CHUKA   **UNIVERSITY**

UNIVERSITY EXAMINATIONS

EXAMINATION FOR THE AWARD OF DEGREE OF BACHELOR OF COOPERATIVE MANAGEMENT

BCOP 331: CREDIT MANAGEMENT

STREAMS: Y3S1   **TIME: 2 HOURS**

DAY/DATE: MONDAY 4/12/2017   **11.30 A.M – 1.30 P.M**

INSTRUCTIONS:
- **Answer question one and any other two questions**
- **Do not write on the question paper**

1.   (a) Describe various factors that may influence the amount to be advanced for trade credit (debtor) in an organization.   [10marks]

(b) Matokeo company ltd had a fixed credit policy of 30 days given to debtors. The company is proposing to increase this credit terms to 60 days ($"3/_{30}$ net 60"). In order to do that change sales are expected to increase by 30%. The following are the details of current situations.

- Current sales ksh 22,000,000

-The sales that avail discount ksh 4,500,000

- Bad debts losses is estimated at 5% of sales.

- Production and selling costs on increased sales will be 60%

- Opportunity cost will increase by 5% on increased sales.

Required to evaluate this new credit policy and advice the company accordingly.
                                                                    [10marks]

(c) The following information was extracted from the books of chuka –Igamba – Ng'ombe farmers cooperative society which processes milk and sale it on behalf of farmers during the month of September and October 2017.

Required : cash operating cycle period for the co operational society.   [10marks]

Particulars	September	October
	Ksh	Ksh
Raw material stock	40,000	60,000
Work in progress	10,000	18,000
Finished goods stock	50,000	70,000
Debtors	140,000	180,000
Annual sales	2,000,000	2,200,000
Cost of production	1,000,000	1,050,000
Annual cost of sales	1,200,000	1,250,000
Trade creditors	110,000	100,000
Annual purchases raw materials	700,000	780,000

2.   (a) For effective credit control the lending organizations like cooperatives and other lenders must collect enough information about the application before making decision of lending. Identify and briefly explain various institutions and persons who can provide such information.   [10marks]

(b) Describe the $5C^3$ credit evaluation techniques that credit management popularly use as framework of analyzing credit applicants.   [10marks]

3.   (a) Describe the various sources of short term funding of organizations. [10marks]

(b) Explain the major techniques applied by lending institutions in collecting loans lended to clients.   [10marks]

4.   (a) Before credit cooperation societies lends out to their members, credit management departments must consider various factors about the member. Describe the factors to be considered before deciding the amount of funds lend.
                    [11marks]

(b) Explain the relevance of the following financial ratios in credit control management giving examples.

(i) Current ratios.   [6marks]

(ii) Gearing ratio.   [3marks]