



UNIVERSITY  
OF  
JOHANNESBURG

Department of Commercial Accounting

## CREDIT MANAGEMENT 2

CRM22A2

**Last Assessment Opportunity**

**May 2016**

**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.
- Calculators are allowed

Question	Topic	Marks	Time
1	Ratio analysis	21	25 minutes
2	Decision regarding the granting of credit	15	18 minutes
3	Definitions	12	20 minutes
4	The different forms of credit	5	6 minutes
5	Decision regarding the granting of credit	17	21 minutes
6	Decision regarding the granting of credit	10	12 minutes
7	Ratio analysis	15	18 minutes
		<b>100</b>	<b>120 minutes</b>

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**QUESTION 1 - (21 marks)**

- 1.1 Fully discuss the purpose of undertaking a detailed analysis of the annual financial statements of a business. (5)
- 1.2 Identify the inherent limitations to be considered by a credit analyst when analysing of annual financial statements of a business undertaking. (6)
- 1.3 Write down the formulae for the following ratios and briefly cite the meaning and interpretation of each ratio, alongside each one listed:
- 1.3.1 Quick ratio
  - 1.3.2 Net profit margin
  - 1.3.3 Accounts payable payment period
  - 1.3.4 Return on equity
  - 1.3.5 Inventory turnover (10)
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**QUESTION 2 - (15 marks)**

Discuss the advantages and disadvantages of an automated decision making process.

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**QUESTION 3 - (17 marks)**

- 3.1 Define the following concepts in no more than two lines each:
- 3.1.1 Inflation (2)
  - 3.1.2 Credit grading (2)
  - 3.1.3 Profitability ratio (2)
  - 3.1.4 Creditworthiness (2)
  - 3.1.5 Quick ratio (2)

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3.1.6 Mortgage loan	(2)
3.1.7 Planning	(2)
3.1.8 Leading	(2)
3.1.9 Control	(1)

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**QUESTION 4 - (5 marks)**

Clearly explain what you understand by the meaning of 'trade credit'.

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**QUESTION 5 - (17 marks)**

Archie's Catering Services has always operated on a strictly 'cash sales only' basis in all of its business transactions since its inception. Archie's Catering Services is now considering the introduction of credit.

5.1 Explain five advantages that the granting of credit to its customers would hold for Archie's Catering Services. (11)

5.2 Explain five disadvantages that the granting of credit to its customers would hold for Archie's Catering Services. (6)

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**QUESTION 6 - (10 marks)**

Explain in detail the various motives for a business to hold cash.

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**QUESTION 7 - (15 marks)**

There are five critical success factors for any business. List these factors and explain why they are important for any business.

Hint: these relate to the categories of ratios.

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