



UNIVERSITY  
OF  
JOHANNESBURG

Department of Commercial Accounting

**CREDIT MANAGEMENT 3**  
**CRM33A3**

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**FINAL ASSESSMENT OPPORTUNITY**

**Date of examination: 7 JUNE 2016**

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**Time: 3 hours**

**Marks: 100**

**Assessor:** Fred Hemmings  
**Internal Moderator:** Yusuf Patel  
**External Moderator:** Andrew Pampallis

**INSTRUCTIONS:**

This paper consists of 3 pages (including the cover page).

- Where applicable, round all calculations to two decimal places, unless stipulated otherwise.
- Start each question on a new page.

Question	Topic	Marks	Time
1	The role of control in the reporting process	10	18 minutes
2	Key Indices in credit reporting	20	36 minutes
3	Instruments to finance a business	20	36 minutes
4	Effective management of debtors	15	27 minutes
5	Credit departments vested stakeholders	10	18 minutes
6	Insolvencies/ objectives of credit management/ collections	25	45 minutes
		<b>100</b>	<b>180 minutes</b>

### **QUESTION 1 (10 marks)**

With aid of a diagram, discuss why 'control' is an important management principle that should be embraced in the credit reporting process.

### **QUESTION 2 (20 marks)**

The following information was extracted from Bassie Basson (Pty) Ltd credit department's records at the end of its financial year being 31/12/2015:

- The company has a net credit period of 30 days
- Total accounts receivable past due was R12 000 at 31/12/2015
- Accounts receivable outstanding at 01/01/2015 was R200 000
- Average receivables outstanding amounted to R10 000 during the financial year
- Total net sales for the financial year amounted to R600 000
- Total credit sales amounted to R100 000 during the financial year
- Bad debt losses of R40 000 were experienced during the financial year
- Collections of R160 000 were made during the financial year
- Total accounts receivable outstanding at 31/12/2015 was R120 000
- 8 000 credit applications were received during the financial year of which 5 000 were accepted

Calculate the ratios mentioned below (showing all necessary workings) and provide explanations as to why the credit manager at Bassie Basson (Pty) Ltd would deem each of these ratios calculated to be of importance to the business.

- 2.1 Bad-debt loss
- 2.2 Credit sales index
- 2.3 Collection index
- 2.4 Average collection period
- 2.5 Receivable turnover rate
- 2.6 Acceptance index
- 2.7 Past-due index
- 2.8 Number of days to collect accounts

### **QUESTION 3 (20 marks)**

Discuss the various instruments that may be used to finance the short term, medium term and long term capital requirements of a business.

**QUESTION 4 (15 marks)**

- 4.1** Name five problems that may be evidenced from an ineffective system of credit control. (5)
- 4.2** Explain ten key factors that should be kept in mind for the effective management of debtors. (10)

**QUESTION 5 (10 marks)**

Who are the three vested stakeholders that the credit department has in society and what are the credit department's responsibilities towards each of these stakeholders?

**QUESTION 6 (25 marks)**

- 6.1** Briefly explain what the difference is between liquidations and insolvencies (5)
- 6.2** Briefly explain the basic objectives that a company tries to attain with use of its collections policy (10)
- 6.3** Explain the requirements of an effective credit report (10)