



TECHNICAL UNIVERSITY OF MOMBASA

SCHOOL OF BUSINESS
DEPARTMENT OF ACCOUNTING & FINANCE
UNIVERSITY EXAMINATION FOR:
BACHELOR OF COMMERCE IV
BACHELOR OF IN BUSINESS ADMINISTRATION IV
BAC 4402: BANKRUPTCY AND INSOLVENCY
END OF SEMESTER EXAMINATION
SERIES: AUGUST, 2019
TIME: 2 HOURS
DATE: AUGUST, 2019

Instructions to Candidates

You should have the following for this examination

-Answer Booklet, examination pass and student ID

This paper consists of **FIVE** questions. Attempt question ONE (Compulsory) and any other TWO questions.

Do not write on the question paper.

Question One

- (a) A bankruptcy order has been issued by a competent court against Mr. Ngori. Explain the objective and effect of such an order. **(9 Marks)**
- (b) On 31st December 2018 a compulsory order for winding up was made against Fuliza Ltd. The following particulars were disclosed:-

	Book value Sh	Estimated to produce Sh
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 and 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 for 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 1st January 2013; and had made losses of sh 250,000.

Required:

Prepare as on 31st March 2018:

- (a) A Statement of Affairs **(14 Marks)**
- (b) A Deficiency Account **(7 Marks)**

Question Two

Mlwale, a businessman filed his own petition in bankruptcy. The balance Sheet of his business as on 31st March 2018, the date of the Receiving Order, showed

	Sh.		Book Value Sh.	Net Realizable Value Sh.
Capital Account				
As on 1 st April 2017	300,000	Assets:		
		Freehold shop		
		Building	600,000	700,000
Add: Profit for the				
Year to 31 st March 2018	<u>100,000</u>	25,000 shares of		
	400,000	Sh. 20 each in ABC Ltd	500,000	10,000
Deduct: Drawings during the year	<u>90,000</u>	inventory	200,000	150,000
	310,000			
Trade Creditors (including Sh.25,000		Accounts receivable	200,000	175,000
Preferential in bankruptcy	840,000			
Loan, secured on free-hold shop building	<u>400,000</u>	Balance at bank	<u>50,000</u>	50,000
	<u>1,550,000</u>		<u>1,550,000</u>	

Mlwale’s personal assets, not including 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 and Sh.5,000 for unsuccessful football forecast due to his sportpesa agent. The value of personal assets and liabilities had remained unchanged since 1st April 2017.

Required:

Prepare as on 31st March 2018:

- a) A Statement of Affairs **(12 Marks)**
- b) A Deficiency Account **(8 Marks)**

Question Three

- c) Discuss in details the Three categories of preferential creditors according to the Insolvency Act of 2015 Laws of Kenya. **(12 Marks)**
- d) Explain the requirements for no assets procedure for a debtor in bankruptcy. **(8 Marks)**

Question Four

- a) Discuss the duties of the Insolvency practitioner as stipulated by the insolvency Act. **(10 Marks)**
- b) Give a detailed account of bankruptcy offences **(10 Marks)**

Question Five

ABC Ltd went into voluntary liquidation on 31st March 2018 and the following Balance Sheet was prepared.

Balance sheet as at 31st March 2018

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

The liquidator realized the assets as follows:-

Freehold building sh 350,000; sundry accounts receivable sh 585,000; plant sh 510,000; Bills receivable sh 25,000; and inventory 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.

Required:

Prepare the following:

Liquidators Final Statement of Account.

(20 Marks)