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## QNO.1

A .When high percentage of bad debt losses and low credit rejection policy uses, the company's sales will increase, profit will decrease and cash collection will increase.

B. when high percentage of past due accounts maintain, and low credit rejection Sales increases, profit increases and cash will decrease

C. A low percentage of past due accounts and high credit rejection rates policy uses, sales will increases, profit will decrease and cash will increase.

## QNO.2

## CREDIT APPLICANT-SOURCES OF INFORMATION

A number of services supply credit information on businesses, except for some accounts, especially small ones, the price of collecting this information may outweigh the potential profitability of the account. Maybe the firm extending credit ought to be satisfied with a limited amount of knowledge on which to base a choice. Additionally to cost, the firm must consider the time it takes to research a credit applicant. A shipment to a prospective customer cannot be delayed unnecessarily pending an elaborate credit investigation. Thus, the number of knowledge collected must be considered in reference to the time and expenses required. Counting on these considerations, the analyst may use one or more of the subsequent sources of knowledge.

## FINANCIAL STATEMENTS

At the time of the potential sale, the vendor may request financial statements, one in every of the foremost desirable sources of knowledge for credit analysis. Frequently, there's a correlation between a company's refusal to produce statements and a weak financial position. Audited statements are preferable. When possible, it's helpful to get interim statements additionally to year-end ones, particularly for companies having seasonal patterns of sales.

## CREDIT RATINGS AND REPORTS

In addition to financial statements, credit ratings are available from various credit reporting agencies.

A leading credit reporting agency credit reports containing a quick history of an organization and its principal officers; the character of the business; certain financial information; and a trade check of suppliers, including the length of their experience with the corporate and whether payments are discount, prompt, or overdue. the standard of the leading credit reporting agency report varies with the knowledge available externally and also the willingness of the corporate being checked to cooperate with a number one credit reporting agency's reporter. The report itself may be accessed via a computer terminal if so desired.

## BANK CHECKING

Another source of credit information for the analyst checking on a specific firm is that the firm\s bank. Most banks have credit departments that may provide information on their commercial customers as a service to those customers seeking to accumulate trade credit (credit granted from one business to another). By calling or writing a bank within which the credit applicant has an account, the analyst can obtain information, like average cash balance carried, loan accommodations, experience, and sometimes more extensive financial information. What's provided is decided by the extent of the permission given by the bank's customer. In exchanging credit information, most banks follow guidelines adopted by financier Associates (RMA), the national association of loan and credit officers. Both the RMA Code of Ethics and therefore the Statement of Principles describe a way to answer requests for credit information, whether or not they are received in writing, by telephone, or by fax.

## TRADE CHECKING

Credit information is frequently exchanged among companies selling to the same customer. Through various credit organizations, credit people in a particular area become a closely knit group. A company can ask other suppliers about their experiences with an account.

QNO3.A

## TRADE CREDIT

A trade credit may be a business-to-business (B2B) agreement during which a customer should buy goods on account without paying cash up front, paying the supplier at a later scheduled date. Usually businesses that operate with trade credits will give buyers 30, 60, or 90 days to pay, with the transaction recorded through an invoice. Trade credit will be thought of as a kind of 0% financing, increasing a company's assets while deferring payment for a specified value of products or services to sometime within the future and requiring no interest to be paid in relevancy the repayment period

A trade credit is a plus for a buyer. In some cases, certain buyers could also be able to negotiate longer trade credit repayment terms which provides an excellent greater advantage. Often, sellers will have specific criteria for qualifying for trade credit.

A B2B trade credit can help a business to get, manufacture, and sell goods before ever having to buy them. This permits businesses to receive a revenue stream which will retroactively cover costs of products sold. Wal-Mart is one amongst the most important utilizes of trade credit, seeking to pay retroactively for inventory sold in their stores. International business deals also involve trade credit terms. In general, if trade credit is obtainable to a buyer it typically always provides a bonus for a company's income.

The number of days that a credit is given is set by the corporate allowing the credit and is specified by both the corporate allowing the credit and also the company receiving it. Trade credit may also be an important way for businesses to finance short-term growth. Because trade credit could be a style of credit with no interest, it can often be accustomed encourage sales.

Since trade credit puts suppliers at somewhat of an obstacle, many suppliers use discounts when trade credits are involved to encourage early payments. A supplier may provide a discount if a customer pays within a particular number of days before the day of the month. For instance, a 2% discount if payment is received within 10 days of issuing a 30-day credit. This discount would be mentioned as 2%/10 net 30 or just just 2/10 net 30.

**QNO3.B**

2/10 net 60 means., that if within 10 days customer pays 2% discount will be allowed otherwise 60 are due days.

2/10 net 30 means, that if within 10 days customer pays 2% discount will be allowed otherwise 30 are due days.

The second option is the best for the company as per sales and liquidity option.

**QNO4.A**

**FLOATING LIEN**

A floating lien, also called a floating charge, could be a way for an organization to get a loan employing a stake during a general set of assets, during which the individual assets don't seem to be specifically identified, as collateral. Typically, a loan would be secured by fixed assets like property or equipment, but with a floating lien, the underlying assets are usually current assets or short-term assets that may change in value.

**CHATTEL MORTGAGE**

A mortgage may be a loan arrangement during which an item of movable personal estate acts as security for a loan. The movable property, or chattel, guarantees the loan, and therefore the lender holds an interest in it.

This differs from a traditional mortgage within which the loan is secured by a lien on real stationary property.

Chattel home loans are spoken as security agreements in some areas of the country. The terms "personal property security," "lien on material possession," or perhaps "movable hypothec" are synonyms for a mortgage utilized in different jurisdictions round the world.

## TRUST RECEIPT

A trust receipt may be a financial document attended to by a bank and a business that has received delivery of products but cannot get the acquisition until after the inventory is sold. In most cases, the company's income and dealing capital could also be engaged in other projects and business operations.

## QNO4.B

## SECURED SHORT TERM LOAN

Secured loans require the borrower to pledge specific assets as collateral, or security. The secured lender can legally take the collateral if the borrower doesn't repay the loan. Commercial banks and commercial finance companies are the most sources of secured short-term loans to business. Borrowers whose credit isn't strong enough to qualify for unsecured loans use these loans. Typically, the collateral for secured short-term loans is assets or inventory. Because assets are normally quite liquid (easily converted to cash), they're a pretty sort of collateral. The appeal of inventory—raw materials or finished goods—as collateral depends on how easily it will be sold at a good price.

Another kind of short-term financing using assets is factoring. A firm sells its assets outright to an element, a financial organization (often an advertisement bank or commercial finance company) that buys assets at a reduction. Factoring is widely utilized in the clothing, furniture, and appliance industries. Factoring is dearer than a loan, however, because the factor buys the receivables at a reduction from their actual value.