



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: APRIL, 2022

TIME: 2 HOURS

DATE: APRIL, 2022

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. Makhalakhala. Explain the objective and effect of such an order. **(10 Marks)**

(b) On 31st December 2015 a compulsory order for winding up was made against Kamalizika Ltd. The following particulars were disclosed:-

	Book value Sh	Estimated to produce Sh
Cash in hand	10,000	10,000
Debtors	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 2022:

- a) A Statement of Affairs (15 Marks)
- b) A Deficiency Account (5 Marks)

Question Two

Mawaya, a businessman filed his own petition in bankruptcy. The balance Sheet of his business as on 31st March 2022, the date of the Receiving Order, showed

Sh.	Book Value Sh.	Net Realizable Value Sh.
Capital Account		
As on 1 st April 2021		
300,000	Assets:	
Add: Profit for the	Freehold shop	
Year to 31 st March 2022	Building	700,000
<u>100,000</u>	25,000 shares of	
400,000	Sh. 20 each in ABC Ltd	10,000
Deduct: Drawings during the year	inventory	150,000
<u>90,000</u>	Accounts receivable	175,000
310,000	Balance at bank	50,000
Trade Creditors (including Sh.25,000		
Preferential in bankruptcy)		
840,000		
Loan, secured on free-hold shop building		
<u>400,000</u>		
<u>1,550,000</u>		
	<u>1,550,000</u>	

Mawaya’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 2021.

Required: Prepare as on 31st March 2022:

- a) A Statement of Affairs (15 Marks)
- b) A Deficiency Account (5 Marks)

Question Three

- (a) Discuss in details the Three categories of preferential creditors according to the Insolvency Act of 2015 Laws of Kenya. **(12 Marks)**
- (b) Itemize 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 offences involving commission of fraudulent act in anticipation of liquidation. **(10 Marks)**

Question Five

ABC Ltd went into voluntary liquidation on 31st March 2022 and the following Balance Sheet was prepared.

Balance sheet as at 31st March 2022

	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>	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:

- (a) Liquidators Final Statement of Account. **(15 Marks)**
- (b) Discuss how Liquidation's Remuneration is determined. **(5 Marks)**