

KASNEB

CCP PART I SECTION 1

CREDIT MANAGEMENT

MONDAY: 23 May 2016.

Time Allowed: 3 hours.

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

QUESTION ONE

- (a) Summarise four mitigation strategies that could be adopted by a lender to reduce the risk of bank transfer fraud. (4 marks)
- (b) Describe four types of alternative dispute resolutions (ADR) in a contested civil case in debt collection. (8 marks)
- (c) Discuss four conditions of sale contained in an export contract. (8 marks)
- (Total: 20 marks)**

QUESTION TWO

- (a) Define the following terms as used in non-performing debt recovery:
- (i) Sub-standard assets. (2 marks)
- (ii) Doubtful assets. (2 marks)
- (iii) Loss assets. (2 marks)
- (b) Explain four benefits of Credit Reference Bureau (CRB) to your country. (8 marks)
- (c) Describe three attributes of a good credit policy. (6 marks)
- (Total: 20 marks)**

QUESTION THREE

- (a) Highlight five factors to consider when engaging a debt collector. (5 marks)
- (b) Explain the following terms as used in credit management:
- (i) Bid bond. (2 marks)
- (ii) Performance bond. (2 marks)
- (iii) Counter trade. (2 marks)
- (c) Identify five benefits of trade credit insurance. (5 marks)
- (d) Outline four applications of days sales outstanding ratio in an organisation. (4 marks)
- (Total: 20 marks)**

QUESTION FOUR

- (a) Discuss five sources of credit information. (10 marks)
- (b) Highlight five disadvantages of using a guarantee as a source of credit security. (5 marks)
- (c) Outline five types of risk incurred in credit sales. (5 marks)
- (Total: 20 marks)**

QUESTION FIVE

(a) Explain the following methods of payment:

- (i) Bank drafts. (2 marks)
- (ii) Standing orders. (2 marks)
- (iii) Direct debits. (2 marks)

(b) Enumerate four costs of credit. (4 marks)

(c) Describe three methods of measuring and reviewing the size and quality of accounts receivable. (6 marks)

(d) The following is the extract of cash credit account of Victor Traders in the books of Jubilee Bank Ltd:

| Date | Balance Sh. |
|-------------|------------------------|
| 01/07/2015 | 200,000 |
| 25/07/2015 | 220,000 |
| 01/08/2015 | 240,000 |
| 25/08/2015 | 260,000 |
| 01/09/2015 | 280,000 |
| 10/09/2015 | 300,000 |
| 25/09/2015 | 248,000 |

Additional information:

1. Cash credit limit is Sh.300,000.
2. Rate of interest is 12% per annum.
3. Assume that the number of days in a year are 360 days.

Required:

Calculate the amount of interest charged by Jubilee Bank Ltd. on the cash credit account of the company for the quarter ended 30 September 2015. (4 marks)

(Total: 20 marks)

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