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**Q.1. what could be the probable effects of the following credit policies on company’s’ sales, profits, and cash collection?**

. **1. A high percentage of bad debt loss and low credit rejection.**

A high percentage of bad debt it will affect the profit sales unaffected, profit reduced .this policy advise that the firm has a poor collection policy. Accounts that are collectable are being written off too speedily. Thus the turnover is maintained at the expense increased bad debts losses

 **2. A high percentage of past due accounts but low credit rejection rate**.

In this policy sales will increased and profitability from this policy also decreased .so this policy propose a relax collection policy or ineffective showing of poor credit risks.so the last profitability position depends upon the profitability and costs of servicing the past due accounts.

 **3. A low percentage of past due accounts but high credit rejection rates.**

That point suggests that the company's previous credit amount is not paid on time and the business has a high likelihood of rejecting credit requests, so profits would likely decline. But the income would also decline as neither the business gets back what it has given on time nor is company selling its products to new customers. Similarly the cash collection will become better for as company is not giving any further credit and no as the company receives it receivables its cash collection improves.

**Q.2. What are the various sources of information the company might use to analyze credit applicant?**

**GATHERING OF INFORMATION ON CREDIT APPLICANT:** the information from credit applicant so the company want to evaluate creditworthiness and get different source of information collected are following

**STATEMENT:** for analyzing the customer the company demand of financial information to which the company easily evaluate the applicant. The financial statement include the income statement which shows the applicant profit and loss and balance sheets which shows the position of the applicant ,cash flows and budget forecasting can ask from the applicant by the company to which the company study on the basis of this information the company can easily evaluate the applicant financial strength and on thebasis of financial statement the company understand that the company can repay the liability and it show the financial weakness which indicate that company can refuse to extend the credit**.**

**CREDIT RATING AND REPORTS:** credit rating is the quantified assessment of the creditworthiness of a creditors about the debt or financial obligation, there are many credit agencies which provide credit rating available about the difference companies. Credit reporting agencies is organization which that collect the past financial records for the people and organization. These provide information about the borrower and various other information in summarized in a credit report that include a credit score when issued.

Credit report have various kind of information which the offer for customer, these report either individual or business. These are required to collect regular payment details and have detailed credit assessments on the general financial background of a borrower. They developed market guidelines on methodologies on recording and ranking.

There are many credit agencies so they are well known like Dun&bradstreets credit service to which give its customer about the report of credit rating of individual and business they provide huge quantity of business credit rating of over 3 million including manufacturers, retailer, service business and other kind Balance sheet and statement of profits, analysis of its banking partnerships, past ownership details and overview of its activities, including the position of facilities and the categories of goods sold of business.

There also another credit agency which provide the information about the summary of trade credit payment to his supplier which is more valuable information to which can think and decide about the extending credit to his customer. The information Balance sheet and statement of profits, analysis of its banking partnerships, past ownership details and overview of its activities, including the position of facilities and the categories of goods sold.

**BANK:** Many banks will help their business clients get creditworthiness information from other companies. Through its communications with other institutions, a customer's bank is also able to collect accurate details regarding the company’s spending practices and financial position under examination and transfer this knowledge on to a client. Some banks have branches of credit and can have Knowledge regarding their company clients as a benefit for those consumers who want to buy Business loan (credit extended by one business to another).and the credit applicant has account and the analyst get the information like average cash balance carried,loand accommodation, some other important information.

**TRADE CHECKING**: Credit information is sometimes shared between companies which sell to the same Company. From numerous credit organization. A company can also ask from other suppliers about their dealing experience with an account.

**PRIOR EXPERIENCE WITH THE CUSTOMER: It is also useful for that company have past** experience with credit customer that a company decide that whether to extend to continue the business with credit applicants. Raising the amount of credit currently granted to the client or both. For example , if the customer tends to remit payments well beyond the due date and/or if the company has to use expensive collection methods to obtain payments, this unfavorable information should be weighed by the credit analyst in making the decision to extend credit..

**Q.3. A. Discuss the various terms of trade credit and which one in your opinion suits a Pakistani supplier for in land trade**.

: Credit terms or terms of credit are the agreement between a seller and purchaser that lists the timing and amount of future payments the purchaser will make. In other words, this is the contract which specifies the specific specifications of the payment conditions of the seller that the purchaser must meet to purchase products on account

**2/10 NET 30:If the buyer pays within 10 days they will received a 2% discount, otherwise the full amount is due in 30 days**

Assume that the trade credit terms are 2/10, net 60. This means that the customer will get a discount of 2% if paid within 10 days, and if discount is not availed the amount is due in 60 days.

Trade credit is usually offered for 7, 30, 60, 90, or 120 days for non-discounted period. For discounted period 4/10 net 45, 5/20 net 30 terminology is used.

EXAMPLE: Credit terms have to be set before a credit sale can be made. Most terms are dictated by industry practices and the particular goods that are sold in those industries. A standard term rate applicable throughout most industries 2/10 N/30—often called 2/10 net/30

In Pakistan there difference trade credit term for every business it depends on business to business ,industry to industry, it depend on nature of the business and policies of the business every business have different policies in industrial estate mostly they give discount when they pay the early and give discount.

 **B. Assume that a company intends to switch from 2/10, net 60 to 2/10, and net 30. What effect could it bring on its sales and liquidity?**

 If there is changes in credit terms from 2/10, net 60 to 2/10, net 30 it will also affect the sale and liquidity we know that if the credit term if the decrease from 60 to 30 days from this changes the sale will decrease after decrease the period of time so that’s it also decrease the profit of the company. From this changes of this liquidity also decrease. And from this collection period increase and due to this our liquidity decrease.

**Q.4. Differentiate between the following charges of security**:

 **1. Floating lien.**

A floating lien, also known as a floating fee, is a means for a business to secure a credit through a protection interest in a broad collection of assets without explicitly specifying the particular assets as leverage.

Usually, real assets such as properties or facilities can guarantee a credit, but with a revolving lien, the collateral assets are typically existing assets or short-term assets, and may shift in value.

**WORK OF FLOATING LIEN:** Floating liens are an effective way for retailers and other product-based companies to use their stock or receivable accounts as warranty. The exact goods that continuously change so the floating lien guarantees the borrower that their debt against the new products is protected. In the normal course of business the borrower has the right to sell, transfer or dispose of any of its assets.

Floating liens therefore allow business owners to access competitive or floating assets protected resources. Short-term liquid assets are the funds supporting the floating fee, normally collected by a corporation within one year. The current assets secure the floating charge, while allowing the company to use those assets to operate its business operations.

If the company nonpayment or otherwise fails to repay the loan, the floating charge "crystallizes" into a fixed charges, and the lender becomes the first-in-line creditor to be able to draw against the underlying asset.

 2. **Chattel Mortgage.**

A chattel mortgage is a loan arrangement where a movable personal property item helps as security for a loan. The debt is backed by the movable house, or chattel, and the lender retains interest in it.

This differs from a conventional mortgage in which the loan is secured by a [lien](https://www.investopedia.com/terms/l/lien.asp) on real stationary property.

In some parts of the country, chattel home loans are referred to as security agreements. Also synonymous with a chattel mortgage used in different jurisdictions around the world are the terms personal property security, personal property liaison, or even movable hypothec.

Vehicles, airplanes, boats, farm equipment, and [manufactured homes](https://www.investopedia.com/articles/personal-finance/112814/fha-loans-option-manufactured-homes-too.asp) are all good examples of assets that are often financed using chattel mortgages

Such personal-property mortgages have unique laws. For example, chattel home loans must be registered with a public registry such that third parties may be informed of them before entering into lending arrangements with potential lenders who choose to put the property up for another loan as insurance.

 3. ***Trust receipt*.**

Trust Receipt (TR) is a form of short-term import loan offering funding to the consumer to settle products. Under an arrangement with TR, Bank holds rights to the products, but permits the purchaser to take ownership of the goods for resale on confidence Before charging the Bank on the due date for TR. TR financing extends to goods purchased under documentary credit.

Imported under Letter of Credit, under which the bank retains rights to the products.

**B. Being a credit manager of a bank, how would you secure a short term credit request of your bank’s customer?**

**It is** very important for the bank manager when any customer come to bank want to get short loan from the bank so the manager or lender will concentrate on different thing about the customer. It’s following points.

**CREDIT HISTORY:** the manager want to want to review both the credit history of your business (if the business is not a startup) and, because a personal guarantee is often required for a small business loan, your personal credit history. The bank manager demand for obtaining credit report before apply for the credit.

**COLLATERAL TO SECURE A LOAN:** for the securing loan the bank manager must see property that secure the loan or debt so manager know that incase of failed of repayment loan the bank can easily seize that property in case of default payment.

**Commercial credit history:**the bank manager must review a credit report on your own business, if your business has been in existence for a while. You can obtain a free Business Information Report on your own business.

 **Credit History with Client**: Consumer credit companies are expected to remove from the report any facts which are not verifiable or incorrect. Nonetheless, notifying the related borrower by writing a letter which challenges any debt to the credit reporting service is often a good idea. The conflict should also be settled faster when you have made an error.