



**TECHNICAL UNIVERSITY OF MOMBASA**  
***School of Business***

DEPARTMENT OF BUSINESS ADMINISTRATION

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

**BAC 4402: BANKRUPTCY AND INSOLVENCY**

SPECIAL/SUPPLEMENTARY EXAMINATIONS

**SERIES: JUNE/JULY**

**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*

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**QUESTION 1 (Compulsory)**

- a) You have been appointed the official receiver of Omondi Ltd. Give a detailed priority of paying creditors. **(10 marks)**
- b) ABC Ltd went into voluntary liquidation on 31<sup>st</sup> March, 2014 and the following balance sheet was prepared

**Balance Sheet**  
**As at 31<sup>st</sup> March 2014**

<b>Sh.</b>	<b>sh.</b>
Share capital	Assets
195 ordinary shares of sh. 10,000	Goodwill 400,000
Each fully paid 1,950,000	Patents 100,000
	Freehold buildings 480,000
Sundry creditors	Plant 655,000
Preferential 242,000	Inventory 568,000
Secured creditors	Accounts receivable 648,200
(partly secured against	Profits and loss account 986,800
Freehold property) 553,100	
Unsecured <u>997,900</u> 1,793,000	
Bank overdraft	
(unsecured) <u>120,000</u>	
<b><u>3,863,000</u></b>	<b><u>3,863,000</u></b>

The liquidator realized the assets as follows:

Freehold building sh. 350,000; accounts receivable sh. 585,000

Plant sh. 510,000; inventory sh. 415,000

The expenses of liquidation amounted to sh. 10,000.

**Required:**

Liquidators cash account.

**(20 marks)**

## QUESTION 2

Kanyingi who is facing bankruptcy proceedings has supplied you with the following information as at 31<sup>st</sup> March 2014

	<b>Sh. 000</b>
Creditors for goods	525,000
Salaries accrued	7,000
Taxes due	21,000
Bank loan secured by lien on stock of book	
Value of sh. 350,000	175,000
Cash in hand	1,000
Furniture (expected to realise sh. 35,000)	70,000
Stock (expected to realise 60%)	525,000
Book debts (good)	70,000
Book debts (doubtful expected to realise 40%)	175,000
Bills receivable (sh. 52,500)	87,500
Loans from Mrs Kanyingi	280,000

Kanyingi commenced business six years ago with capital of sh. 437,000. He drew sh. 87,500 each year.

### **Required:**

Statement of affairs as at 31<sup>st</sup> March 2014 and deficiency account as at that date.

### QUESTION 3

Es'sala and Ochola were in partnership. They filed a petition in insolvency on 1<sup>st</sup> January 2014 when their statement of financial position showed the following position:

	Sh.	Sh.		sh.
Capital Es'sala	62,000		<b>Fixed assets</b>	
Ochola	<u>21,000</u>	83,000	Machinery	90,000
Accounts payable		332,000	(Cost sh. 150,000)	
Bills payable		25,000	Furniture	12,500
Overdraft secured			Investment	64,000
By a charge on machinery		150,000		
			Current assets:	
			Inventory	71,000
			Accounts receivable	147,500
			(sh. 25,000 are doubtful expected to realise sh. 10,000)	
			Drawings	
			Es'sala	31,000
			Ochola	<u>15,000</u>
			Profit & loss a.c	<u>159,000</u>
		<u><b>590,000</b></u>		<u><b>590,000</b></u>

The assets of the firm are estimated to realise as under:

Machinery sh. 60,000; furniture sh. 10,000; investment sh. 82,500, inventory sh. 60,000. Accounts payable include sh. 60,000 preferential. The bank overdraft was further secured by a charge on Ochola's house which was estimated to realise sh. 40,000.

#### Required:

A statement of affairs and deficiency account for the firm.

(20 marks)

#### QUESTION 4

On 31<sup>st</sup> December 2014, a compulsory order for winding up was made against Shindwa ltd. the following particulars were disclosed.

	<b>Book value</b>	<b>Estimated to produce</b>
	<b>Sh. 000</b>	<b>Sh. 000</b>
Cash in hand	10,000	10,000
Accounts receivable	40,000	36,000
Land and buildings	600,000	480,000
Furniture and fixtures	200,000	200,000
Unsecured creditors	200,000	
Debentures:		
Secured on land & buildings	420,000	
Secured by floating charge	100,000	
Preferential creditors	60,000	
Share capital (3,200 shares of sh. 100 each	320,000	

Estimated liability on bills discounted was sh. 60,000 estimated to rank at sh. 60,000.

Other contingent liabilities were sh. 120,000 estimated to rank sh. 120,000.

The company was formed on 1<sup>st</sup> January 2010 and has accumulated loss of sh. 250,000.

#### **Required:**

Statement of affairs and efficiency account.

#### QUESTION 5

- a) Give a concise account of steps followed in bankruptcy. **(10 marks)**
- b) Discuss the concept of contributory on liquidation. **(10 marks)**