GRETSA UNIVERSITY - THIKA

UNIVERSITY EXAMINATIONS

MAY – AUGUST 2023 SEMESTER

BACHELOR OF COMMERCE

COURSE CODE: BCCR 302

COURSE TITLE: CREDIT POLICIES AND CONTROL

INSTRUMENTS

DATE: 31 JULY 2023   **TIME: 3.00PM - 6.00PM**

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) Company XYZ is a manufacturing firm that sells its products to various retailers on credit terms. Lately, the company has been experiencing an increase in bad debt write-offs and late payments from customers. As a credit manager, you have been asked to analyze the credit policies and control instruments in place and suggest improvements. Based on the information provided, answer the following questions:

    i. Identify and evaluate the existing credit policies and control instruments implemented by Company XYZ. **[6 Marks]**

    ii. What could be the possible reasons for the increase in bad debt write-offs and late payments? **[6 Marks]**

    iii. Suggest specific improvements to the credit policies and control instruments that could help reduce bad debt write-offs and improve cash flow. **[10 Marks]**

b) Retailer DEF wants to implement a new credit policy to attract more customers and boost sales. As a consultant, you have been hired to develop a comprehensive credit policy and recommend control instruments for the company. Answer the following questions based on the given scenario:

    i. Design a credit policy framework for Retailer DEF, considering the factors such as risk appetite, customer segmentation, and credit evaluation criteria. **[10 Marks]**

    ii. Outline the control instruments that should be implemented to monitor and manage credit risk effectively. **[8 Marks]**

SECTION B: ANSWER ANY THREE QUESTIONS

QUESTION TWO

a) Define credit policy and explain its importance in a business organization. Discuss the key elements that should be considered while formulating a credit policy. **[12 Marks]**

b) Describe the different types of credit control instruments commonly used by organizations. **[8 Marks]**

QUESTION THREE

a) Discuss the factors that should be considered when establishing credit limits for customers. **[12 Marks]**

b) Explain the concept of credit scoring and its role in determining credit limits. **[8 Marks]**

QUESTION FOUR

a) Discuss the concept of credit insurance and its role in managing credit risk. **[10 Marks]**

b) Explain the benefits and limitations of credit insurance for businesses. **[10 Marks]**

QUESTION FIVE

a) Explain the concept of credit risk management. **[8 Marks]**

b) Discuss the strategies and techniques that organizations can employ to mitigate credit risks effectively. **[12 Marks]**