



JARAMOGI OGINGA ODINGA UNIVERSITY OF SCIENCE AND TECHNOLOGY
UNIVERSITY EXAMINATION FOR THE DEGREE OF BACHELOR IN BUSINESS
ADMINISTRATION WITH IT
4TH YEAR 2ND SEMESTER 2024/2025 ACADEMIC YEAR
MAIN CAMPUS

COURSE CODE: BAB 1406

COURSE TITLE: BANKRUPTCY AND INSOLVENCY ACCOUNTS

EXAM VENUE: LAB 6

DATE: 17/04/2025

EXAM SESSION: 15.00 – 17.00 PM

TIME: 2 HOURS

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

You are Legal collections manager for a company. You receive notice of judgment entered from the courts in relation to Mrs Odongo, a barrister who owes your company Kshs 858,689.70. You have already ascertained that Mrs Odongo jointly owns her own property worth Kshs 30,364,222.11 and there are two charges registered against the property with one being a mortgage.

You have complied with the necessary rules in order to obtain a charge over the property, however the final charging order hearing has been re-listed twice on the pre-text of allegations made by Mrs Odongo in relation to other unsecured and secured creditors.

Eventually you have your final charging order only to be notified that the lady filed for her own bankruptcy the day after the granting of the final charge.

Required:

- a) Demonstrate your understanding of the charging order process, including reference to what action is required where there are other charges against the property. (12 marks)
- b) What are the advantages of registering a charge and the options in insolvency available to a registered charge holder? (8 marks)
- c) Critically assess the scenario above with special regard to the current status of the property and to Mrs Odongo's conduct, bearing in mind she is a barrister. (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 'Packing 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 reorganization and what are the effects? (5 marks)
- (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 'live up to an image'. 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 'pay day' 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) Bondo 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 Bondo 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)