



GRETSA UNIVERSITY - THIKA

UNIVERSITY EXAMINATIONS JANUARY – APRIL 2017 SEMESTER

BACHELOR OF COMMERCE

COURSE CODE: BCCR 402

COURSE TITLE: CREDIT MANAGEMENT SERVICES

DATE: 4 APRIL 2017

TIME: 11.30 AM – 2.30 PM

INSTRUCTIONS TO CANDIDATES

1. SECTION A IS **COMPULSORY**.
2. SECTION B: ANSWER ANY OTHER **THREE** QUESTIONS.
3. **DO NOT** WRITE ANYTHING ON THIS QUESTION PAPER AS IT WILL BE AN EXAM IRREGULARITY.
4. ALL ROUGH WORK SHOULD BE AT THE BACK OF YOUR ANSWER BOOKLET AND CROSSED OUT.

CAUTION: All exam rooms are under CCTV surveillance during the examination period.

SECTION A

Question One

You work for Summit Commercial Bank as a credit officer. You were recently approached by 3 youths from NYS who want to start a garage. They had come to see you for a loan. .

Explain to them following:

- (a) Why banks and other lending institutions require security or collateral before lending. (4 marks)
- (b) Advise them on at least THREE ways that small scale business raise start-up capital (6 marks)
- (c) What the acronym CAMPARI stand for and how is it used by banks and other lending institution to assess a borrower (10 marks)
- (d) Explain the following terms:
 - (i) Gearing ratio (5 marks)
 - (ii) Net profit margin (5 marks)
 - (iii) Profit and loss account ratios (5 marks)
 - (iv) Working capital cycle (5 marks)

SECTION B

Question Two

You work in the finance department at Ujuzi Plastics Company Limited, a very successful company in the plastic industry with branches all-over East Africa. One of your duties, as the Assistant Credit Controller is to design risk management tool to prevent the organization facing hardships due to uncontrolled lending. One of the key principles you learnt while undertaking your undergraduate training is that ‘A good risk management tool must meet the key objectives of the user’

- (a) Explain FIVE objectives that a good risk management tool must meet (10 marks)
- (b) Define debentures and explain when or why organizations issue them (4 marks)
- (c) Name and briefly explain THREE major types of security traded on the stock market (6 marks)

Question Three

The firm you work for, TruLabel Fashions International Ltd., is a clothes and textile business with international markets. The firm has been operating without a credit department and all credit collection procedures were conducted by the sales staff. You suggested to your boss creation of a credit department so that the sales personnel can be free to engage in selling while the credit department would follow up the payments. This was accepted and now your organization has a newly created credit department. As the interim credit controller, explain to the staff who have been deployed in the department the following:

- (a) Explain the following specialized services as applied in international trade:
 - (i) Factoring to the exporter (5 marks)
 - (ii) International leasing (5 marks)
- (b) Explain to the staff the do's and don'ts of debt collection (10 marks)

Question Four

Njoroge is a trained mechanic. He worked for a while at DT Dobie but later on he quit work to start a small garage near his home at a place commonly called Jua Kali.

- (c) Name THREE reasons that may have driven Njoroge to make this move (6 marks)
- (d) Give FOUR features common to this type of business (8 marks)
- (e) Explain THREE sources of finance for this type of business (8 marks)

Question Five

Describe the following sources of fixed capital

- (a) Owned capital (5 marks)
- (b) Corporate bonds (5 marks)
- (c) Ordinary stocks or shares (5 marks)
- (d) Preferential shares (5 marks)

