

CHUKA



UNIVERSITY

UNIVERSITY EXAMINATIONS

EXAMINATION FOR THE AWARD OF DEGREE OF BACHELOR OF COOPERATIVE MANAGEMENT

BCOP 331: CREDIT MANAGEMENT

STREAMS: BCOP

TIME: 2 HOURS

DAY/DATE: TUESDAY 10/12/2019

8.30 AM – 10.30 AM

INSTRUCTIONS:

- **Answer Question One and any other Two questions only**
- **Do not write on question paper**

- (a) Describe the functions of a credit manager of lending financial institution. [12 marks]
 - (b) Describe four factors determining the credit limits to be advanced to the members of a lending institution. [8 marks]
 - (c) With the help of diagram explain how can you determine on optimum credit policy in a lending firm. [10 marks]
- (a) You are a credit manager of a newly incorporated cooperative society dealing with farmers. The cooperative intends to lend to farmers (member) and also supply farm inputs to them. The long -term plan is to invest in wide scope to generate more returns to the members. You are required to identify four business objective for the society taking into account the above basics and formulate a strategic credit management policy matrix to be used as credit policy of the society. [14 marks]
 - (b) Briefly explain procedures to be followed in recovery of money lend to a defaulting debtor. [6 marks]
- (a) Describe the various sources of finance available for raising short-term sources of funds for lending in cooperatives. [10 marks]

- (b) Before lending or advancing credit to any customer, there is need to evaluate the customer on matters relating to credit worthiness. Describe the common sources of information which can act as a base of evaluating a customer. [10 marks]
4. (a) Kazi moto credits PLC is a public firm specialized production of food in Tharaka-Nithi County. It sales its products both cash and on credit. The society has been giving a credit period of 20 days to customers. The management proposes to extend the credit to 40 days and this will increase the sales by 30%. The following are the additional information

- Current sales ksh 12,000,000
- Sales that will avail discounts sh 1,200,000
- Bad debts loss shall increase by 4% of sales increased
- Operating costs will increase: 50% of increased sales
- Fixed cost sh 100,000. For every sh 1.800,000 increased
- Commissions for employees 2% of increased sales
- Discounts given to customers who pays within 20 days, 2%
- There shall be tax reduction liability at 0.5% of the increased sales

Required: to evaluate this credit policy and advice the management accordingly giving reasons for your decisions. [10 marks]

- (b) The following data is provided by Chuka farmers' cooperative society which produces daily products from its farm during the year ended 31st December 2017 and 2018.

	2017 (sh 000)	2018 (sh 000)
Raw materials	120,000	127,000
Work-in-progress	114,000	118,000
Finished goods	116,000	124,000
Purchases	196,000	1,130,000
Cost of sales	1,140,000	1,180,000
Sales	1,160,000	1,200,000
Debtors	132,000	148,000
Creditors	116,000	120,000

- (i) Required to compute average operating cash cycle period. [8 marks]
- (ii) Assume the cooperative is given credits which it must service on quarterly basis from cooperative bank. Comment its viability using cash cycle ratio computed (i) above. [2 marks]