



# **GRETSA UNIVERSITY - THIKA**

## **UNIVERSITY EXAMINATIONS MAY – AUGUST 2023 SEMESTER**

### **BACHELOR OF COMMERCE**

**COURSE CODE: BCCR 301**

**COURSE TITLE: CREDIT ASSESSMENT AND EVALUATION**

**DATE: 02 AUG 2023**

**TIME: 8:00 AM – 11:00 AM**

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#### **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) You are a credit analyst at a financial institution, and you have been assigned to evaluate the creditworthiness of a small business that has applied for a loan. The business operates in the retail sector and has been in operation for three years. The owner is requesting a loan of Kshs. 10,000,000 to expand the business. The financial statements provided by the business show a consistent increase in revenue over the past three years, but the profitability has been declining. The business has a debt-to-equity ratio of 2.5 and a current ratio of 1.2. The owner has a good personal credit score but has never borrowed for the business before. Based on this information, evaluate the creditworthiness of the business and provide your recommendation on whether to approve or reject the loan application. **[20 Marks]**

b) You work for a credit rating agency, and you have been assigned to assess the creditworthiness of a large manufacturing company. The company operates in a highly cyclical industry and has experienced significant fluctuations in revenue and profitability over the past five years. The company has a debt level that is considered high for its industry, and it recently issued new bonds to refinance its existing debt. The company's management has a strong track record and has implemented cost-cutting measures to improve profitability. However, there are concerns about the company's ability to generate sufficient cash flows to service its debt obligations during economic downturns. Analyze the company's financial statements and other relevant information to determine its credit rating and provide an explanation for your assessment. **[20 Marks]**

## **SECTION B: ANSWER ANY THREE QUESTIONS**

### **Question Two**

- a) Explain the concept of credit assessment and its importance in the lending process. **[12 Marks]**
- b) Describe the key components of a credit evaluation process. **[8 Marks]**

### **Question Three**

- a) Discuss the role of credit scores in credit assessment. **[10 Marks]**
- b) Explain the concept of collateral and its significance in credit evaluation. **[10 Marks]**

### **Question Four**

- a) Describe the five Cs of credit and explain how they are used to evaluate a borrower's creditworthiness. **[14 Marks]**
- b) Explain credit risk and how is it assessed by lenders. **[6 Marks]**

### **Question Five**

- a) Discuss the role of financial statements in credit evaluation and analysis. **[12 Marks]**
- b) Explain potential consequences of inaccurate credit assessment and evaluation **[8 Marks]**