

KASNEB

CCP PART I SECTION 1

CREDIT MANAGEMENT

MONDAY: 21 November 2016.

Time Allowed: 3 hours.

Answer ALL questions. Marks allocated to each question are shown at the end of the question.

QUESTION ONE

- (a) Summarise five functions of a credit department in an organisation. (5 marks)
- (b) Analyse five reasons for the inclusion of credit terms and payment methods in the credit policy. (5 marks)
- (c) Evaluate five types of letters of credit used in export trade. (10 marks)
- (Total: 20 marks)**

QUESTION TWO

- (a) (i) Explain the term "crowdfunding". (2 marks)
- (ii) Analyse two types of crowdfunding. (4 marks)
- (b) Highlight four benefits of submitting invoices through third party network. (4 marks)
- (c) (i) Distinguish between "deferment" and "forbearance" as used in credit management. (4 marks)
- (ii) Examine three circumstances when forbearance might be available to a customer. (6 marks)
- (Total: 20 marks)**

QUESTION THREE

- (a) Explain what each of the following ratios would indicate about an organisation:
- (i) Current ratio. (2 marks)
- (ii) Net profit ratio. (2 marks)
- (iii) Net profit to net assets ratio. (2 marks)
- (iv) Sales to fixed assets ratio. (2 marks)
- (b) Enumerate four mistakes that a debt collector might make during collection of debts. (4 marks)
- (c) Explain the term "days sales outstanding (DSO)". (2 marks)
- (d) The information provided below relates to Uwezo Ltd.:

Date	Accounts receivable	Month	Credit sales
	Sh."000"		Sh."000"
31 October 2016	6,000	October 2016	10,000
30 September 2016	6,000	September 2016	12,000
31 August 2016	<u>4,000</u>	August 2016	<u>10,000</u>
	<u>16,000</u>		<u>32,000</u>

Required:

- (i) Standard days sales outstanding. (3 marks)
- (ii) Best possible days sales outstanding. (3 marks)
- (Total: 20 marks)**

QUESTION FOUR

- (a) Highlight five benefits of settlement discount to an organisation. (5 marks)
- (b) (i) Explain the term "credit card". (2 marks)
- (ii) Outline three costs associated with the use of a credit card. (3 marks)
- (c) Analyse five factors that an organisation might take into consideration before commencing legal action against a debtor. (10 marks)
- (Total: 20 marks)**

QUESTION FIVE

- (a) Explain the purpose of the following documents used in export credit:
 - (i) Proforma invoice. (2 marks)
 - (ii) Bill of lading. (2 marks)
 - (iii) Inspection certificate. (2 marks)
 - (iv) Packing list. (2 marks)
 - (v) Insurance document. (2 marks)
 - (b) Discuss five types of credit insurance policies available to an organisation. (10 marks)
- (Total: 20 marks)**

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