

# KASNEB

## DCM LEVEL III

### PRACTICE OF CREDIT MANAGEMENT

#### PILOT PAPER

September 2015.

Time Allowed: 3 hours.

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

#### QUESTION ONE

Utenzi County government is in its second year after it was constituted. Some of the key departments including the credit section have not been set and the audit department has not been well staffed. The county government receives resources for the running of its operations from the central government as well as from taxes, fees and levies at the county level. Business permits, stall fees and parking fees for vehicles are charged on a cash basis with field revenue officers being the custodians of the receipt books and licence books. The officers are supposed to make daily returns to the central office for data capture and recording purposes. There has been reduced revenue collection from stall fees, parking fees and other services which are charged on a cash basis.

A meeting with association heads for business owners and transport services has revealed corruption on the side of the field revenue officers who take bribes and fail to issue the required authentic documents for county services provision. A separate meeting with revenue officers has also indicated rebellion on terms of service and poor remuneration including lack of clear cut guidelines on revenue administration. The other source of revenue that has experienced high default rate is land rates. Most of these are not paid in time and land owners seem to have approvals, though not documented from senior county officials not to pay the rates arrears but only the current year's rates only. This has resulted in conflicts in enforcement as the county government is seen to have two different voices on the same issues. Documentation is manual and most of the times it becomes difficult to produce payment or non-payment of levies for services, a reason that business men have chosen to capitalise on. Due to lack of sufficient funds, the county government is experiencing constraints in its operation and it may be heading to dissolution upon successful petition by the electorates.

You have been appointed as a credit consultant to advise the revenue collection unit of the county government on any measures it should employ to save the current situation. A chat with the governor also informs you that the finance bill is pending approval since there has not been a consensus between county assembly members on some issues contained in the bill.

#### Required:

Prepare a report to the Governor of the county and the revenue collection team on the credit management problems being experienced by the county government and solutions to these challenges for an improved credit management system at the county. (40 marks)

#### QUESTION TWO

- (a) (i) Explain the term "credit insurance". (2 marks)
- (ii) Describe any three types of policies given by insurance companies to cover credit risk. (6 marks)
- (b) Organisations do not focus on reporting performance apart from the use of day's sales outstanding (DSO).
- (i) Define DSO. (1 mark)
- (ii) Describe other six performance measures in credit practice. (6 marks)

(Total: 15 marks)

#### QUESTION THREE

- (a) Explain the importance of timely collection in credit management. (5 marks)
- (b) Identify five key elements of implementing a workable credit policy. (5 marks)
- (c) List five reasons of making credit visits. (5 marks)

(Total: 15 marks)

**QUESTION FOUR**

- (a) Outline the key elements of a good invoicing system. (5 marks)
- (b) Super Sets Limited is a local distributor of television sets. The company sold 200,000 television sets in 2014 at a price of Sh.198,000 each. All sales are on credit with terms of 20/10, net 30.

Assume that 70% of the customers take discounts and pay on day 10 with the remaining 30% paying on day 30. Assume a 360 day year.

**Required:**

- (i) Calculate Super Sets Limited's day's sales outstanding. (5 mark)
  - (ii) Derive Super Sets Limited's average daily sales. (5 marks)
- (Total: 15 marks)**

**QUESTION FIVE**

- (a) (i) Explain how e-commerce operates. (5 marks)
  - (ii) Discuss the risks inherent in trading over the internet. (5 marks)
  - (b) Argue the case for credit scoring in risk management. (5 marks)
- (Total: 15 marks)**
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