not notice the choice and lost marks as only two of the three submitted were marked. Most students failed to define money supply correctly by referring to money supply as 'circulation of **money**'

In Part (c), most candidates scored at least half of the 4 marks available for explaining the attributes for each investment, and were also able to obtain a mark by stating that the term deposit is a better investment because of high interest rates.

Part (d) offered 3 marks for knowledge on "Bank rate", LRR. This part was well answered by candidates.

Part (e), 3 marks. The first part was well answered, however most students fail to identify a Treasury Bill trading in both primary and secondary market, which was rather strange when the candidates had correctly answered the first part (i). It only shows most candidates look at the academic definition with no practical application. Perhaps the module should give more practical/application examples.

Questions 1 and 4 were long and more involving than the other compulsory questions, 2 and 3.

#### **SECTION B (CHOOSE TWO)**

Most candidates settled, for a combination of question 6 and one of 5 or 7.

#### **QUESTION 5**

Part (a), 3 marks, required candidates to **discuss** functions of commercial banks and the majority of candidates did very well.

Part (d), 4 marks. Most students got it right. However, the same communication problem or wrong choice of words was evident. Most candidates referred to dividends “as interest from shares”.

### **QUESTION 6**

This question was a favorite to most students. Part (a) 4 marks and Part (b), 2 marks, were well attempted. Part (c) was not well attempted, as most candidates failed to differentiate between advantages of a savings account and fixed accounts.

Part (d) and (e) 2 marks each were well attempted.

Part (f) was very poorly attempted. 99% of students did not collect maximum points. Perhaps emphasizes that most candidates fail to think beyond the module.

### **QUESTION 7**

This question was also fairly attempted by candidates.

### **3.3.3 OVERALL ASSESSMENT AND RECOMMENDATIONS**

As with most exams at this level, there really is no substitute for sustained, structured, and in-depth study of the subject. Candidates should be reminded that, irrespective of their exam technique, they are unlikely to pass this paper unless they have a reasonably sound understanding of the key topics as detailed in the syllabus and articulated reasonably well.

**CHIEF SUBJECT EXAMINER**

### 3.3.4 THE EXAMINATION PAPER



## INSTITUTE OF BANKERS IN MALAWI

# CERTIFICATE IN BANKING EXAMINATION

**SUBJECT: INTRODUCTION TO BANKING (IOBM-C104)**

**Date: Saturday 6<sup>th</sup> October 2007**

**Time Allocated: 3 hours (8:00 to 11:00 am)**

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### INSTRUCTIONS TO CANDIDATES

- 1 Read the instructions on the cover of the answer book.
- 2 This paper consists of **TWO** Sections, A and B.
- 3 Section A consists of 4 questions, each question carries 15 marks.  
Answer **ALL** questions.
- 4 Section B consists of 3 questions, each question carries 20 marks.  
Answer any **TWO** questions.
- 5 **DO NOT** open this question paper until instructed to do so.

**SECTION A: (60 marks)**

Answer **ALL** questions in this section.

**QUESTION: 1**

- (a) Describe the banker/customer relationship? **(2 marks)**
- (b) Highlight four responsibilities of a banker to a customer? **(2 marks)**
- (c) Banks like other business entities aim at maximizing the value of investment for shareholders. Mention three sources of revenue for banks? **(3 marks)**
- (d) Explain how Reserve Bank of Malawi performs its functions as “a lender of last resort”? **(4 marks)**
- (e) Businessmen who are both importers and exporters find Foreign Dominated Currency Accounts (FCDAs) very useful for purposes of **hedging** against exchange rate fluctuations.

What do you understand by the term hedging? **(2 marks)**

- (f) Explain why people would be motivated to transact in foreign currency such as the US dollars than in local currency in a country that is experiencing high inflation rates? **(2 marks)**

**(Total 15 marks)**

**QUESTION: 2**

- (g) Discuss three factors that lead to intensive competition in banking industry both in developed and developing countries? **(6 marks)**
- (h) How does a central bank use Liquidity Reserve Requirement (LRR) to control money supply? **(4 marks)**

(i) Mention three circumstances under which a banker may divulge information concerning the account of a customer? **(3 marks)**

(j) Explain in your own words, what you understand by the problem of double coincidence of wants in relation to barter trade. **(2 marks)**

**(Total 15 marks)**

**QUESTION: 3**

(a) Define Money Laundering? **(2 marks)**

(b) Explain two ways how money laundering can negatively affect banks and financial institutions? **(4 marks)**

(c) Discuss two roles government plays in combating money laundering? **(4 marks)**

(d) Explain five roles banks can play in the fight against money laundering? **(5 marks)**

**(Total 15 marks)**

**QUESTION: 4**

(a) Discuss three functions of money? **(3 marks)**

(b) In relation to money, define any two of the following terms:

(i) Money supply

(ii) Demand for money

(iii) Inflation

**(2 marks)**

- (c) A customer has approached the bank and is seeking to invest funds for a period of six months. The customer is considering lodging the funds in a term deposit or, alternatively a negotiable bank certificate of deposit.
- (i) Explain the attributes of each investment product to the customer.
  - (ii) Why might the term deposit be a more appropriate investment choice?  
**(4 marks)**
- (d) The Reserve Bank of Malawi recently reduced the “Bank Rate” from 20 to 17.5 percent.
- (i) Explain what you understand by the term “Bank Rate”. **(1 mark)**
  - (ii) What is the distinction between a Bank Rate and Liquidity Reserve Requirement (LRR)? **(1 mark)**
  - (iii) If you had a loan with a bank, what would be the impact of the reduction in the bank rate on your loan? **(1 mark)**
- (e) Financial instruments in Malawi may be traded at primary market or secondary market.
- (i) In your own words explain what you understand by primary market and secondary market. **(2 marks)**
  - (ii) Explain how a treasury bill can be regarded as traded on primary and secondary markets. **(1 mark)**

**(Total 15 marks)**

**SECTION B: (40 marks)**

**Answer any TWO questions from this section.**

**QUESTION: 5**

- (a) Briefly discuss functions of commercial banks. **(3 marks)**
- (b) When a bank provides a loan to a customer, the bank is said to create a financial asset that is an entitlement to future cash flows. What does this mean? **(2 marks)**
- (c) Write short notes explaining the following terms:-
- (i) Money market **(2 marks)**
  - (ii) Capital market **(2 marks)**
  - (iii) Primary market **(2 marks)**
  - (iv) Secondary market **(2 marks)**
- (d) If you invest your money in shares of a company that is listed on the Malawi Stock Exchange explain two benefits that you would expect to get from such investment. **(4 marks)**

**(Total 20 marks)**

**QUESTION: 6**

- (a) Briefly describe the relationship between open market operations and discount rate? **(4 marks)**
- (b) In your own words, explain what you understand by the term “financial intermediation”. **(2 marks)**
- (c) Explain two advantages of each of the following accounts:-
- (i) Savings accounts. **(2 marks)**

- (ii) Fixed accounts. **(2 marks)**
- (iii) Foreign currency denominated accounts. **(2 marks)**
- (d) Identify two functions of a bank statement? **(2 marks)**
- (e) Explain two circumstances under which a bank can freeze a customer's account. **(2 marks)**
- (f) Why are financial institutions subjected to rigorous regulations than other types of institutions? **(4 marks)**

**(Total 20 marks)**

**QUESTION: 7**

- (a) By making use of bank rate (discount rate), explain how the Reserve Bank of Malawi can control inflation and deflation in the economy. **(4 marks)**
- (b) Explain why money supply should be controlled in an economy? **2 marks)**
- (c) Explain why banks in Malawi introduced Standard Account Opening Forms? **(2 marks)**
- (d) Explain circumstances when the banker/customer relationship may be terminated. **(4 marks)**
- (e) Discuss two reasons why people hold money? **(2 marks)**
- (f) Explain the link between credit creation by commercial banks and inflation. **(6 marks)**

**(Total 20 marks)**

**END OF THE EXAMINATION PAPER**

### **3.3.5 REQUIRED ANSWERS**

## **MODEL ANSWERS**

### **INTRODUCTION TO BANKING (IOBM-104) EXAMINATIONS**

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## SECTION A: (60 Marks)

### QUESTION 1

- (a) The relationship based on a contract between the banker and customer. The contractual relationship can further be described as a debtor/creditor relationship. The relationship is unique because of the informal manner in which the contract is concluded.

The relationship can also be viewed as that of principal and agent when the bank is carrying out certain activities such as collecting proceeds of cheques for the customer, delivering safe custody items.

**(2 marks)**

- (b) These are: **(Any 4 for 2 marks)**

- To provide statement of account or details of the account upon request by customer
- To advise a customer immediately the forgery of a customer's signature is brought to the bank's attention.
- To abide by the express mandate /instruction of the customer
- To honour customer's cheques if: there are sufficient funds, there are no sufficient funds to stop payment, and the cheque is properly drawn not stale or postdated.
- To collect cheques deposited to the customers account on behalf of the customer and to credit his/her account with the proceeds thereof.
- To exercise proper skill in transacting for his/her customer
- To keep the affairs of the customer confidential.
- To give reasonable notice to a customer before closing an account with credit balances so that alternative arrangements can be made.

**(2 marks)**

- (c) Students to discuss the following three sources of Revenue for banks.

- (i) Interest from loans and advances

- (ii) Revenue from fees and charges
- (iii) Fees from returns on investment and securities
- (iv) Earnings from foreign exchange transactions.

**(3 marks)**

- (d) Commercial banks borrow money from each other to facilitate operations. In case the bank is unable to borrow money from the money market, then the Reserve bank becomes the final institution a bank can resort to. Commercial banks borrow from the Reserve bank against their reserves placed with the central bank.

**(4 marks)**

- (e) **Hedging** is a [strategy](#) designed to minimize exposure to an unwanted business risk, while still allowing the business to profit from an investment activity. Foreign Currency hedging is used by importers and exporters to reduce the risks they encounter when trading overseas due to changes in foreign exchange rates.

**(2 marks)**

- (f) Transacting in the US dollar is advisable, since the local currency does not possess stability of value in a country experiencing high inflation which is an important characteristic of money that must be maintained.

**(2 marks)**

**(Total 15 marks)**

## QUESTION 2

- (a) Students to discuss the following:
  - (i) Expansion of the International banks especially in America which posed a threat to banks in other parts of the world. As a result competition between local and International banks grew and this led to the introduction of new services.
  - (ii) Banking Industry began to diversify its services offerings. For instance many commercial banks turned to plastic money and electronic banking.

(iii) Since the 1980's the banking industry now deals with more knowledgeable customers who need and demand better services.

(iv) Technological advancement which makes it easy for banks to copy each other's products at relatively lower costs.

**(5 marks)**

(b) Liquidity Reserve Requirement is the statutory requirement that is imposed on commercial banks to keep a certain percentage of deposits they collect in a non-interest earning account at the central bank. Any changes in the reserve requirement alter the amount available to create credit. For instance an increase in the reserve requirement lead to credit squeeze reducing money supply while as a decrease in reserve requirement leaves more money with commercial banks to lead to its customers. This action increases money supply.

**(4 marks)**

(c) Students to mention any two of the following:-

(i) Suspicious of fraud

(ii) Any financial crime

(iii) On court order

**(3 marks)**

(d) If one had maize and wanted to exchange for a goat, he had to find someone with a goat but at the same time who also wanted maize. This was a very difficult task.

**(2 marks)**

**(Total 15 marks)**

### **QUESTION 3**

(a) The act of transforming illegal (dirty money) through a series of transactions and concealing its origins so that it appears to be legitimate money.

(b) Two ways in which money laundering can negatively affect banks and financial institutions.

(i) Loss of trust and integrity of the banking and financial services marketplace depends heavily on the perception that it functions within a framework of high legal, professional and ethical standards. If funds from criminal activity can be easily processed through a particular institution, the institution could be drawn into active complicity with criminals and become part of the criminal network itself. Evidence of such criminal activities will have a damaging effect on attitudes of customers and other financial institutions and the bank will lose out.

(ii) Money launderers are speculators but deal in large amounts of money e.g. drug traffickers who want to transform quickly. With globalization large movements of funds would create serious liquidity shortages for financial institutions. **(4 marks)**

(c) Students to discuss **any two** of the following:-

(i) The most effective way of combating money laundering is enacting appropriate legislation that punishes the commission of such crimes and also ensuring availability of both human and financial resources to combat crime. (Putting appropriate legislation in place).

(ii) Government should constantly review legislation and measures of combating that punishes the commission of such crimes as those perpetrators of crime become a step ahead all the time. (Constant review of legislation to take into account new developments).

(iii) Monetary authority should ensure effective supervision of banks to help get rid of any money laundering activity in a bank.

- Oversight functions through the central bank.
- Rules and guidelines for reporting suspicious transactions by financial institutions. **(4 marks)**

- (d) Candidates to explain **any five roles** from the following banks can play to combating money laundering.
- i) Reporting any suspicious activity in their institution.
  - ii) Banks can set limits and report any transaction on any amount above the set limit.
  - iii) Monitor and report any suspicious change in behaviour of a customer
  - iv) Knowing your customer (KYC)-banks should take steps to know their customers before opening accounts
  - v) Monitoring money transfers and look for coded messages when money is being transferred
  - vi) Banks can train their staff to fight money laundering.
  - vii) Supplementing traditional ways of anti money laundering with technology/ anti money laundering software.

**(5 marks)**

**(Total 15 marks)**

#### **QUESTION 4**

- (a) Students are required to discuss **any three** of the following functions of money.
- i) Medium of exchange
  - ii) Unit of account
  - iii) Standard of value for deferred payments
  - iv) Store of value

**(These functions must be explained in full since they will be included in the final chief examiners report)**

**(3 marks)**

- (b)
- i) Money supply is an aggregate of notes and coins in circulation and total bank deposits in an economy.
  - ii) Demand for money is the total quantity of money required or demanded

- iii) Inflation is defined as the growth of the money supply in an economy without a commensurate increase in the supply of goods and services. This results in a rise in general price level as measured against standard level of purchasing power.

**(2 marks)**

(c)

- (i) A term deposit or fixed deposit account is one where a fixed sum of money is deposited for a fixed period of time. During that period, the investment attracts a fixed rate of interest that is set at the time of opening the account.

The features are as follows:

- Funds only become available at maturity
- Interest is usually earned at a higher interest than on savings accounts.
- Interest is paid from the investment date until the day prior to maturity
- Interest not capitalized (not added to original amount)

A negotiable bank certificate of deposit is a debt sold by a bank to depositors that pays annual interest on a given amount at maturity and pays back the original purchase price.

The features are as follows:

- Can be sold at secondary money market at a negotiated rate
- At maturity the NCD is presented to the issuing bank for settlement of the maturing deposit plus interest.

- (ii) Higher interest rate.

A term deposit is a contract in which the interest rate applicable is never affected if interest rates decline until it reaches its maturity. This is compared to savings Account where interest would be adjusted automatically where interest rates are reduced.

(d)

- (i) Bank rate is the rate at which commercial banks borrow from the central bank. **(1 mark)**
- (ii) The LRR is the rate of deposits commercial banks are required to hold out of the total deposits they have received. **(1 mark)**
- (iii) When the bank rate is reduced, in most cases banks follow suit by reducing their lending rates. Your loan interest may be reduced if the interest rate on the loan is floating. **(1 mark)**
- (e)
- (i) A primary market is a market for fresh or brand new financial assets (securities) while a secondary market is for already issued or “second hand” financial assets (securities). **(2 marks)**
- (ii) A treasury bill can be regarded as a primary market security if it brand new and regarded as secondary market security if it was already issued but simply being transferred to another holder. **(1 mark)**

**(Total 15 marks)**

## **SECTION B (40 Marks)**

### **QUESTION 5**

- (a) Students to discuss the following functions of commercial banks:-
- (i) Accepting deposits
  - (ii) Providing credit or loans
  - (iii) Offering bank account facilities
  - (iv) Offering money transfer services
  - (v) Facilitating international trade through issue of letter of credit
  - (vi) Providing custodial safe for important documents and precious items
  - (vii) Providing trade financing
  - (viii) Providing facilities for payment of utility account payment services.

**(3 marks)**

(b) A financial asset is created whenever a claim arises due to a transfer of funds from a saver (investor) to a borrower (issuer of the claim). In this case the customer approaches the bank issuing a claim which the bank will hold. The customer is obliged to pay back the borrowed funds plus a price interest), while the bank has a claim giving it rights or access to future cash flows (interest and principal) **(2 marks)**

(c)

(i) Markets for securities with a short period of maturity and usually less than one year.

(ii) Market for securities with a longer period of maturity and usually beyond one year.

(iii) Markets brand new or fresh securities

(iv) Markets for already issued or secondhand securities

**(4 marks)**

(d)

(1) Capital gain- an increase in the price of your shares

(2) Dividends-a share in profits from the company that you are a part owner.

(3) You can also use your shares as collateral for obtaining credit facilities.

**(Any two of the above for 4 marks)**

**(Total 20 marks)**

## **QUESTION 6**

(a) The coordination between the open market operation and the discount rate policy is important. Suppose there is deflation, the open market operation requires the central bank to buy securities with the intention of increasing money supply. In this case the discount rate should complement the open market operation. The discount rate has to be reduced by the central bank and make it easier for the commercial bank to borrow from the reserves. However if the central bank increases the

discount rate while promoting expansionary open market operations, this would create a conflict of interests.

**(4 marks)**

- (b) As financial intermediaries banks bring savers and borrowers together. For instance, those customers with excess funds deposit the funds in various bank accounts in a bank while as those who are in need of funds to borrow approach the bank for a loan. The bank uses the deposits funds to lend.

**(2 marks)**

(c)

- (i) Students to mention any two of the following advantages of a savings account:

- Savings account earns interest for the account holder.
- Offers a safe way of keeping money
- It helps the holder of the account to have some money in case of emergency and prepare for retirement.

**(2 marks)**

- (ii) Advantages of Fixed Deposits are:-

- The account earns high interest
- The customer has a chance to plan as one knows exactly when the deposit matures.

**(2 marks)**

- (iii) Advantages of Foreign Currency Denominated Account (FCDA) are:-

- Provides a mechanism for individuals and business to maintain an account in foreign currency, which they can later use for making foreign currency payments.
- Also provides a mechanism for channeling foreign currency in the mainstream economy.

**(2 marks)**

- (d) Students to mention **any two** of the following:-

- (i) Helps account holder to maintain detailed information of financial transactions
- (ii) Helps in reconciliation of account transactions
- (iii) It helps account holder to keep track of expenditures
- (iv) Helps account holders avoid overspending

**(2 marks)**

- (e)
- (ii) Suspicion of fraud
- (iii) Following a court order

**(2 marks)**

- (f) Financial institutions play transfer surplus funds from savers to deficient activities in the economy. This process of financial intermediation is crucial to any economy; hence the need to regulate them rigorously to ensure this process is efficient. Financial institutions also act as a conduit for government monetary policy, without financial institutions government would find it difficult to influence the economy through monetary policy.

**(4 marks)**

**(Total 20 marks)**

## **QUESTION 7**

- (a) RBM can reduce inflation by raising the bank rate which is followed by commercial banks raising their lending rates and savings rates. High lending rates will discourage borrowing, whereas high savings rates will encourage saving. Both have the effect of reducing excess money supply which subsequently reduces the inflation rate as less people spend. A reverse process of reducing bank rate will make borrowing cheaper and more inventors would be more willing to take new projects thereby stimulating the economy and controlling deflation.

**(4 marks)**

- (b) Uncontrolled money supply causes instability of prices of goods and services in an economy. Excessive money supply is inflationary while excessive contraction of money stifles economic activity.
- (c)
  - (1) To ensure that all banks are keeping adequate information on their clients aimed at the concept of know your customer (KYC).
  - (2) To maintain standard uniform for customers.
  - (3) To assist banks on issues relating to the fight against money laundering.
- (d) Circumstances for terminating bank/customer:
  - (i) Where the branch of the bank at which the account is conducted has written notification, that the customer wishes to end the contract
  - (ii) Where the bank has received notice of death of customer
  - (iii) Where the bank has received notice of customers mental incapacity
  - (iv) As soon as customer is sequestrated or liquidated
  - (v) Where there is a court order
  - (vi) Where the bank has knowledge of a defect in contract

***(Any 4 of the above for 4 marks)***

- (e) Reasons why people hold money

- (i) **Transactional Motive**

People hold money for use in day to day transactions such as buying groceries, food and other necessities.

- (ii) **Precautionary Motive**

People hold money to protect themselves against unknown future eventualities or emergencies.

(iii) **Speculative Motive**

Money can be used to speculate and then some can gain as prices of other assets fluctuate. In this way one may hold money for purpose of gaining from the market inefficiencies and imperfections

**(Any 2 for 2 marks)**

(f) Credit creation can lead to high inflation if it is not properly controlled. When banks are offering credit willy-nilly the result is that too much money becomes available to chase only a few goods, thereby driving the price of the goods and services up (inflation).

**(6 marks)**

**(Total 20 marks)**

**3.4 CHIEF SUBJECT EXAMINER'S REPORT FOR  
INTRODUCTION TO BUSINESS COMMUNICATION  
(IOBM-C105)**

**CERTIFICATE IN BANKING EXAMINATION**

**OCTOBER 2007**

### **3.4.1 GENERAL COMMENTS**

This report is on the maiden paper for the Certificate in Banking Professional Examinations for the Institute of Bankers in Malawi. In general, the performance of the candidates in the Business Communication Paper was above average. Out of the 87 candidates, 65 passed representing a 74.7% pass rate. The highest candidate scored 92% while the lowest got 24%.

It appears most of the candidates were bankers; hence they understood the context of the questions and gave responses which reflected on the realities in the banking sector.

In section A, which was compulsory, most candidates had problems with Question 1 on report writing. The candidates were unable to use a proper report structure and to clarify the points provided. However, most of the candidates wrote a clear letter in Question 2. On the hand, almost all the candidates did not know that questions 3 required an essay. The candidates presented the ideas in point form although the question said "Discuss." Nevertheless, most of the candidates had the facts to answer the questions.

In Section B, where the candidates had to choose two questions out of four, the questions on oral communication were the least popular and out of the three candidates who attempted it, two got very low marks. One would think that apart from studying the topic in the course, such communication might not be common among bankers.

On the whole, candidates made language errors in the questions which required them to respond in prose.

### **3.4.2 COMMENTS ON INDIVIDUAL QUESTIONS**

#### **QUESTIONS 1**

This was among the compulsory questions; surprisingly one of the candidates did not attempt it. However the candidate was good such that in the other questions

he/she scored very high marks. Most candidates had problems in answering both parts of the question.

In part (a) all the candidates merely gave the examples of the situations which require reports without specifying the importance, of the reports as required in the question.

In part (b) where the candidates were required to write a short formal report, the reports had a number of problems, some of them are the following:

- i. Most candidates did not present the report according to the five parts of a report.
- ii. Some candidates combined the findings and recommendation in one section under findings.
- iii. Most candidates did not expand the points provided and did not add their own points as required.
- iv. Some candidates repeated the findings in the recommendations section.

In short, the candidates' responses showed that they were weak in report writing.

## **QUESTION 2**

The question on letter writing was well done by most candidates. The letter which was being written to a customer who defaulted payment was understood by almost all the candidates. As such, they created the necessary facts to make the letter clear and somehow realistic. However most candidates made a number of language errors in their letter. In part (a) some of the candidates did not know the advantages and disadvantages of letters – therefore, they merely guessed the answers.

## **QUESTION 3**

This was a question on the contribution of ICT to the banking sector. Most of the candidates had the facts to answer the question but the points were not properly presented. Instead of discussing the developments in an essay, candidates used subheadings to present ideas. The candidates were expected to write an essay in which the topic would have been introduced, discussed and concluded.

#### **QUESTION 4**

The question on organization communication was the most popular in section B. Almost all the candidates attempted it and most of them had the correct facts. Inevitably, the candidates scored high marks in this question.

#### **QUESTION 5**

The question which combined meetings and visual communication was unpopular. Some of those who attempted the question did not have the correct facts. For instance in part (a) on preparations for a meeting some candidates wrote an agenda. While in part (b) most of the candidates did not describe the visual aids clearly.

#### **QUESTION 6**

The question on non-verbal communication and effective use of the telephone was fairly popular among the candidates. Part (a) on non-verbal communication was well done by most of the candidates. However in the memorandum on the effective use of the telephone almost all the candidates left out on how to make calls. They merely dwelt on how to handle calls from customers.

#### **QUESTION 7**

The question on oral presentations was the least popular and only three candidates attempted it. From the responses and unpopularity it is not clear whether the candidates did not have the necessary content or that they did not understand the question itself.

### **3.4.3 OVERALL ASSESSMENT AND RECOMMENDATIONS**

The Chief Examiner would recommend that:-

- i. In a question requiring a report, the question should outline parts of the report.

- ii. When the candidates are required to write an essay – the word essay should be mentioned in the question.

**CHIEF SUBJECT EXAMINER**

### 3.4.4 THE EXAMINATION PAPER



**INSTITUTE OF BANKERS IN MALAWI**

## **CERTIFICATE IN BANKING EXAMINATION**

**SUBJECT: INTRODUCTION BUSINESS COMMUNICATION  
(IOBM-C105)**

**DATE: Monday 8<sup>th</sup> October 2007**

**Time Allocated: 3 hours (13:30 – 16:30 pm)**

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### **INSTRUCTIONS TO CANDIDATES**

- 1 Read the instructions on the cover of the answer book.
- 2 This paper consists of **TWO** Sections, A and B.
- 3 Section A consists of 3 questions, each question carries 20 marks.  
Answer **ALL** questions.
- 4 Section B consists of 4 questions, each question carries 20 marks.  
Answer any **TWO** questions.
- 5 **DO NOT** open this question paper until instructed to do so.

## SECTION A: (60 Marks)

Answer ALL questions in this section.

### QUESTION: 1

- (a) Using an example, explain the importance of reports in a bank. **(5 marks)**
- (b) As part of a customer care programme, you were requested to investigate the quality of service at the bank where you are working. In your investigations you discovered that:
- The system in the bank is often offline due to frequent blackouts;
  - Customers wait for a long time for new cheque books;
  - Head Office takes long to process loan applications;

Add others on your own.

### Required:

Write a report to the branch manager and make necessary recommendations. **(15 marks)**

**(Total 20 marks)**

### QUESTION: 2

- (a) Give any **three** advantages and **two** disadvantages of writing letters to customers. **(5 marks)**
- (b) Imagine that a customer who got a loan from a bank where you are working has defaulted payment. On checking his account you discover

that the customer withdrew the whole salary before the deductions were made contrary to the terms of the loan.

**Required:**

Write an appropriate letter to the customer. . **(15 marks)**

**(Total 20 marks)**

**QUESTION: 3**

Discuss how the developments in Information Communications Technology (ICT) have contributed to customer service in the banking sector. **(20 marks)**

**(Total 20 marks)**

**SECTION B: (40 Marks)**

Answer any TWO questions from this section.

**QUESTION 4**

(a) Using **two** relevant examples in a bank set up, explain the meaning of each of the following:

i) Downward communication.

ii) Upward communication. **(10 marks)**

(b) Explain how any **two** barriers can affect the communication between a banker and a customer. **(4 marks)**

(c) Suggest how to minimise the effect of each of the barriers in (b) above in order to improve communication. **(6 Marks)**

**(Total 20 marks)**

**QUESTION: 5**

- (a) Explain how a branch manager could prepare for a meeting to ensure its effectiveness. **(10 marks)**
- (b) Describe any **four** visual aids which a bank manager could use when making an oral presentation. **(10 marks)**

**(Total 20 marks)**

**QUESTION: 6**

- (a) Using **three** examples explain how a banker can use nonverbal communication to improve communication with customers. **(10 marks)**
- (b) On behalf of the branch manager of the bank where you are working, draft a memorandum to remind your colleagues who frequently communicate with customers on the phone on how to use the phone effectively.

**(10 marks)**

**(Total 20 marks)**

**QUESTION: 7**

You have been nominated to make a presentation on behalf of your department at the end of an annual strategic planning session. Outline how you would ensure that you carry out the task successfully in the preparation and delivery of the speech. **(20 marks)**

**(Total 20 marks)**

**END OF THE EXAMINATION PAPER**

### **3.4.5 REQUIRED ANSWERS**

## **MODEL ANSWERS**

### **INTRODUCTION TO BUSINESS COMMUNICATION (IOBM-C105) EXAMINATIONS**

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**SECTION A (60 MARKS)**

**QUESTION 1**

- (a) Candidates are expected to give the importance of reports e.g.
- i) Reports provide a permanent record and a source of reference
  - ii) Reports assist management in decision making
  - iii) Reports are used to provide information to interested parties like shareholders, customers and so on.

The candidates should also provide an example like “financial reports”.

**(5 marks)**

- (b) The candidates are required to write a report

Introduction

Give who requested the report and the purpose

Methods

Indicate the sources of information

Findings

The candidates are required to expand the points given to make them clear

The candidates should provide other points

**(5 marks)**

Conclusion	<b>(2 marks)</b>
Recommendation	<b>(3 marks)</b>
Language	<b>(5 marks)</b>

**(Total 20 marks)**

## **QUESTION 2**

### **Advantages**

- (a)
- (i) Letters can be sent to a number of customers at once **(2 marks)**
  - ii) Provides a reference in future **(2 marks)**
  - iii) The writer has time to plan and write the letter **(2 marks)**
  - iv) The receiver can read the letter at a convenient time **(2 marks)**

**(Any three of the above)**

### **Disadvantages**

- i) There is no immediate feed back
- ii) The information can be misunderstood

**(Accept any other logical answers)**

**(1 mark each)**

- (b) Candidates are required to write a letter

Format **(2 marks)**

Content **(5 marks)**

Language **(3 marks)**

**(Total 20 marks)**

### QUESTION 3

Candidates are expected to use examples to explain the services rendered to a customer e.g.

- a. Auto teller machines
- b. Access to ones account
- c. Websites
- d. Internet banking

Content **(15 marks)**

Language **(5 marks)**

**(Total 20 marks)**

### SECTION B (40 MARKS)

#### QUESTION 4

- (a)
  - (i) Downward messages are sent from the branch manager and supervisors to those below e.g. instructions, procedures and policies.
  - (ii) Upward communication are messages from those below to middle managers and top management e.g. reports on work done, requests suggestions **(10 marks)**
- (b) Candidates are expected to give any two barriers to communication and explain how each affects communication and how to minimize the effect. **(4 marks)**

(c) Students' suggested answers

**(6 marks)**

**(Total 20 marks)**

### **QUESTION 5**

(a) Candidates should say how a manager could prepare for the meeting e.g.

- Preparation of the agenda items
- Understanding the purpose of the meeting
- Identifying the participants
- Sending the notice and the agenda to the participants
- Ensuring that all the necessary documents for the meeting are prepared

**(Any four points 2 marks each)**

Language

**(2 marks)**

### **(b) Visual Communication**

- Slides
- Video
- OHP
- Handouts
- Power Point
- Flip Chart
- Props & demonstration

## QUESTION 6

- (a) Candidates can use any three non verbal signals e.g. dressing, tone of voice, eye contact, facial expression and so on and explain how each of them could be used positively to enhance communication

**(10 marks)**

- (b) Memo format

**(2 marks)**

Content

.....

Making calls

.....

Receiving calls

**(5 marks)**

Language

**(3 marks)**

**(Total 20 marks)**

## QUESTION 7

This question is really about preparing a speech and presenting it. Success in carrying out this process does not come with luck. It is about following some logical steps to ensure that the presentation has effect and impact at the end of the day.

**The steps to follow include;**

- Planning
- Writing
- Delivery

### **Planning for the speech**

It is important in the process of planning a speech to consider the following:

- The occasion

- The audience
- Purpose of the speech

### **The occasion**

This will have a bearing on the content of the speech. It will also dictate the duration of the speech, the tone and the expectations of the audience. Consider whether humor is appropriate or whether the speech should be kept strictly business like.

### **The Audience**

Consideration should be given to the audience in terms of familiarity or lack of the same. In this case you should make use of first names as the audience you would be familiar with the audience.

### **The purpose of your speech**

Set clear goals right from the planning phase to get the necessary effect from the opening progressing to the end of the speech.

### **Writing the speech**

The speech should have a proper format. It must have the opening, the middle and the closing.

### **The opening**

The first few seconds are important and as a presenter you must grab the attention of the audience and engage its interest in what you intend to talk about. An example of grabbing the attention of the audience could be through asking a thought provoking question.

### **The middle**

This will be the largest part of the speech having quickly dealt with the opening. Organize the points so that they flow logically into each other. Depending on the seriousness of the presentation a few jokes here and there while pausing for effect would be helpful.

Consider covering fewer points thoroughly well and not overloading the speech with many points that are badly covered.

### **The closing**

The closing should focus on one of the strongest points. You should also consider the following as an opportunity to:

- Summarize the main points of one's speech
- Consider providing some food for thought for the listeners
- Leave the audience with positive memories of your speech
- You may have to choose the final thought or emotion

### **Delivering the speech**

The following will be considered:

- Scripts, notes or memory
- Reading from a script
- Using notes
- Reciting from memory

### **General considerations may include:**

- Being presentable
- Speaking clearly and audibly
- Speak calmly
- Make eye contact
- Avoid mannerisms
- Be oneself allowing one's personality to come through **(Total 20 marks)**

**3.5 CHIEF SUBJECT EXAMINER'S REPORT FOR  
INTRODUCTION TO ECONOMICS (IOBM-  
C106)**

**CERTIFICATE IN BANKING EXAMINATION**

**OCTOBER 2007**

### **3.5.1 GENERAL COMMENTS**

This Report highlights the pre-examination activities and provides an analysis of the results from the marking process before providing some recommendations.

The examination was scheduled for and took place on 7<sup>th</sup> October 2007. Ten candidates sat for the examination. One candidate only put down the Reg. No., without even writing a word thereafter on the answer sheets; not even question numbers were indicated as questions that would have been preferred. In this regard the candidate has only been awarded an aggregate mark of zero, without assigning any individual question scores.

### **3.5.2 COMMENTS ON INDIVIDUAL QUESTIONS**

The rest of this Section presents an analysis of performance by subject and the aggregate outcome.

## **SECTION A**

### **QUESTION 1**

This question was on the concept of utility and its application to commodity demand, which is based on Topic 12 (a) of the *Syllabus*. This was the worst answered question. Marks had a range of 0 – 6.5, with an average mark of 3.39. Those that salvaged some marks answered part (a) and part (b) (i). Candidates failed massively on how:- (1) to find total maximum utility; (2) to compute total expenditure of utility maximizing consumption bundle; and (3) to perform simple comparative analysis regarding the consequence of an increase in the price of one commodity.

#### **Proposal:**

The concept of utility is the basis for consumer theory and at this level, the instructor should ensure that this is well understood by students. Some candidates were confusing this with the theory of marginal productivity. There is need for a feedback if:- (1) the other parts of the question were beyond the

candidates' scope; and/or (2) the question was too long for the available time. This proposal is applicable to all questions.

## **QUESTION 2**

This question was based on market structure, which is the subject matter of Topic 12(b) of the *Syllabus*. This was a fairly easy question but was badly handled with a range of mark of 1.5 – 8.5. Although part (a) of the question wanted a comparative report on the definitions of perfect competition and imperfect competition, candidates couldn't even define either market structure alone. Part (b) of the question sought the candidates' knowledge of variable costs, fixed costs and the average concept of any type of cost. The candidates' couldn't evaluate the direction of change in these types of cost with respect to changes in output, thereby suggesting that they were not properly knowledgeable on this very elementary aspect (as covered at pages 35 – 37 of the *Manual*).

## **QUESTION 3**

The substantive part of this question was based also on Topic 12(b) of the *Syllabus*. Parts (b) (i) and (ii) were based on material covered at pages 40- 45, of the *Manual*, which is on profit maximization. On average, this was fairly answered. Almost all candidates lost marks on Part (b) (iii), which was on the U-shape of the long-run average cost curve, as covered and explained quite clearly at pages 51 – 53 of the *Manual* in terms of returns to scale and economies or diseconomies of scale. This part of the question only asked candidates to describe and explain the shape of the curve and not to apply it to profit maximization solution, as answers indicate.

## **SECTION B**

### **QUESTION 4**

This was the most popularly tackled question in Section B as only one candidate opted against it. Further, four candidates scored above 50% of the total marks for the question. The trouble for them was in Part (b), which revealed itself in two

ways. First, most candidates used the loanable funds theory to answer this part as an explanation for the effects of a fall in the Bank Rate, when the question clearly guided them to answer as follows: “With the aid of the aggregate demand-supply framework, explain ways in which such a policy decision would stimulate economic activity in Malawi.” Therefore, the second aspect of the trouble was that the candidates missed to map out the transmission mechanism of monetary policy, which is stated “as 3-step process” at pages 96 – 97 of the *Manual*. Even where a diagram was used, candidates failed to label the axes properly.

As one of two ways a government may finance a fiscal deficit, some candidates mentioned increased tax rates. This is not true. A deficit in one accounting year cannot be financed by increased taxation in the same year or in the next year. Financing means borrowing in various ways or from different sources. Nonetheless, full marks were awarded for mentioning increased tax revenue as an answer. In future this shouldn't arise again. If my reading of it serves me well, the *Manual* does not seem to fall into this trap (see pages 89 – 95).

## QUESTION 5

Six candidates answered this question and two of them earned the highest marks than in any other question; in fact a candidate (Number 12) scooped all the 20 marks! Amazingly, the answer was to the letter and one couldn't resist suspecting foul play. However, the question was one of the simplest as it was a collection of some quite familiar financial and monetary concepts and issues. Those that didn't do well in this question missed out in Part (c) (i) to interpret the negative phenomenon between the interest rate and the price of securities.

## QUESTION 6

This question was mainly on exchange rate economics and only two candidates answered it with the lower of 1 point and the higher of 9 points. This is a rather difficult subject and this may explain the high rate of evasion to tackle it or that it was covered only partially during preparations. Except for Part (a) (ii), the answers are provided in the *Manual* as follows: Part (a) (i) at pages 153 – 154; (b) (i) at page 145; and (b) (ii) at pages 144 – 145. Part (b) (ii) asked for disadvantages of floating exchange rates. Although the *Manual* covers the

advantages (page 151-152), disadvantages are treated in it as being synonymous with the advantages of fixed exchange rates (page 152). It is the view of the examiner that this is not so explicitly implied in the **Manual**.

## **QUESTION 7**

This question had two parts; one, on the concept of the real interest rate and the other part on the Philips Curve. Only two candidates attempted to answer the question. The candidate who performed better lost all the marks on Part (a) (i), because the candidate failed to define the real interest rate and then to apply it to calculations. The other candidate who had a poorer grade also didn't get it right. However, the definition and the theoretical procedure are laid out clearly at pages 83 – 84 of the **Manual**. Unlike the latter candidate, the former candidate had a satisfactory grasp of the other elements of the question.

### **3.5.3 OVERALL ASSESSMENT AND RECOMMENDATIONS**

The overall performance was regrettably rather unsatisfactory. Only one candidate exceeded the 50% rate at 55% and the next best had 44%. Nonetheless, this is left as a policy matter for the Board. There seems to be room for improvement as the majority of candidates scored in the 30's, which also happen to be the mean of 31.8 or 35.33 with or without the zero-score candidate, respectively.

#### **Recommendations**

The examiners sought to stick to the *Syllabus* and the **Manual** and had no clue of how the course work had been conducted and managed. Of course the **Manual** is supposed to provide bare-bone indications, while the meat should be from suggested textbooks, especially the Lipsey text. The advantage with this text is that it starts from elementary level and builds to intermediate level. However, it needs a carefully targeted approach to suit the former level and may be difficult to follow for that matter. Some better introductory texts may be recommended. One of these is: Robin Bade and Michael Parkin, **Foundations of Economics** [Pearson Education, Inc., publishing as Pearson Addison Wesley (latest edition)].

If a soft cover can be accessed, this would greatly ease reading and presentation of introductory material.

**CHIEF SUBJECT EXAMINER**

### 3.5.4. THE EXAMINATION PAPER



## INSTITUTE OF BANKERS IN MALAWI

### CERTIFICATE IN BANKING EXAMINATION

**SUBJECT: INTRODUCTION TO ECONOMICS (IOBM-C106)**

**DATE: Sunday 7<sup>th</sup> October 2007**

**Time Allocated: 3 hours (13:30 to 16:30 pm)**

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#### INSTRUCTIONS TO CANDIDATES

- 1 Read the instructions on the cover of the answer book.
- 2 This paper contains **TWO** Sections, A and B.
- 3 Section A consists of 3 questions. Answer **ALL** questions.
- 4 Section B consists of 4 questions. Answer any **TWO** questions. All parts of a question chosen to be answered should be attempted.
- 5 Each question carries a maximum of 20 marks.
- 5 Ensure that your illustrations, graphs, diagrams, tables and calculations are clearly presented.
- 5 **DO NOT** open this question paper until instructed to do so.

## SECTION A (60 marks)

Answer any ALL questions only from this section

### QUESTION: 1

(a) Define the law of diminishing marginal utility? **(2 marks)**

(a) You are given the following schedules indicating marginal utility (MU), price (P) and quantities demanded for products X and Y.

MU <sub>x</sub>	MUX/P <sub>x</sub>	X	MU <sub>y</sub>	MU <sub>y</sub> /P <sub>y</sub>	Y
80	40	1	68	17	1
52	26	2	32	8	2
20	10	3	28	7	3
16	8	4	24	6	4
8	4	5	20	5	5

(i) Determine the price for each product, X and Y. **(4 marks)**

(ii) What is the total utility attained by the individual from consuming products X and Y at equilibrium? **(6 marks)**

(iii) How much money should an individual have at the equilibrium point? **(4 marks)**

(iv) If the price of product Y decreases by K1, compute the new consumption equilibrium point. **(4 marks)**

**QUESTION: 2**

- (a) Explain five differences between perfect competition and imperfect competition. **(10 marks)**
- (b) **Explain how the following costs of production will** change if output increased.
- (i) Variable costs
  - (ii) Average fixed costs
  - (iii) Total fixed costs **(10 marks)**

**QUESTION: 3**

- (a) Define the term “factors of production”. **(4 marks)**
- (b) The following table shows the daily output, price and costs of a small scale bakery.

<b>Output produced)</b>	<b>(Scones</b>	<b>Price per Scone (K)</b>	<b>Total costs ( K)</b>
0		8.00	3.00
1		7.50	6.00
2		7.00	8.50
3		6.50	10.50
4		6.00	11.50
5		5.50	13.50
6		5.00	16.00
7		4.50	19.00
8		4.00	24.00

- (i) Calculate the bakery’s total revenue and total profits at each level of output. **(4 marks)**

- (ii) What is the total profit maximization level of output? **(2 marks)**
- (iii) Explain the U-shape of the long run average cost curve. **(10 marks)**

**SECTION B (40 marks)**

**Answer any TWO questions from this section.**

**QUESTION: 4**

- (a) List five characteristics of money. **(5 marks)**
- (b) The Reserve Bank of Malawi (RBM) recently reduced the Bank rate from 20% to 17.5%. With the aid of the aggregate demand-supply framework, explain ways in which such a policy decision would stimulate economic activity in Malawi. **(10 marks)**
- (c) Suppose the Malawi Government is running a fiscal deficit, explain two ways in which the Government could finance such as deficit. **(5 marks)**

**QUESTION: 5**

- (a) Explain the difference between money market and capital market. **(2 marks)**
- (b) Mention one example of a money market and one example of a capital market in Malawi. **(2 marks)**
- (c) The table below shows data on the rate of interest on Government Treasury Bills (TBs) and the price of shares on the Malawi Stock Exchange for the past five months.

<b>Month</b>	<b>TB Rate</b>	<b>Price of shares</b>
May 2007	21.91	5.60
June 2007	20.83	8.40
July 2007	19.06	10.30
August 2007	18.44	12.50
Sept 2007	17.11	15.20

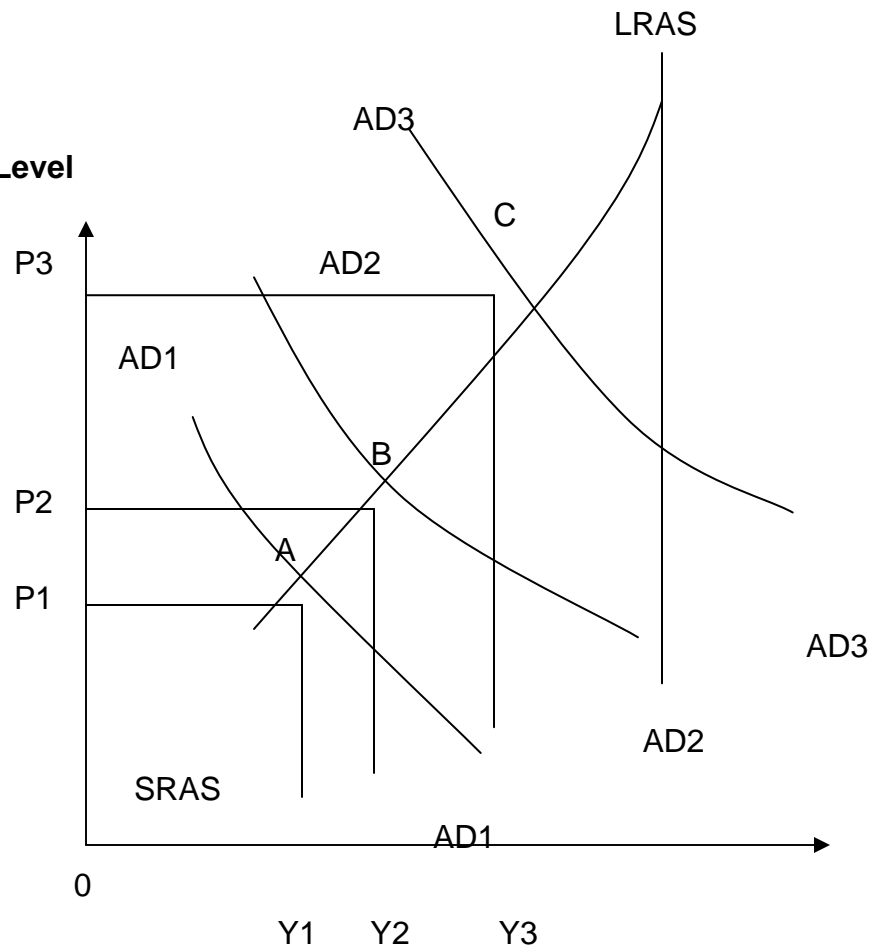
- (i) Comment on the relationship between the TB Rate and the price of shares for the past five months. **(4 marks)**
- (ii) Suggest one reason why the TB Rate could be declining. **(2 marks)**
- (d) Explain two ways in which the Reserve Bank of Malawi conducts its monetary policy. **(10 marks)**

**QUESTION: 6**

- (a) (i) Explain four factors that tend to influence exchange rates. **(5 marks)**
- (ii) State disadvantages of floating exchange rates. **(5 marks)**

FIG 1

General Price Level



Real National Income

- (b) The figure above shows shifts of aggregate demand and shifts of the supply curve for goods and services in the Malawi.

LRAS: Stands for long run aggregate supply

SRAS: Stands for short run aggregate supply

P1 to P3: Shows price at different levels

AD1 to AD3: Shows shifts of aggregate demand

Using the graph answer the following questions:

- i) Explain how depreciation of the exchange rate for the Malawi Kwacha would contribute to the shift of aggregate demand for AD2 to AD3.  
**(5 marks)**
- ii) Explain how reduction in direct or indirect taxes will also contribute in shift of aggregate demand from AD1 to AD3.  
**(5 marks)**

**QUESTION: 7**

- (a) Nanyoni deposited K200,000 in a two-months fixed deposit account at Nyasa Bank Limited. The nominal interest rate for such accounts at *Nyasa Bank* is at 9% per annum. During the period of this investment, the rate of inflation is projected at 7% per annum. Take each month to have 30 days.
- i) Calculate the real interest earned by the investor on her investment.  
**(6 marks)**
- ii) Give two reasons why you think investors like Nanyoni demand to be paid interest on their investments.  
**(4 marks)**
- (b) How does the Phillips Curve attempt to explain the relationship between inflation and unemployment.  
**(10 marks)**

**END OF THE EXAMINATION PAPER**

**3.5.5 REQUIRED ANSWERS**

**MODEL ANSWERS FOR**

**INTRODUCTION TO ECONOMICS (IOBM-C106)  
EXAMINATIONS**

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**SECTION A (60 marks)**

**QUESTION: 1**

(a) The Law of Diminishing Marginal Utility states that, all other things being equal, the additional satisfaction derived from consuming additional units of a commodity will diminish with each successive unit consumed. Total utility will continue to rise as each successive unit is consumed, but at a decreasing pace. **(2 marks)**

(b) (i) From the table, considering first line, it is observed that:

$$\begin{aligned} & \text{MU}_x = 80 \text{ and } \text{MU}_x/\text{P}_x = 40 \\ \text{Therefore } & \text{P}_x = \frac{80}{40} = 2 \end{aligned}$$

**(2 marks)**

In fact for all lines, the price of goods x is constant i.e. 2

Similarly for  $\text{MU}_y = 68$ , and  $\text{MU}_y/\text{P}_y = 17$

Therefore  $\text{P}_y = \frac{68}{17} = 4$

$$17 = 4$$

**(2 mark)**

Again for all lines, the price of goods y is constant i.e. 4

(ii) An individual will attain utility maximizing equilibrium where the marginal utility derived from the last tambala spent is the same for X and Y. i.e.

$$\text{Where } \frac{\text{MU}_x}{\text{P}_x} = \frac{\text{MU}_y}{\text{P}_y}$$

$$\text{This is attained when } \frac{\text{MU}_x}{\text{P}_x} = \frac{\text{MU}_y}{\text{P}_y} = 8$$

For product x,  $\frac{MU_x}{P_x} = 8$ , when 4 units of x are consumed

For product y,  $\frac{MU_y}{P_y} = 8$ , when 2 units of y are consumed

Therefore, total utility (TU<sub>x</sub>) when 4 units of x are consumed is:

$$80 + 52 + 20 + 16 = 168 \text{ utils and}$$

Total utility (TU<sub>y</sub>) when 2 units of y are consumed is:

$$68 + 32 = 100 \text{ utils}$$

$$\text{Therefore } TU_{xy} = 168 + 100 = 268 \text{ Utils}$$

**(6 marks)**

(iii) Since it is assumed that at the equilibrium point the consumer spends all the money, then the total amount of money is calculated as follows:

For product x :  $P_x Q_x = 2 \times 4 = 8$  and

For product y :  $P_y Q_y = 4 \times 2 = 8$

Hence the total income is  $P_x Q_x + P_y Q_y$

$$= 8 + 8$$

$$= 16$$

**(4 marks)**

(iv) If the price of product y decreases by K1, then:

MU <sub>x</sub>	$\frac{MU_x}{P_x}$	Q <sub>xy</sub>	MU <sub>y</sub>	$\frac{MU_y}{P_y}$	$\frac{MU_y}{P_y - 1}$
80	40	1	68	17	22.7
52	26	2	32	8	10.7
20	10	3	28	7	9.3
16	8	4	24	6	8
8	4	5	20	5	6.7

From the calculation in (i) above,  $P_y = 4$ . Therefore  $P_y - 1 = 4 - 1 = 3$

$$\begin{aligned} \text{In equilibrium} \quad \frac{MU_x}{P_x} &= \frac{MU_y}{P_y - 1} \\ &= \frac{MU_x}{P_x} = \frac{MU_y}{P_y - 1} ; \text{ this is attained} \end{aligned}$$

When 4 units of x and 4 units of y are consumed.

**(4 marks)**

**(Total 20 marks)**

## QUESTION: 2

(a) Five differences between perfect competition and imperfect competition can be explained as follows:-

(i) Number of producers/sellers - In perfect competition, there are many producers/sellers whereas in imperfect competition there may be one producer or few producers or large numbers of producers but with differentiated products.

**(2 marks)**

(ii) Degree of influence or control in market price – in perfect competition, firms cannot influence the ruling price, in imperfect competition, producers /sellers have significant control over market prices.

**(2 marks)**

(iii) Degree of product differentiation – in perfect competition products are homogeneous while in imperfect competition, they are heterogeneous.

**(2 marks)**

(iv) Barriers to entry and exit – in perfect competition, there is free entry and exit of firms into and out of the industry, while in imperfect competition, there are barriers to entry and exit.

**(2 marks)**

- (iv) Information gathering - in perfect competition, there are no costs of information gathering whereas in imperfect competition, they exist.

**(2 marks)**

2 If output is increased

- (i) Variable costs will also increase because these costs vary with output.
- (ii) Average fixed costs will fall continuously because total fixed costs are spread over a higher level of output.
- (iii) Total fixed costs will remain constant.

**(10 marks)**

**(Total 20 marks)**

**QUESTION: 3**

- (a) The term factors of production refer to all those resources which may be used as inputs to the process of producing goods or services.

Most common examples of factors of production are land, labour and capital.

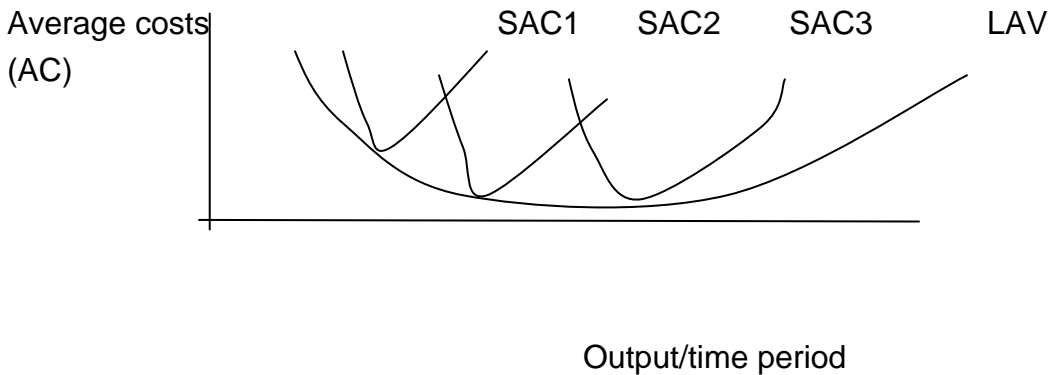
**(4 marks)**

(b)

Output	Price per Scone (K)	Total Costs (K)	Output X Price Total Revenue (K)	Total Rev – Total Cost Total Profits ( K)
0	8.00	3.00	0	- 3.00
1	7.50	6.00	7.50	1.50
2	7.00	8.50	14.00	5.50
3	6.50	10.50	19.50	9.00
4	6.00	11.50	24.00	12.50
5	5.50	13.50	27.50	14.00
6	5.00	16.00	30.00	14.00
7	4.50	19.00	31.50	12.50
8	4.00	24.00	32.00	8.00

**(4 marks)**

- (ii) The profit maximizing level of output is 5 or 6 units. **(2 marks)**
- (i) The U shape in the long run average cost curve is explained with economies of scale, constant returns to scale and diseconomies of scale. When a firm is experiencing economies of scale, the long run average cost curve slopes downward – an increase in scale and production, leads to a fall in unit costs. When the firm is experiencing constant returns to scale, the long run average cost curve is at its minimum, such that an increase in scale and production does not change unit costs. When the firm is experiencing diseconomies of scale, the long run average cost curve slopes upwards – an increase in scale and production increases unit costs. The U shape in the long run can be illustrated as follows:-



SAC – Short Run Average Cost

LAN – Long Run Average Cost

**(10 marks)**

**(Total 20 marks)**

**SECTION B: (40 marks)**

**QUESTION: 4**

- (a) The following are the five characteristics of money:

- (i) Money must be widely accepted **(1 mark)**

- (ii) It should be durable **(1 mark)**
- (iii) It must be difficult to imitate **(1 mark)**
- (iv) It must be portable **(1 mark)**
- (v) It must be divisible into small units **(1 mark)**

(b) Since the bank rate represents the cost price of borrowing from the Reserve Bank of Malawi by Commercial banks, a reduction in the bank rate would result in commercial banks reducing their lending rates to households and firms. This would in turn result in increased credit extension by banks, part of which would be used for investment by households/ firms which would lead to an increase in national income – thereby stimulating economic activity. **(10 marks)**

(c) Two ways in which the Government can finance a fiscal deficit are:-

- (i) By borrowing from domestic banks – the government, through the Reserve Bank of Malawi may issue TBs with an aim of raising money. Excessive government borrowing from domestic banks though crowds out private sector investment. **(2 1/2 marks)**
- (ii) By printing money – also known as debt monetization. The Government may through the RBM print additional money to repay its debts. This course, though is inflationary. **(2 1/2 marks)**

Hint other ways: by increasing tax base and borrowing from abroad.

**(Total 20 marks)**

### **QUESTION: 5**

- (a) Money market refers to a market where short term securities such as treasury bills are traded (bought and/ or sold). On the other hand, capital market refers to a market where long term securities such as shares are traded. **(2 marks)**

- (b) One example of a money market in Malawi is Continental Discount House. One example of a capital market is the Malawi Stock Exchange.

**(2 marks)**

(c)

- (i) From the data given, the pattern is that as the rate of TBs continues to decline, the price of shares on the stock exchange goes up. This is because the lower yield on TBs makes investors shift to shares which have a high return in form of dividends though in the long run. The increase in prices of shares is a direct result of the increase in demand for shares by investors who are no longer willing / motivated to invest in low yielding TBs.

**(4 marks)**

- (ii) One possible reason why the TB rate can be declining is due to reduction in Government borrowing from domestic banks.

**(2 marks)**

- (d) Two ways in which the Reserve Bank of Malawi conducts monetary policy are:-

- (i) Through open market operations – here the RBM controls the amount of money in circulation by selling or buying treasury bills. If the level of money supply is high, the RBM will sell TBs thereby reducing money supply while it would buy TBs if the level of money supply was low. Therefore, if the RBM intends to implement a contractionary monetary policy, it will sell TBs while if it wants to implement an expansionary monetary policy it will buy TBs from the market.

**(5 marks)**

- (ii) Through adjustment of the bank rate – by reducing or increasing the rate at which commercial banks borrow from the Reserve Bank of Malawi, the RBM controls money supply i.e. an expansionary monetary policy would be implemented by reducing the Bank rate, while a contractionary monetary policy would be implemented by increasing the bank rate.

**(5 marks)**

Hint:- Other ways: Adjustment of liquidity reserve requirement (LRR), discount window facility, Moral suasion.

**(Total 20 marks)**

**QUESTION: 6**

(a)

(i) Tariffs placed on the value of imports make these imports to be less competitive on the local market due to high prices. This will therefore give an advantage to locally produced products in a country in terms of prices. Local firms will therefore have been protected from competition by foreign companies through restriction of imports.

(ii) Export subsidy is a payment to a domestic producer who exports goods abroad. These subsidies will allow exporting producers to lower their prices on the international market since the lost margins will be covered by the subsidy paid by the home government. This will help producers to be more competitive on the international market and therefore grow from strength to strength. This is also a way of how governments try to shield their local companies against stiff competition from foreign companies.

(b)

(i) Import quotas directly reduce the quantity of imports so that local producers have more local market for their products.

(ii) Healthy and Safety standards are required standards which particular products must meet before being allowed to enter a country or group of countries. These standards will restrict imports because if set at such a high level, they will be very few producers who can satisfy the standards. This will therefore mean reduced competition faced by local producers from foreign producers from foreign products entering the local market.

**(Total 20 marks)**

**QUESTION: 7**

- (a) (i) Real interest rate = Nominal interest rate  
Subtract rate of inflation

$$\text{Real interest rate} = 9\% - 7\% = 2\% \text{ per annum}$$

$$\text{Real interest earned} = \frac{200000 \times 60 \times 2}{36500}$$

$$= \underline{\text{MK657.53}}$$

- (ii) (a) Investors are paid interest to compensate them for possible loss of purchasing power of their money. The amount of goods which a particular amount of money can buy now will keep on reducing as time passes. This loss of purchasing power is due to inflation.
- (b) Once money is invested, the investor postpones use of the money (consumption). Since according to time preference theory people prefer goods now than goods later, there will be a positive interest to be paid on investment.

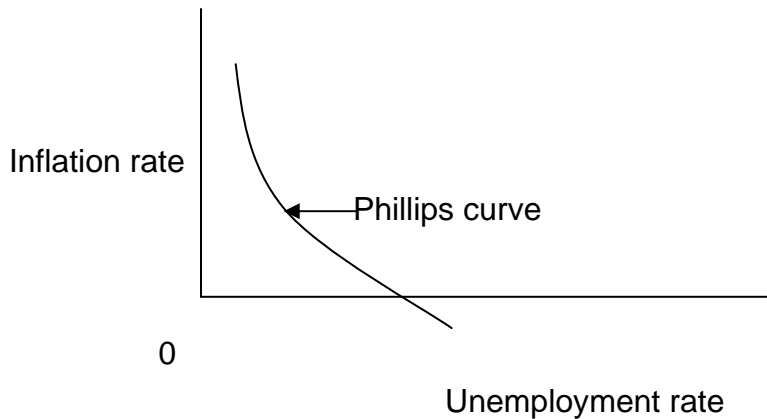
**Another alternative answer**

- (c) Compensation for risk of default.
- (d) There are always other alternative investments and by choosing one the investor forgoes the gains he would have realized. The investor has to be compensated for the forgone gains.

**(Total 20.marks)**

- (b) W. Phillips (1958) discovered a statistical relationship between unemployment and the rate of money wage inflation which implied that, in general, the rate of inflation fell as unemployment rose and vice versa. A

curve known as Phillips curve can be drawn linking inflation and unemployment as follows:-



The curve crosses the horizontal axis at a positive value of the unemployment rate. This means that zero inflation will be associated with some unemployment; it is not possible to achieve zero inflation and zero unemployment at the same time. Furthermore, the shape of the curve means that the lower the level of unemployment, the higher the rate of increase in inflation.

**(10 marks)**

**(Total 20 marks)**

**3.6 CHIEF SUBJECT EXAMINER'S REPORT FOR  
BASIC PRINCIPLES OF LAW (IOBM-C108)**

**CERTIFICATE IN BANKING EXAMINATION**

**OCTOBER 2007**

### **3.6.1 GENERAL COMMENTS**

This report is on the examination paper for Basic Principles of Law. In general, the performance of the candidates in this subject was fairly well as it was above average. 61 candidates sat for the examinations. Out of these, 40 students have passed and 21 failed, representing a pass rate of 67 percent. The highest candidate scored of 80 percent and the lowest has 21 percent.

In section A, which was compulsory, with four questions, most of the candidates had problems with question one. The candidates were not well conversant with insurable interest issues as it appeared to me that there was a lot of guess work. 4 students scored 0 in this question. Questions 2, 3 and 4 were fairly done. Still the candidates did not show good knowledge on the principles of law.

In section B, where the candidates had to choose two questions out of four, questions 5 and 6 were not attempted by many candidates. Those who attempted question 5 did not score good marks. In question 6, good marks were registered amongst those who attempted the question.

In general, candidates showed that they were not knowledgeable on certain aspects of the law. Those who obtained good marks showed a well understanding of the law. Still, there was a great deal to be done by the candidates in these examinations.

### **3.6.2 COMMENTS ON INDIVIDUAL QUESTIONS**

#### **QUESTION 1**

The question was one of the compulsory questions. It was worth 15 marks and had 2 components, **a** & **b**. In component **a**, the question required the candidates to show knowledge on insurable interest. Most of the students believed that being a shareholder gives someone an insurable interest in law. This was wrong as shareholders do not have an insurable interest in the property of a company despite being shareholders. Those candidates who said as a shareholder, one has an insurable interest got the following question wrong. The following question was an extension of the previous question.

The answer to that question was that as a shareholder, one can not sue since a company and its shareholders are different in law. The company can sue and be sued in law. In general, the candidates failed to understand and demonstrate the principle of corporate legal personality. A company is a different entity from its shareholders.

On the definition of subrogation, candidates showed that they understand this principle.

The question that caused a lot of problems was question **1 (b)**. The question tested the students on the principles of agency relationship. In precision, the students were to know the role of top managers in companies especially the principle that these managers are agents of the company. In all transactions done by them, it is presumed that the same is being done on behalf of the company. In this question, the students were to know that the Finance Manager had an implied authority to bind the company in all transactions he undertakes. Of course the nature of the transactions and the position of the officer matters herein. This was not well demonstrated by the candidates.

## **QUESTION 2**

This question was amongst the compulsory questions. Suffice to say that many candidates showed that they are well conversant with agency relationship except the few. The highest candidate herein scored 15 out of 15. However, question **2 (b)**, the question was testing the candidates on past consideration. Students had to show that the promise made therein was given after execution of the task, which was building of a house. Candidates had to understand that past consideration is not consideration at all. Some of the candidates gave answers on mere guess work, which reduced their marks.

## **QUESTION 3**

This question was fairly done. The candidates however were not sure of what the question was looking for. They could understand the concept of memorandum of association and articles of association.

The problem was now how to apply to the question. But somehow, candidates showed that they understood these two concepts.

On question **2 (b)**, this was also fairly done by the candidates. Those who gave correct answer in **(a)** got this question correct. Still I will urge the tutors to concentrate on the application of these principles to practical questions like this one.

#### **QUESTION 4**

This question was fairly done. Many of the students understood this question. It was evident from their responses that the candidates were aware of the provision of the Sale of Goods Act. In question **4 (b)**, some candidates had problems in articulating the principle of quiet enjoyment to the benefit of the tenant. What this principle states is that a landlord should not interfere with the enjoyment of the premises by the tenant once a lease agreement is entered between the parties. If a landlord is in breach of this principle, the tenant is at liberty to sue the landlord for damages. This was what exactly the question was testing candidates.

#### **QUESTION 5**

The question was poorly attempted and the marks scored are very poor. This can be attributed to misconception amongst the candidates. The candidates were to discuss what a condition, a warranty and an intermediate term is. After the discussion, marks were to be awarded. This was not done by most of the candidates. Then the candidates were to know that the designation of these terms can either be done by the parties agreeing to that or by the courts. If it is to be by the court, it depends on the effect of breach of that term to the whole contract. This was not well articulated by the candidates. This leads to candidates scoring poor marks in this question.

In question **5 (b)**, it seems that the candidates were just guessing. The cotton delivered falls short by 2 kilograms, which translates to 0.008. This was so minimal as to have any effects on the contract. The deviation was just negligible. The innocent party could not repudiate the contract but only to seek damages. The breach was of a warranty. A warranty is not a serious term of a contract.

## **QUESTION 6**

This question was also poorly attempted and done. In the first place, the candidates who attempted this question were not aware of what the difference between mutual and common mistake is. As for question **6 (b)**, it seems to me that candidates are/were having problems in applying legal principles to practical questions. The tutors should do more on this area. Question **6 (c)** caused a lot of problems. The candidates were not aware of implied authority of partners in a partnership agreement. Many of them resorted to guess work. As for question **6 (d)**, candidates were well conversant with the case of SALOMON-V-SALOMON. Candidates also demonstrated to me that they know the importance of this case in company law.

## **QUESTION 7**

Question seven was fairly done. However some candidates had problems in differentiating between an invitation to treat and an offer. The answer to the question was an offer not an invitation to treat. Those candidates who got it right to say that the advertisement was an offer got the explanation correct. On question **(b)**, candidates showed that they were aware of the obligations of a retired partner in partnership. Those who attempted question six scored good marks on this question. However, some candidates gave well reasoned responses that were not legal.

### **3.6.3 OVERAL ASSESSMENT AND RECOMMENDATIONS**

As chief examiner in this subject, the following are my recommendations:

- The questions should be straight forward to avoid confusing the candidates
- Tutors should as much as possible teach candidates in the area of application of legal principles to practical questions

- All cases cited by candidates should be underlined as required by academic legal writing
- Candidates to be told to understand not memorize legal principles.

## **CHIEF SUBJECT EXAMINER**

### 3.6.4 THE EXAMINATION PAPER



## INSTITUTE OF BANKERS IN MALAWI

# CERTIFICATE IN BANKING EXAMINATION

**SUBJECT: BASIC PRINCIPLES OF LAW (IOBM-C108)**

**Date: Monday, 8<sup>th</sup> October 2007**

**Time Allocated: 3 hours (08.00 to 11.00 am)**

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### INSTRUCTIONS TO CANDIDATES

- 1 Read the instructions on the cover of the answer book.
- 2 This paper consists of **TWO** Sections, A and B.
- 3 Section A consists of 4 questions, each question carries 15 marks.  
Answer **ALL** questions.
- 4 Section B consists of 3 questions, each question carries 20 marks.  
Answer any **TWO** questions.
- 5 **DO NOT** open this question paper until instructed to do so.

**SECTION A: (60 marks)**

**Answer ALL questions in this section.**

**QUESTION: 1**

(a) Joseph is a shareholder in Wanama Bus Company. A bus belonging to Wanama Bus Company is insured by Dziko Insurance Company. Joseph pays the insurance premium for the bus.

(i) State whether Joseph has an insurable interest in the bus?

**(3 marks)**

(ii) Advise if Joseph would sue Dziko Insurance Company for indemnity in the event of any loss or damage to the bus?

**(3 marks)**

(iii) What is subrogation?

**(2 marks)**

(b) The Finance Manager of the Institute of Bankers in Malawi (Institute) authorized the acquisition of writing pens for the Institute. The supplier of the writing pens has not yet been paid. The Institute's board of directors has suggested that the Finance Manager had no authority to enter into the transaction.

Explain whether the Institute is bound by the acts of the Finance Manager in this transaction?

**(7 marks)**

**(Total 15 marks)**

**QUESTION: 2**

(a) Agency

(i) In agency relationship, what are the two duties of an agent to the principal?

**(2 marks)**

- (ii) State two ways through which an agency relationship would come to an end? **(2 marks)**
- (iii) What are the four conditions to be satisfied for an agent of necessity to arise? **(4 marks)**
- (iv) In agency relationship, what do you understand by the term apparent authority? **(2 marks)**
- (b) Banda constructed a house for Phiri in Nancholi Township. By the time Banda was constructing the house, Phiri was not aware of it. When phiri found out that Banda had built a house for him, he promised to pay Banda K10,000 within one week. One week elapsed without payment. Banda intends to sue Phiri. Advise if he has a case against Phiri? **(3 marks)**
- (c) Mentioned two differences between a partnership and a company? **(2 marks)**

**(Total 15 marks)**

### **QUESTION: 3**

Greens X is a limited liability company engaged in cane furniture manufacturing. The company's articles of association prohibit borrowing of funds for any other purpose other than cane furniture manufacturing. The Directors of the company have come to your bank to negotiate a loan for the purchase of passenger minibuses for a transport business.

- (a) Explain with the aid of legally acceptable principles, whether you would authorize the loan? **(12 marks)**

- (b) Would your answer in (a) be any different if the Directors tell you that the shareholders of Greens X are very rich and successful people of good repute?

**(3 marks)**

**(Total 15 marks)**

**QUESTION: 4**

- (a) Mary bought a tablet of soap from Konse-konse Grocery. However the soap tablet is as hard as a stone such that it can neither dissolve nor foam. As a result she is unable to do her laundry.

- (i) Was Konse-konse Grocery in breach of an implied term as to fitness for purpose or for merchantable quality? **(5 marks)**

- (ii) What conditions are implied in a contract for the sale of goods by sample? **(2 marks)**

- (iii) Mention two remedies of a buyer in case of breach of contract in a sale of goods? **(2 marks)**

- (iv) Name two circumstances in which a buyer shall be deemed to have accepted the goods in a sale of goods contract? **(2 marks)**

- (b) X entered into a lease agreement with Y regarding a house in Nyambadwe. After three months, Y came to the house in Nyambadwe demanding money from X. Y came again in the fifth month demanding that X vacate the premises with immediate effect. X is not happy with the behaviour of Y, the landlord above. Advise X on what should be done.

**(4 marks)**

- (c)

**(Total 15 marks)**

**SECTION B: (40 marks)**

**Answer any TWO questions from this section.**

**QUESTION: 7**

Mugaya is a seasoned cotton farmer whereas Likonelo is a cotton buyer. On one hand Mugaya agrees to supply 25 tonnes of cotton. On the other hand Likonelo instructs his bankers to pay the purchase price of K11.5 million to Mugaya upon production of a delivery note of 25 tonnes of cotton. Mugaya has delivered the cotton and has since presented a delivery note of 24.998 tonnes for payment. A banker teller has come to your office for advice.

- (a) In your view, is the term governing the tonnage (amount of cotton) a condition, warranty or an intermediate (innominate) term?

**(15 marks)**

- (b) Advise if the delivery of 24.998 tonnes is breach of a condition or warranty?

**(5 marks)**

**(Total 20 marks)**

**QUESTION: 8**

- (a) Differentiate between mutual mistake and common mistake?

**(2 marks)**

- (b) A is in the business of supplying stationery to various shops in Blantyre. Sometimes A carries on the business with B. One day A took B to a certain shop and presented B as his agent though there was no agreement of agency relationship. The owner of the shop wants to sue A for non delivery of goods by B. A is denying liability saying that B was not his agent. Advise the owner of the shop.

**(5 marks)**

(c) List five acts that are within the implied authority of a partner in a trading partnership. **(5 marks)**

(d) (i) Narrate the facts in the case of SALOMON – V- SALOMOM AND COMPANY LIMITED (1987)? **(5 marks)**

(ii) What is the importance of SALOMON CASE in company law?

**(3 marks)**

**(Total 20 marks)**

### **QUESTION 9**

(a) Mphatso Investment is a manufacturer of pharmaceutical products. It advertised a new pharmaceutical breakthrough in one of the daily newspaper as follows:

*“MTX is a scientifically proven vaccine against malaria. Mphatso Investment is proud to be associated with this technological achievement. Further we are offering K100,000 to any person who contracts malaria within 10 years of taking a single dosage of MTX. We have since deposited K15,000.00 into our Royal Bankers bank account to cater for any possible claims...”*

You are the Assistant Marketing manager for Mphatso Investments. You are of the view that the advert exposes the company to undesirable losses and liability. Advise if this advert is an offer capable of being accepted by the consumers.

**(10 marks)**

(b) Zuze was one of the partners in a partnership that was dealing in second hand clothes before he retired last year. The partnership entered into a contract with Chimtengo to supply second hand clothes. The clothes were

supplied before Zuze retired but no payment was made by the partnership. Chintengo has sued the partnership including Zuze for non-payment. Advice Zuze on his liability.

***(10 marks)***

**(Total 20 marks)**

**END OF THE EXAMINATION PAPER**

**3.6.5 REQUIRED ANSWERS**

**MODEL ANSWERS**

**BASIC PRINCIPLES OF LAW (IOBM-108)  
EXAMINATIONS**

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## SECTION A

### QUESTION 1

1(i) An insurable interest is the actual interest in the subject matter of insurance either as ownership of the whole or part of it or, a position that the damage to it would affect the insured adversely. No doubt, the loss of the company's property would adversely affect the interest of the shareholders. However such interest is so remote and unrecognizable in law. In **Macaure v Northern Insurance** the court emphatically stated that a shareholder does not have insurable interest in the property of the company. Therefore Joseph does not have any insurable interest in the bus. **(3 marks)**

(ii) A company has separate legal personality with capacity to sue and to be sued. Further, shareholders do not have any insurable interest in the property of the company. The thrust of this legal fiction is that Joseph cannot sue since he does not have any insurable interest in the bus.

**(3 marks)**

(iii) Subrogation is the assumption of the insured's rights by the insurer where the insurer has paid the compensation, the whole of the loss or more than his proportionate share.

**(2 marks)**

(b) The liability of the Institute for the Finance Manager's authorization depends on whether the latter can be said to be an agent of the former. An agent is a person who is authorized or empowered by another to bring the principal into legal relations with a third party. In contrast, a principal is a person who agrees, expressly or impliedly, that another person shall do an act for and on his behalf.

Technically, an agent has the authority to enter into transactions and to bind the principal. Caution must however be exercised when dealing with

agents since a principal would only be bound if the act in question was within the authority of the agent.

An agent's authority can be express, implied or apparent. Express authority is what the principal specifically grants the agent. Implied authority covers an agent when doing such things as are normally incidental to carrying out his express instructions. Apparent authority arises from the circumstances of the case. An agent operating under apparent authority can bind the principal on contracts which the principal has not actually authorized or expressly forbidden.

Employees are usually designated as agents of their employers. An employee's apparent authority would usually be derived from the employee's position in the employer's organization. In **Panorama Developments Ltd v Fidelis Fabrics Ltd** the company secretary hired cars in the company's name but used them for his own purposes. The company was held liable to pay the bill.

The Institute's finance manager is a high ranking official. To the outside world, it is apparent that he/she has authority to enter into contracts on behalf of the Institute. This is even more apparent bearing in mind the transaction in question. The decision to acquire writing pens is of a small magnitude and visibly within the finance manger's apparent authority. The Institute's restriction on the finance manager's powers would not be operative except where the other contracting party was aware of it.

In the circumstances, the Institute is likely to be held liable for the acts of the Finance Manager, that is, to settle the bill.

**(7 marks)**

**(Total 15 marks)**

## QUESTION 2

(a) (i) Duties of the Agent to the principal:- **(Any two of the following for 1 mark each)**

- To use proper care and skill: An agent owes a duty to a principal to use proper care and skill in carrying out the duties under their agreement.
- To obey legal instructions: The agent must obey all principal's legal instructions.
- To account for money and property: An agent has a duty to keep accurate records of and must account for, the principals, money and property.
- To communicate information: An agent has the duty to communicate information to a principal, if he fails to do so; the agent may be liable for any damages that result.
- To be loyal: An agent must not undermine the principal's interest or position.

(ii) Ways in which agency relationship will come to an end. These are: **(Any 2 of these for 2 marks).**

- Performance: if the agent is engaged for a specific task, the authority ends as soon as the task is completed.
- Death: Death of either party ends the agency.
- Agreement: The parties may agree to end the contract of agency
- Termination by Change of circumstance: Where significant change of circumstances alters the original rationale for the agency relationship, the agency can be terminated.

- Insanity: Insanity can end the agency: the agent's insanity if it renders him unfit for his duties, the principal's if it renders him incapable of making the transactions contemplated.
- Withdrawal of Authority: the principal may withdraw his agent's authority.
- Bankruptcy: Bankruptcy of the principal ends the agency, as will bankruptcy of the agent if this renders him unfit for his duties.

**(2 marks)**

(iii) Four conditions to be satisfied for an agent of necessity to arise:

- The agent must have been placed in control of the principal's property  
**(1 mark)**
- A genuine emergency must have arisen, which threatens the property such as perishable goods.  
**(1 mark)**
- It must be impossible for the "agent" to seek the owner's instructions in time.  
**(1 mark)**
- The "agent" must be acting in good faith in genuine attempts to protect the property.  
**(1 mark)**

(iv) "Apparent Authority" in agency relationship arises when one person, the principal, holds out another person, as his/her agent whether – by actions, words or silence. If this holding out is done, the principal is stopped from denying liability for acts arising from the person held out. **(2 marks)**

**(Total 15 marks)**

(b) In this case, Banda cannot enforce the promise made by Phiri. In all contracts, there must be consideration. However, the law states that past consideration is not sufficient consideration. In the present case, Phiri promised to pay Banda for work already done by Banda. The work was

past consideration and Banda cannot sue Phiri for failure to honour his promise. **(3 marks)**

- (c) A partnership is a relation which subsists between persons carrying on a business in common with a view to profit. It does not have a separate legal personality distinct from its owners, who are referred to as partners. In contrast, a limited company is corporate entity created under statute.

A limited company has a distinct and separate legal personality from its owners who are referred to as shareholders. In Malawi, there must be at least two shareholders.

On one hand, the distinctive characteristics of a partnership are as follows: first, the partners are eligible to have a share in the management of the partnership; second, each partner is liable for all the debts of the partnership personally and to the full extent of his private estate; and lastly, a partner has implied authority to contract on behalf of the others in the ordinary scope of the partnership business.

On the other hand, a limited company is characterized by separation of management from its shareholders. A consequence of the separate legal personality is that a shareholder can not enter into a contract on behalf of the limited company. Further, the shareholders are not liable for the debts of the limited company. **(2 marks)**

**(Total 15 marks)**

### **QUESTION 3**

- (a) A limited liability company has two guiding documents namely, memorandum of association (memorandum) and the articles of association (articles). Generally the memorandum sets out the objects and the scope of the company's authorized business. It regulates the company's external affairs. The articles are a set of rules and regulations

that regulate the internal affairs of the company, for instance the powers of the directors and the conduct of the general meeting.

It must be emphasized that the powers of the company are contained in the memorandum. The powers of the directors and their exercise are laid out in the articles. In this case, it appears the Memorandum of Green X limited do not restrict the borrowing powers of the company. The bank is under a duty to look at the objects clause in the memorandum and no further.

The concept of ultra vires, in company law, describes transactions entered into by a company which are not within the capacity of the company as delimited expressly or impliedly by the company's objects clause. A classical example is that of **Ashbury Railway Carriage v Riche** where a contract that was outside the objects clause was held to be ultra vires and incapable of ratification. An action that is allowed by the memorandum but otherwise prohibited by the articles cannot be said to be ultra vires the company. It must be noted that the term ultra vires has been used from time to time in respect of breaches of the articles. However acts that are ultra vires the memorandum cannot be ratified whereas those ultra vires the articles can be ratified.

In the premises, Green X can obtain a loan for the passenger minibuses for transport business. It would not be held to be ultra vires. However since the bank is aware of the provision in the articles of association that restrict the directors' powers, it cannot competently advance the loan. The bank cannot aid the directors to breach the contract.

**(12 marks)**

- (b) The Answer in (a) would not be any different. A limited company has separate legal personality from that of its shareholders. As such, the wealth and reputation of its shareholders is immaterial. The liability of the shares is limited to their share capital in the company.

**(3 marks)**

**(Total 15 marks)**

#### QUESTION 4

- (a) (i) The soap tablet was bought in a business sale between a retailer and a private individual that is Konse-Konse Grocery and Mary. It is common knowledge that the purpose for which a table of soap is bought is for laundry. As such there was an implied disclosure of purpose by Mary. Konse-Konse grocery sold the tablet of soap in the course of its business. Mary, as a consumer, was well within her rights to rely on Konse-Konse Grocery to supply soap that was fit for its purpose.

On another note, this transaction is clearly not a sale by description. Therefore a term as to merchantable quality falls away. Therefore Konse-Konse Grocery breached an implied term as to fitness for purpose.

**(5 marks)**

- (ii) These are: **(Any 2 of these for 1 mark each)**

The bulk of the goods will correspond with the sample in quality

- The buyer will have a reasonable opportunity for comparing the bulk with the sample.
- The goods will be free from any defect rendering them unmerchantable which could not be apparent on a reasonable examination of the sample.

**(2 marks)**

- (iii) These are **(Any 2 of these for 1 mark each)**

- Sue for non delivery.
- Sue to recover to any money paid to the seller.

- Repudiate the contract for breach of a condition by the seller.
- Sue for damages in case of breach of a warranty
- Sue for specific performance

**(2 marks)**

(iv) These are: **(Any 2 of these for 1 mark each)**

- When the buyer intimates to the seller that he has accepted them.
- Does any act to the goods which are inconsistent with ownership of the seller such as sub-selling and delivering the goods.
- Retains the goods, after the lapse of a reasonable time without intimating to the seller that he has rejected them.

**(2 marks)**

(b) The landlord is under obligation or has an implied obligation not to interfere with the tenant's quiet enjoyment of the premises such as unlawful entry or eviction. If the landlord does this, the tenant is liberty to sue for damages. Hence X as a tenant in this matter can sue Y for breaching quiet enjoyment covenant of X. The demands of money and unlawful entry to the premises are both disturbing the quiet enjoyment of the lease. What Y has given with one hand, he cannot be allowed to take with the other hand. So X can sue Y for damages for breach of an implied covenant of quiet enjoyment.

**(4 marks)**

**(Total 15 marks)**

## SECTION B (40 marks)

### QUESTION: 5

- (a) A condition is a vital term of a contract breach of which entitles the innocent party to treat the contract as at an end, to repudiate it and claim damages. In a contract of sale it means that the goods will be returned to the seller and the buyer gets back the money that was otherwise paid to the seller.

A condition must be contrasted with a warranty. A warranty is a less important term of the contract breach of which only entitles the innocent party to damages. It means that a contracting party substantially got what he/she had bargained for.

Contracting parties can designate particular breaches as being of a condition or a warranty. However the courts, notwithstanding such designation, have the residue powers to decide the appropriate category of the terms: see the case of **Wickman Machine Tools Ltd v Schuler A.-G.** The courts usually do this by considering the intention of the parties, commercial importance of the term and the effects of the breach. It was emphasized in **Hong Kong Fir Shipping v Kawasaki Kisenkaisha** that contractual undertakings could not simply be categorized as conditions or warranties.

In between conditions and warranties, there are terms that are referred to as intermediate (innominate) terms. Intermediate terms are those terms where the remedy for their breach depends on the nature or effects of the breach as opposed to the status of the term: see **Cehave NV v Bremer (The Hansa Nord)**.

Thus said, the term governing the tonnage of cotton herein is not expressly designated as a condition or warranty or intermediate term. Suffice that the remedy of its breach would depend on the effects of the breach. Therefore it is an intermediate term.

**(15 marks)**

- (b) The cotton delivered falls short of the contracted tonnage by 2 kilograms. As a percentage, it is 0.008% less. This is quite a minimal shortfall. Clearly, this is not a breach of a condition to entitle Likonelo to repudiate the contract. At any rate, Likonelo is only entitled to claim damages. This is a breach of a warranty.

**(5 marks)**

**(Total 20 marks)**

**QUESTION: 6**

- (a) Mutual Mistake is when the parties to a contract at cross purposes such as where X believe he is buying a white saloon car from Z not knowing that Z is selling a Hyundai vehicle. Here both parties are making a mistake as to the identity of the subject matter.

Common mistake is where the parties have made a similar mistake such as where parties enter into a contract not knowing that the subject matter is non- existent.

**(2 marks)**

- (b) The shop owner can successfully sue A for non delivery of goods. This is so because although there was no agency relationship between A and B, A held B as his agent. The shop owner relied on that holding to enter into contract with B believing that B is the agent of A. A is estopped from denying liability after holding out B to be his agent.

**(5 marks)**

- (c) These are:
- i. Borrowing money in the name of the firm and giving security by pledging its goods or by depositing title deeds to create an equitable mortgage.
  - ii. Signing cheques, and drawing accepting or endorsing bills of exchange.
  - iii. Employing a lawyer to defend an action against the firm.
  - iv. Receiving payment of debts and giving valid receipts.

- v. Buying and selling goods on account of the firm.
- vi. Engaging employees to work for the firm.

NOTE: ANY FINE POINTS WILL SUFFICE

**(5 marks)**

(d) (i) The facts in SALOMON – V- SALOMON:

Mr Salomon had for thirty years, carried successful business as a sole trader in the manufacturing of boots and shoes. In 1922, he formed a company in those days the minimum number of shareholders was seven and he had one share issued to himself, his wife, five of his children. His wife held their shares as his nominees. He then transferred his business to the company at a value of GB39,000. This price was very much in excess of the true value but as Salomon owned the company no one was thereby defrauded. He took the price partly in 20,000 GB1 shares, partly in cash withdrawn from the business in the course of transfer and partly in a GB10,000 debenture issued by the company; the effect was that whoever held the debenture had a claim to the assets (to the extent of GB10,000) in priority of the claims of any other creditor of the company. So Salomon became a secured creditor of his own one man company.

The business did not prosper. Salomon pledged his debenture to one Broderip who lent him GB5,000 in cash, which Salomon in turn paid over to the company. Eventually the company became insolvent, if the debenture were repaid in full; there would be nothing left for the other creditors. The unsecured creditors had two main arguments that the sale transaction has a sham and Salomon was still the owner of the business and liable for its debts and that the company was irregularly formed because six of the seven shareholders were mere nominees of Salomon. It was held by the court that the business was owned by and its debts were liabilities of the company, not of Salomon personally. (These are the facts)

**(5 marks)**

- (ii) The importance of SALOMON CASE in Company Law is that it introduced the "Doctrine of Corporate Legal Personality". This doctrine states that when a company is registered and incorporated, it becomes a person on its own; different from the owners of the company.

**(3 marks)**  
**(Total 20 marks)**

**QUESTION: 7**

- (a) The advert can either bring into effect contractual obligations or none. The elements of a valid contract are offer, acceptance, intention to create legal relations and consideration.

An offer is a statement of terms by which the offeror is prepared to be bound. It is a manifestation by the person making the offer of a desire to enter into a contract. A statement must meet the following to suffice as an offer: it must indicate an intention to enter into a contract; second, be certain and definite; and communicated to the offeree. Generally, an offer is distinguished from an invitation to others to make an offer.

In this case, Mphatso Investments have made a statement to the whole world that they have a vaccine against malaria. The statement sets out the following terms: any user of MTX who contracts malaria within 10 years of its use is eligible to claim K100,000 from Mphatso Investments; and that a sum of K15,000,000 has already been deposited into a bank account in anticipation of any possible claims.

The deposit of money into Royal Bankers bank is a sufficient manifestation that the proclamation is not made as part of an idle hour chat. A similar deduction was made in **Carlill v Carbolic Smokeball Company (Carlill's case)** where a sum of money was deposited into a bank account for settlement of claims.

Further the statement is clear and free from ambiguities. It is common knowledge that an offer can be made to the whole world and can be communicated through any media including newspapers. In the premises, the statement by Mphatso Investment would amount to an offer. The offerees would be all those who would read or become aware of the newspaper advert and the contents thereof.

Acceptance is the unconditional assent of the offeree to all the terms of the offer. As a general rule, acceptance of an offer has to be communicated to the offeror

before it can become effective. However there are two types of contracts: unilateral and bilateral contracts. In unilateral contracts, acceptance of the offer is by way of performance of the required act. In bilateral contracts acceptance precedes performance.

The advert presupposes a unilateral contract. As such, the purchase and use of MTX vaccine would amount to acceptance of the contract. Mphatso Investments would be bound by such acceptance to potentially unlimited number of persons. It is immaterial that Mphatso Investments would not be aware of the persons who would have been using the MTX vaccine.

A person who would suffer from malaria within the terms of the contract would have a right of action against Mphatso Investments. In law, one can not enforce a contract unless he/she shows some consideration. Consideration is defined as some right, interest, profit or benefit accruing to one party or some forbearance, detriment, loss of responsibility, given, suffered or undertaken by the other: see **Currie v Misa**.

In this case, the purchase and use of MTX vaccine suffices as detriment suffered by the user. In addition, the benefit accruing to Mphatso Investments from the sales also suffices as a corresponding benefit.

In the event that MTX vaccine fails to work as tested, Mphatso Investments would be liable to several law suits. This would be costly. It would not be unusual for the disease to develop some resistances. Mphatso Investment should utilize exclusion clauses, vague and ambiguous statements and the like.

**(10 marks)**

- (b) A partner who retires does not cease to be liable for partnership debts before his retirement. These may include debts arising after his retirement from transactions during the period when he was a partner. In the present case, Zuze is liable for debt. This is so because he retired, the debt was incurred when he was still a partner before he retired. So Zuze is liable in this case.

**(10 marks)**

**Total 20 marks)**