

The Co-operative University of Kenya

END OF SEMESTER EXAMINATION DECEMBER-2018

EXAMINATION FOR THE DEGREE OF BACHELOR OF COMMERCE

UNIT CODE: BCFF 2306

UNIT TITLE: CREDIT MANAGEMENT

DATE: DECEMBER, 2018

TIME:

INSTRUCTIONS:

- Answer question **ONE (compulsory)** and any other **TWO** questions

QUESTION ONE

- (a) Explain **THREE** components of a good credit policy (6 marks)
- (b) Explain the term 'overtrading' and briefly explain two of its effects in a business (6 marks)
- (c) Discuss **FIVE** factors that determine the amount of working capital in a firm (10 marks)
- (d) Define credit scoring and **THREE** factors that can improve credit scores (5 marks)
- (e) Explain **THREE** benefits of credit assessment (3 marks)

QUESTION TWO

- (a) Explain **THREE** advantage and **THREE** disadvantages of share capital as a source of financing (6 marks)
- (b) Explain the meaning of hardcore borrowing and **TWO** effects of business (4 marks)
- (c) Discuss the importance of managing accounts payable to a firm (10 marks)

QUESTION THREE

- (a) Account receivable is an important components of credit management, discuss the effect of:
 - i. Tight strict debt collection policy (5 marks)
 - ii. Lenient debt collection policy (5 marks)
- (b) State **FOUR** benefits of credit analysis (4 marks)
- (c) Explain the benefits to a business of having a clear and effective collection in place (6 marks)

QUESTION FOUR

- (a) Explain **FIVE** factors influencing the choice of financing option (10 marks)
- (b) A local bank has attached you as a credit consultant and you are supposed to review their lending process. One of the credit products you are reviewing is a secured lending; explain that bank's lending process when a customer applies for a secured facility (10 marks)

QUESTION FIVE

- (a) Discuss **FIVE** factors that can be considered in order to reduce Default risk (10 marks)
- (b) Explain the meaning of:-
 - i. Hardcore borrowing (5 marks)
 - ii. Overtrading (5 marks)