



JARAMOGI OGINGA ODINGA UNIVERSITY OF SCIENCE AND TECHNOLOGY

UNIVERSITY EXAMINATION FOR THE DEGREE OF BACHELOR IN BUSINESS

ADMINISTRATION WITH IT

**4TH YEAR 2ND SEMESTER 2018/2019 ACADEMIC YEAR
MAIN CAMPUS**

COURSE CODE: ABA 417

COURSE TITLE: BANKRUPTCY AND INSOLVENCY

DATE: EXAM SESSION:

TIME:

Instructions

1. Answer Question ONE and any other TWO
2. Candidates are advised not to write on the question paper.
3. Candidates must hand in their answer booklets to the invigilator while in the examination room.

QUESTION ONE

(a) Six years ago your company was successful in obtaining a judgment against Mr Oketch. The agreement reached was that Mr Oketch would pay Kshs.4000 per month on a judgment debt of

of Kshs.3,000,000. You have just taken a call from Mr Oketch who says that the matter is now time

barred and he doesn't have to make any more payments. You are thrown by this statement and so

advise Mr Oketch that you will look into this and call him back. When you check the notes on his account, it appears that Mr Oketch called the previous day for an up-to-date balance and after a few choice of words put the telephone down. He could not understand why, after six years

of making these payments, there was no reduction on the outstanding account, even though he

had not missed a single payment. He demanded to speak with your boss, Miss Oliver.

Required:

Prepare a note to your finance director, Miss Oliver, justifying the balance on the account so that

she may call Mr Oketch and have all the relevant information available to address his queries. (10 marks)

b) Consider you are in Mr Oketch's position when the judgment is first awarded. What could you

try and negotiate instead of agreeing to a Tomlin Order? 10 marks.

(c) What are the requirements for a debtor commencing a voluntary liquidation case and what are

the effects? 10 Marks

QUESTION TWO

(a) What is the best way to start rebuilding your credit after a bankruptcy? 5 marks

(b) What is the test to determine if a debtor is insolvent? 5 marks

(c) You have recently been appointed credit controller for a small packaging company æPacking

In Ltd which has suffered some bad debts with customers in liquidation owing payment on several months' invoices. Your first task is to bring some structure and procedure to current processes, with a view to minimising bad debts. The customer base is made up of individual

market traders, shop keepers and limited companies. Payment terms are flexible and orders are delivered on request. If things continue as they are, it is likely that Packing In Ltd will become insolvent themselves.

Required:

- (i) Referring your answer to the scenario above, explain how you could limit the exposure to potential bad debts from customers. (5 marks)
- ii) If nothing is done and Packing In Ltd becomes insolvent, what could they do if they want to continue to trade? Include in your answer your suggested route for Packing In Ltd and your reason for it.(5 marks)

QUESTION THREE

(a) What are the requirements for a debtor commencing a voluntary reorganisation and what are the effects? 5marks

(b) What are the requirements for creditors placing a debtor into involuntary liquidation and what are the effects? Once the proceeding is opened, are there material differences to proceedings opened voluntarily? 5 marks

(c) Billy is a 19 year old trainee accountant. He is doing well in his exams but is having debt problems brought about by trying to ælive up to an imageÆ. He has entered into several phone contracts, selling on the phones to make some quick cash, leaving him with monthly contracts to pay. He has borrowed funds from a æpay dayÆ loan company and now finds he cannot meet his financial obligations. Although he is good with figures, he believes that he should go for bankruptcy or something similar and has asked for your advice. His debts total to kshs.200,000 between four companies.

Required:

- i) Critically appraise the situation. 5 marks
- ii) Submit your recommendations to Billy. 5 marks

QUESTION FOUR

(a) The credit sales form 25% of the sales and 25% of the cost of sales relate to credit sales. Bondo Ltd. has a thirty day payment incorporated in its terms of trade. It is considering increasing the credit facilities in order to increase sales in the short term. Comment on the viability of this proposal and comment on the working capital management of Bondo Ltd. (10 marks)

(b) Are there corporate procedures for the dissolution of a corporation? How do such processes contrast with bankruptcy proceedings? 10 marks

QUESTION FIVE

(a) The Nyawita Trading Company Ltd has total liabilities of Kshs.93,750,000 and a debt to equity ratio of 1.25. Calculate total stockholders' equity of The Nyawita Trading Company Ltd. (10 marks)

(b) List and explain the four decision making procedures that form part of the rules that govern how liquidation processes are done. (10 marks)

