



TECHNICAL UNIVERSITY OF MOMBASA
Faculty of Business and Social Studies

DEPARTMENT OF BUSINESS STUDIES

UNIVERSITY EXAMINATIONS FOR DEGREE IN
BACHELOR OF BUSINESS ADMINISTRATION
BACHELOR OF COMMERCE

BAC 4402: BANKRUPTCY AND INSOLVENCY

END OF SEMESTER EXAMINATIONS

SERIES: APRIL 2015

TIME: 2 HOURS

INSTRUCTIONS:

- Answer Question **ONE (Compulsory)** and any other **TWO** questions.
- Do not write on the question paper

This paper consists of Five printed pages

QUESTION 1 (Compulsory)

- a) With reference to bankruptcy, discuss **FIVE** differences between a balance sheet and a statement of affairs. **(10 marks)**
- b) Omurwa, a businessman filed his own petition in bankruptcy. The balance sheet of his business as on 31st March 2013 the date of receiving order showed.

	Sh.		book value Value sh.	Not Realisable Value sh.
Capital account as On 1 st April 2012	300,000	Assets		
Add: Profit for the year the year ended 31 st March 2013	<u>100,000</u>	Freehold shop building	600,000	700,000
	400,000	25,000 share of sh. 20 each in Simiti Ltd	500,000	100,000
Less: Drawings	<u>90,000</u>	Stock in trade	200,000	150,000
	310,000	Debtors	200,000	175,000
Trade creditors (Including sh. 25,000 Preferred in bankruptcy	840,000	Bank balance	50,000	50,000
Loans (secured on freehold Shop building	<u>400,000</u>			
	<u>1,550,000</u>		<u>1,550,000</u>	

Omurua's personal assets not included in above comprised of a motor car valued at sh. 100,000, a current account with a bank sh. 20,000 and a gold watch valued at sh. 5,000. His only personal liabilities outside the business were sh. 3,000 due to his tailor

Required:

As at 31st March 2013 prepare

- a. A statement of affairs
- b. A deficiency account

(20 marks)

QUESTION 2

- a) With reference to the company's Act, discuss the order of payment of expenses, creditors and shareholders. **(10 marks)**
- b) Give a detailed composition of preferential creditors. **(10 marks)**

QUESTION 3

Halima and Khamza were in partnership trading under the name Halimza Traders and sharing profits and losses in the ration 1:3 respectively. On 31st December 2014 a winding up petition was lodged against the firm on which date the balances extracted from the books of the firm and the partners separate estate were as follows:

	Current value	Estimated to realize
	Sh. 000	Sh. 000
Freehold property: Firm	11,000	12,000
Halima	7,000	10,000
Plant and machinery: Firm	3,000	1,500
Furniture and fixtures: Firm	1,000	8,000
Halima	1,500	1,200
Khamza	1,800	1,500
Inventory: Firm	8,000	6,500
Accounts receivable: Firm	12,000	<i>(see note 1)</i>
Investment: Halima	1,500	2,400
Khamza	2,000	1,900
Liabilities		
Accounts payable: Firm	19,000	
Halima	700	
Khamza	2,400	
Bank overdraft: Firm	7,000	
Mortgage on Freehold property:		
Firm	6,000	
Halima	5,000	

Additional information:

1. Of the accounts receivable, sh. 9 millions is estimated to be good, sh. 1 millions is estimated to be good, sh. 1 million is expected to be bad, and 50% of the remaining accounts receivable are expected to be realized.
2. The preferential creditors for the firm, Halima and Khamza were sh. 1,100,000, sh. 300,000 and sh. 500,000 respectively.
3. The firm's bank overdraft was secured by a second mortgage on the partnership freehold property and by the deposit of Halima's investment together with the personal guarantee.

Required:

Using the format laid down the Bankruptcy Act Cap. 53 prepare

- a) Statement of affairs as at 31st December 2014 for Halimza.
- b) Deficiency or surplus accounts as at 31st December 2014 for Halimza.

QUESTION 4

Matatizo Ltd went into voluntary liquidation on 30th November 2014. Its statement of financial position as at that date was as follows:

	Sh.
Assets	
Land and buildings	5,000,000
Plant and machinery	12,500,000
Patents	2,000,000
Inventory	2,750,000
Accounts receivable	5,500,000
Cash at bank	1,500,000
Profit and loss account balance	<u>5,625,000</u>
	<u>34,875,000</u>

Equity and liabilities

100,000 10% preference shares sh. 100 each fully paid 10,000,000

50,000 equity shares of sh. 100 each sh. 75 paid 3,750,000

150,000 equity share of sh. 100 each sh. 60 paid 9,000,000

15% debentures secured by a floating charge 5,000,000

Interest outstanding on the debenture 750,000

Accounts payable 6,375,000

12,670,000

Additional information:

1. The assets were realized as follows:

	Sh.
Land and buildings	6,000,000
Plant and machinery	10,000,000
Patents	1,500,000
Inventory	3,000,000
Accounts receivable	4,000,000

2. Liquidation expenses amounted to sh. 545,000.

3. The final payment were made on 31st March 2015.

Required:

Liquidators final statement of account as at 31st May 2015.

QUESTION 5

Filisika Ltd is insolvent and is in the process of filing for relief under provision of Bankruptcy Act (Cap. 53). The company has no cash and its balance sheet currently shows creditors of sh. 48 millions. An additional sh. 8 millions is owed in connection with various expenses but those amounts have not yet been recorded. The company assets with an indication of both book value and anticipated not realizable value as at 31st September on 2014 are as follows:

	Book value	Expected
	Sh. 000	To realise
	Sh. 000	Sh. 000
Land	80,000	75,000
Buildings	90,000	60,000
Accumulated depreciation	(38,000)	-
Equipment	110,000	20,000
Accumulated depreciation	(61,000)	-
Investment	10,000	18,000
Inventory	48,000	36,000
Accounts receivable	31,000	9,000
Others	<u>5,000</u>	=
	<u>2,750,000</u>	<u>21,8000</u>

Additional information.

1. Filisika Ltd has three debenture payable each with different maturity dates.
 - Debenture “one” due in 5 years. Sh. 120 millions secured by a mortgage lien on Filisika’s land and buildings.
 - Debenture “two” due in 3 years – sh. 30 millions secured by Filisika’s investment.
 - Debenture “three” due in 10 years - sh. 35 millions unsecured
2. Of the creditors owed by Filisika Ltd, sh. 10 millions represents salaries to employees. However, no individual is entitled to receive more than sh. 4,000. An additional sh. 3 millions is included in this liability than that is due to the Kenya Government with respect to taxes.
3. The shareholders equity balance reported by the company at the current date is sh. 42 millions composed of ordinary share capital of sh. 140 millions and a debit on the profit and loss account of sh. 98 millions.
4. If the company is liquidated, administrative expenses of approximately sh. 20 millions would be incurred.

Required:

A statement of affairs of and deficiency account as at 30th September 2014.

(20 marks)