

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: TUESDAY 23/03/2021****11.30 A.M – 1.30 P.M****INSTRUCTIONS:****Answer ALL questions in section A and any two in section B****Do not write anything on the question paper**

1. (a) A credit manager plays a very important function in any lending institution. Discuss. [12 marks]
- (b) Chogoria farmers cooperative society grows and produces various foods sale in Kenya. The society has provided the following data for the year ended 31st December 2019 and 2020.

Particular	2019	2020
	Ksh '000'	Ksh '000'
Raw materials	240,000	250,000
Work in progress	230,000	240,000
Finished goods	220,000	250,000
Purchases	380,000	400,000
Cost of sales	1,240,000	1,110,000
Debtors	260,000	260,000
Creditors	280,000	300,000
Sales	2,400,000	2,320,000

- (i) Required to compute average operating cash cycle period for the firm. [10 marks]
- (ii) Using the cycle computed above comment if the society is required to go for credit assuming it has such obligations of playing creditors on quarterly basis. Give reasons. [8 marks]

2. (a) Credit lending institutions in Kenya and other developing countries face other developing countries face allot of challenges which limit the credit lending funds and operational processes as compared to developing countries. Explain any five challenges such institutional face in Kenya. [10 marks]
- (b) Describe the major common sources of information of evaluating a debtor before making decision of lending. [10 marks]
3. (a) In relation to credit management explain what constitutes the 5Cs. [8 marks]
- (b) Before lending or advancing credits to customers, financial institutions considered various factors in relations to that customers. Describe the factors a lender may need to consider in his investigation for evaluating a viable customer. [12 marks]
4. (a) With a use of diagram explain the various types of credit policies and show how they are determined in an organization. [8 marks]
- (b) Describe the various forms of credits giving three examples in each case. [4 marks]
- (c) Matuga- Kombani processing company produce and sale coconut oil on both cash and credits in Kenya. It has been giving a credit of 20 days to its customers as credit policy. For the new year 2021 the company intends to increase sales by extending the credit to 40 days. This will increase sales by 20%. The additional information by the company are as follows.
- Sales for the year 2020 ksh 20,000,000
 - If new policy is implemented bad debts will increase to 4% of the sales increase.
 - Taxation liability shall increase by 5% of the sales increased.
 - Cash discount shall be given to customers who pays promptly within 20 days at 4%.
- Required to evaluate the credit policy for the company and give your advice. [8 marks]
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