

# KASNEB

## CCP PART I SECTION 1

### CREDIT MANAGEMENT

MONDAY: 22 May 2017.

Time Allowed: 3 hours.

Answer ALL questions. Marks allocated to each question are shown at the end of the question.

#### QUESTION ONE

- (a) Describe the importance of the five C's of credit management in consumer credit. (10 marks)
- (b) Enumerate five factors that a credit manager could consider when granting credit. (5 marks)
- (c) Highlight five benefits of using local purchase order (LPO) as a source of finance to an organisation. (5 marks)
- (Total: 20 marks)**

#### QUESTION TWO

- (a) (i) Distinguish between "pre-shipment finance" and "post-shipment finance" as used in export credit. (4 marks)
- (ii) Explain six benefits of pre-shipment finance to an exporter. (6 marks)
- (b) Discuss five steps followed in debt collection process. (10 marks)
- (Total: 20 marks)**

#### QUESTION THREE

- (a) Summarise five advantages of export credit insurance. (5 marks)
- (b) Explain four benefits of mobile money transfer as a payment method in business. (4 marks)
- (c) In contested cases, for example debt recovery through legal process, the issues are determined on the basis of evidence produced by the parties.
- With reference to the above statement, analyse three forms of evidence. (6 marks)
- (d) Identify five pointers of a cash strained business. (5 marks)
- (Total: 20 marks)**

#### QUESTION FOUR

- (a) Explain the following terms as used in lending:
- (i) Personal loans. (2 marks)
- (ii) Auto loans. (2 marks)
- (iii) Payday loans. (2 marks)
- (b) Outline seven sequences of actions used in credit risk assessment. (7 marks)
- (c) Highlight seven contents of a customer's master file. (7 marks)
- (Total: 20 marks)**

**QUESTION FIVE**

Mathew and his two brothers operate a fast moving goods chain of stores under the name Kaka Tatu Enterprises. They have been denied an enhancement of their overdraft at the bank due to what the bank termed as overtrading. Mathew has approached you seeking for professional advice regarding the improvement of their business operations. Your further analysis of the books of account and an interview with the management of the chain stores reveals that they have heavily depended on trade credit from their suppliers, and short-term financing from banks including the running overdraft. You further deduce that out of the Sh.10 million capital employed, 70% is financed by trade payables, short-term loans and bank overdraft; a state that could easily lead to winding up of the enterprise should any of the creditors file a petition.

**Required:**

- (a) Explain to the management of Kaka Tatu Enterprises the term "overtrading". (2 marks)
- (b) Propose four indicators of overtrading. (8 marks)
- (c) Describe five remedies that the management of Kaka Tatu Enterprises could apply to avoid overtrading. (10 marks)

**(Total: 20 marks)**

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