



**TECHNICAL UNIVERSITY OF MOMBASA**  
**SCHOOL OF BUSINESS**  
**DEPARTMENT OF ACCOUNTING AND FINANCE**

**BACHELOR OF COMMERCE IV**  
**BACHELOR OF BUSINESS ADMINISTRATION IV**

**BAC 4402: BANKRUPTCY AND LIQUIDATION**

**END OF SEMESTER EXAMINATIONS**

**SERIES: DECEMBER, 2016**

**TIME: 2 HOURS**

**INSTRUCTIONS:**

- This paper consists of Sections **A** and **B**.
- Section **A** is Compulsory. Answer any **TWO** questions in Section **B**.
- Mobile phones are not allowed into examination room.
- Cheating leads to disqualification.
- This paper consists of Five printed pages.*

**QUESTION ONE**

(a) Discuss FIVE acts of bankruptcy

(10 marks)

(b) In March 2016, Pankalafu found himself in financial difficulties following two years in which his business had traded at a loss. He decided to present to the Court a Bankruptcy Petition against himself, and the Court duly made a Receiving Order dated March 31<sup>st</sup> 2016.

The balance sheet of Pankalafu's business at March 31<sup>st</sup>, 2016 was as follows:-

<b>Liabilities</b>			<b>Assets</b>	
Loan Accounts:	shs	shs		shs
Mswara	1,000		Freehold premises	1,250
Mrs. Pankalafu	500		Plant & Machinery	520
		1,500	Furniture & fittings	190
			Motor vehicle	290
<b>Current liabilities</b>				
			Stock	1,200
			Cash in hand	20
Sundry Creditors	3,550		Debtors account	1,520
Amount due to bankers	1,100	<u>4,650</u>	Pankalafu	1,160
		<u>6,150</u>		<u>6,150</u>

Under a written agreement Mswara had made the loan of shs 1,000 to Pankalafu in return for one-tenth share of the net profit of the business or interest at the rate of 5 per cent per annum, which ever is the greater.

Mrs. Pankalafu made the loan of shs 500 to her husband in April 2014 to provide additional working capital for his business. The bank overdraft was secured by charge on the freehold premises.

Sundry creditors include creditors for:-	shs
Rates for half-year ended March 31 <sup>st</sup> , 2016	48
Wages of Workmen (2 weeks)	85
Salary of clerk (1 month)	32
Loan Interest Mswara(1 Year)	50

An examination of the Sundry debtors reveals that they include a debt for shs 120 which should be considered as bad debt and debts for shs 86 which are doubtful and are to produce shs 40.

The private assets and liabilities of Pankalafu on March 31<sup>st</sup> 2016 are as follows:-

Household furniture shs 500; Household Debts shs 115.

After being appointed by Pankalafu to assist him in the preparation of his statement of Affairs and deficiency Account, you ascertain the following information:

The assets are expected to realize the following amounts:

Freehold premises, shs 1,200; plant and machinery shs 400; furniture and fittings shs 140; motor vehicles shs 250; inventory shs 1,000; household furniture shs 500.

The results of the last three years' trading are as follows:

Year ended March 31<sup>st</sup> 2014 – profit shs 620

Year ended March 31<sup>st</sup> 2015 – loss shs 180

Year ended March 31<sup>st</sup> 2016 – loss shs 430

Pankalafu's drawings for household expenses were shs 520 each year.

**You are required to prepare:**

(a) Pankalafu's Statement of affairs as at March 31<sup>st</sup>, 2016;

(b) Deficiency Account commencing April 1<sup>st</sup> 2015.

(20 marks)

**QUESTION TWO**

ABC Ltd went into voluntary liquidation on 31<sup>st</sup> March 19-6 and the following Balance Sheet was prepared.

**Balance sheet as at 31<sup>st</sup> March 19-6**

		Sh			Sh
<b>Share capital:</b>			<b>Assets:</b>		
195,000	ordinary shares of sh 10 each fully paid	1,950,000	Goodwill		400,000
<b>Sundry creditors:</b>			Patents		100,000
Preferential	242,000		Freehold Buildings		480,000
Partly secured against freehold buildings	553,100		Plant		655,000
Unsecured bank overdraft	<u>997,900</u>	1,793,000	Stock		568,000
Unsecured creditors		<u>120,000</u>	Debtors		648,200
		<u>3,863,000</u>	Profit and Loss Account		986,800
					<u>3,863,000</u>

The liquidator realized the assets as follows:-

Freehold building sh 350,000; sundry debtors sh 585,000; plant sh 510,000; Bills receivable sh 25,000; and stock sh 390,000.

The expenses of liquidation amounted to sh 10,000 and the liquidator's remuneration was agreed at 2½ % on the amount realized and 2% on the amount paid to the unsecured creditors.

**Required:**

Prepare the following:

- a. Liquidators Final Statement of Account.
- b. Calculation of Liquidation's Remuneration

(20 Marks)

**QUESTION THREE**

(a) Discuss in details items included in preferential creditors

(10 Marks)

(b) What are the Bankruptcy offenses under Bankruptcy Act?

(10 Marks)

**QUESTION FOUR**

Mawaya Ltd. is insolvent and is in the process of filing for relief under the provisions of the Bankruptcy Act. The company has no cash and its balance sheet currently shows creditors of sh.48 million. An additional sh.8 million is owed in connection with various expenses but these amounts have not yet been recorded. The company's assets with an indication of both book value and anticipated net realizable value as at 30 September 2016 are as follows:

	<b>Book value</b> <b>Sh.'000'</b>	<b>Expected NRV</b> <b>sh.'000</b>
Land	80,000	75,000
Buildings	90,000	60,000
Accumulated depreciation	(38,000)	-
Equipment	110,000	20,000
Accumulated depreciation	(61,000)	-
Investments	10,000	18,000
Inventory	48,000	36,000
Accounts receivable	31,000	9,000
Other assets	<u>5,000</u>	<u>          </u>
	<u>275,000</u>	<u>218,000</u>

#### **Additional information**

1. Mawaya Ltd. has three debentures payable, each with a different maturity day:
  - Debenture one due in 5 years – sh.120 million, secured by a mortgage lien on Mawaya's land and buildings.
  - Debenture two due in 8 years – sh.30 million, secured by Mawaya's investments.
  - Debenture three due in 10 years – sh.35 million, unsecured.
2. Of the creditors owed by Mawaya Ltd., sh.10 million represents salaries to employees. However, no individual is entitled to receive more than sh.4,000. An additional sh.3 million is included in this liability item that is due to the Kenya Government in connection with taxes.
3. The shareholders equity balance reported by the company at the current date is sh.42 million; composed of ordinary share capital of sh.140 million and a deficit of sh.98 million.

4. If the company is liquidation, administrative expenses of approximately sh.20 million would be incurred.

**Required:**

A statement of financial affairs for Mawaya Ltd. to indicate the expected availability of funds if the company is liquidated at 30 September 2016

**QUESTION FIVE**

(a) Differentiate between a statement of affairs and balance sheet in bankruptcy **(8 Marks)**

(b) Give a concise account of the order in case of liquidation. **(12 Marks)**