

KASNEB

DCM LEVEL I

FUNDAMENTALS OF CREDIT MANAGEMENT

MONDAY: 23 May 2016.

Time Allowed: 3 hours.

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

QUESTION ONE

- (a) (i) Explain five advantages of a forward contract as a hedging method against export risk. (5 marks)
- (ii) Describe four institutions that could benefit from a forward contract. (4 marks)
- (b) Enumerate the characteristics of the following customer risk categories:
- (i) "A" risk customer. (5 marks)
- (ii) "B" risk customer. (2 marks)
- (iii) "C" risk customer. (4 marks)
- (Total: 20 marks)**

QUESTION TWO

- (a) Outline five limitations of using debit cards. (5 marks)
- (b) Argue five cases against the use of invoice discounting. (5 marks)
- (c) Analyse five reasons for slow payment of debt by organisations. (5 marks)
- (d) Describe five contents of a letter of claim. (5 marks)
- (Total: 20 marks)**

QUESTION THREE

- (a) Outline six qualities of a credit officer. (6 marks)
- (b) Discuss four sources of export credit information. (8 marks)
- (c) Identify six characteristics of a good debt collection agent. (6 marks)
- (Total: 20 marks)**

QUESTION FOUR

- (a) Describe three principles of sound lending. (6 marks)
- (b) Explain five functions of an effective invoice. (5 marks)
- (c) Identify five measures that could assist an organisation in minimising bad debts. (5 marks)
- (d) Highlight four factors to consider when designing a customer statement of accounts template. (4 marks)
- (Total: 20 marks)**

QUESTION FIVE

- (a) State six types of information contained in a credit report for an individual. (6 marks)
- (b) Highlight six features of a valid credit note. (6 marks)
- (c) Analyse four disadvantages of mortgage as a source of credit finance. (8 marks)
- (Total: 20 marks)**

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