



UNIVERSITY  
OF  
JOHANNESBURG

Department of Commercial Accounting

## CREDIT MANAGEMENT 2

CRM22B2

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### LAST ASSESSMENT OPPORTUNITY

Date of Test: 14 NOVEMBER 2014

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Time: 2 hours

Marks: 100

Assessor: Yusuf Patel

Moderator: Fred Hemmings (Internal)

#### INSTRUCTIONS:

- This paper consists of 3 pages (including the cover page).
- Start each question on a new page.
- Where applicable, round all calculations to two decimal places, unless stipulated otherwise.

Question	Topic	Marks	Time
1	Cash Budgets	22	26 minutes
2	Planning, organising, leading and control	16	19 minutes
3	Planning	4	5 minutes
4	Targets set by credit managers	10	12 minutes
5	7 C's model of credit analysis	20	24 minutes
6	Notarial bonds	6	7 minutes
7	Debt Review and ADR	22	27 minutes
		<b>100</b>	<b>120 minutes</b>

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**QUESTION 1****(22 marks)**

Frodo Ltd prepares a monthly cash budget. As a basis for its 2014 cash budget, it has compiled the following information:

1. Monthly sales forecast for 2014 are as follows:

<b>January</b>	<b>February</b>	<b>March</b>	<b>April</b>	<b>May</b>
R350 000	R375 000	R425 000	R525 000	R515 000

2. Eighty percent of sales are on credit terms, and 20 % are for cash. Sixty percent of total sales are collected in the first month following the sale. The remainder is collected in the second month following the sale. Actual sales in the last two months of 2013 were: November – R400 000 and December –R400 000
3. Material purchases in each month are equal to 30% of sales forecast for the next month.
4. Labour expenses are paid as follows: January R170 000, February R190 000 and March R 240 000.
5. Selling and administration expenses of R40 000 per month are paid in the month incurred.
6. Interest expenses of R 18 500 on long term debt and bank loans are due on 30 June.
7. Overhead expenses of R45 000 per month are paid in the month incurred.
8. An estimated tax payment of R20 000 will be paid on 15 April.
9. Depreciation expenses are R5 000 per month.
10. The cash balance on 31 December 2014 was R50 000.

**Required:**

Prepare a cash budget for Frodo Ltd for January 14 – March 14 showing all necessary calculations.

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**QUESTION 2****(16 marks)**

Fully discuss the importance of planning, organising, leading and control in a business.

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**QUESTION 2****(4 marks)**

List four goals that a credit manager would take into account during the planning process

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**QUESTION 4****(10 marks)**

Discuss five important targets that a credit manager is responsible for setting and the relevance of each target to the ultimate success of the business going forward in the future.

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**QUESTION 5****(20 marks)**

Fully discuss the factors (the 7C's) that a credit grantor should take into account when assessing the quality of credit risk.

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**QUESTION 6****(6 marks)**

List the characteristics and essentials of a notarial bond.

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**QUESTION 7****(22 marks)**

Peter Parker has debt from various sources. He has accumulated debt as a result of purchasing equipment to develop spider webs. He has the following debt:

Debt	Amount
Oscorp industries	R10 0000
South African Bank	R50 0000
Web slinger Ltd	R25 0000

Peter Parker has received a Summons from Oscorp. After realising that he can no longer afford to settle his debts he applied for Debt review.

**Required:**

- a) Does Peter Parker qualify for debt review (2 marks)
  - b) What are steps that he will face under debt review (10 Marks)
  - c) Calculate the amount that qualifies under debt review (4 Marks)
  - d) List and define three types of alternate debt review available (6 marks)
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