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DCM LEVEL I

FUNDAMENTALS OF CREDIT MANAGEMENT

MONDAY: 26 November 2018.

Time Allowed: 3 hours.

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

QUESTION ONE

- (a) Distinguish between the following types of letters of credit:
- (i) “Revocable” and “irrevocable”. (2 marks)
 - (ii) “Confirmed” and “unconfirmed”. (2 marks)
 - (iii) “Transferable” and “revolving”. (2 marks)
- (b) Explain five advantages of mobile banking to banks in your country. (10 marks)
- (c) Besides the costs charged by banks, describe four other charges levied by external parties in a mortgage finance transaction. (4 marks)
- (Total: 20 marks)**

QUESTION TWO

- (a) Explain the following terms of payments:
- (i) 3% 15/Net 90. (3 marks)
 - (ii) 2% 10 Prox/30 Prox. (3 marks)
- (b) Outline five characteristics of marginal accounts. (5 marks)
- (c) Propose four strategies that your organisation could employ to protect credit information on the internet. (4 marks)
- (d) Describe five items that you would include in a check list for assessing export credit customers. (5 marks)
- (Total: 20 marks)**

QUESTION THREE

- (a) Using a flow chart, illustrate any five stages of a credit transaction. (5 marks)
- (b) Highlight eight contents of an effective statement of account. (8 marks)
- (c) Outline seven roles of a credit officer in an organisation. (7 marks)
- (Total: 20 marks)**

QUESTION FOUR

- (a) Summarise eight ways of reducing invoice errors. (8 marks)
- (b) Describe three factors a credit manager should consider when outsourcing the credit function. (6 marks)
- (c) Highlight six benefits of using paybill numbers to receive customer payments. (6 marks)
- (Total: 20 marks)**

QUESTION FIVE

(a) Explain the following international communication terms (INCOTERMS) as used in export credit:

(i) ExW (Ex works) (2 marks)

(ii) FOB (Free on board). (2 marks)

(iii) CFR (Cost and freight). (2 marks)

(b) List four processes of risk management. (4 marks)

(c) In many cases, access to credit information to aid collections is based on some degree of reciprocity between sources of credit information and the creditors.

With reference to the above statement, describe five principles of reciprocity followed to guide the various players on granting and usage of credit information. (10 marks)

(Total: 20 marks)

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