

GRETTA UNIVERSITY - THIKA

UNIVERSITY EXAMINATIONS MAY-AUGUST 2023 SEMESTER

BACHELOR OF COMMERCE

COURSE CODE: BCCR300

COURSE TITLE: CREDIT MANAGEMENT THEORY AND PRACTICE

DATE:

TIME:

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: COMPULSORY

Question One

- a) Credit should be granted to those customers, who have the ability to make payment on time. To ensure this the firm should have credit information concerning each customer to whom the credit will be granted. Discuss the categories of ratios that the analyst can use to assess the financial health of a firm **[15 marks]**
- b) The firm need not follow the policy of treating all customers equal for the purpose of extending credit. Explain the source documents of credit information **[5 marks]**
- c) A liberal credit policy without rating the credit –worthiness of customers will be detrimental to the firm and will create a problem of collection later. Discuss the 4 Multi-discriminant models that are used in Credit management **[12 marks]**
- d) The credit policy of the firm affects the working capital by influencing the level of debtors. The credit terms to be granted to customers may depend upon the norms of the industry to which the firm belongs. Explain the disadvantages of leasing **[8 marks]**

SECTION B: ANSWER ANY THREE QUESTIONS

Question Two

- a) The Management should particularly be interested in knowing financial strengths of the firm to make their best use and to be able to spot out financial weaknesses of the firm to take suitable corrective actions. Discuss the functions of a credit manager **[10 marks]**
- b) Most countries practice recourse factoring since it is not easy to obtain credit information and the cost of bad debt protection is very high. Explain the advantages of buying an asset through hire purchase **[10 marks]**
- e)

Question three

- a) For effective management of credit, the firm should lay down clear cut guidelines and procedures for granting credit to customers and collecting individual accounts. Discuss the applicability of credit management **[10 marks]**
- b) Technical or marketing entrepreneurs often start many firms, and they may fail or may lack expertise to provide adequate attention to credit control and financial management. Explain the disadvantages of decentralisation **[10 marks]**

Question Four

- a) The financial manager can influence volume of credit sales and collection period through credit policy which includes credit standards, credit terms and collection efforts. Discuss the types of Factoring **[10 marks]**
- b) The type of financing that a firm engages in depends of the policy statement guiding the organisation. Describe the types of financing that can be used by organisations **[10 marks]**

Question five

- a) Credit limit is a maximum amount of credit which the firm will extend at a point of time. Explain the advantages of invoice discounting in relation to credit management **[10 marks]**
- b) A firm needs to continuously monitor and control its receivables to ensure the success of collection efforts. Explain the disadvantages of the Argenti model **[10 marks]**