



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: DECEMBER, 2024

TIME: 2 HOURS

DATE: DECEMBER, 2024

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) Discuss FIVE categories of bankruptcy offenses under the Insolvency Act (2015)
(10 marks)

(b) In March 2022, Mr. Failure 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 31st 2024.

The balance sheet of Failure's business at March 31st, 2024 was as follows:-

Liabilities		Assets	
Loan Accounts:	Shs 000	Shs 000	Shs 000
Mswara	1,000	Freehold premises	1,250
Mrs. Failure	500	Plant & Machinery	520
		Furniture & fittings	190
		Motor vehicle	290
Current liabilities		Inventory	1,200
		Cash in hand	20

Sundry Creditors	3,550		Debtors account	1,520
Amount due to bankers	1,100	<u>4,650</u>	Failure	1,160
		<u>6,150</u>		<u>6,150</u>

Under a written agreement Mswara had made the loan of shs 1,000,000 to Failure 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. Failure made the loan of shs 500,000 to her husband in April 2020 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
Wages of 2 Workmen (each sh. 350,000)	700,000
Salary of clerk (1 month)	120,000

An examination of the Sundry debtors reveals that they include a debt for shs 120,000 which should be considered as bad debt and debts for shs 86,000 which are doubtful and are to produce shs 40,000.

The private assets and liabilities of Failure on March 31st 2024 are as follows:-

Household furniture shs 500,000; Household Debts shs 115,000.

After being appointed by Failure 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 1,200,000; plant and machinery shs 400,000; furniture and fittings shs 140,000; motor vehicles shs 250,000; inventory shs 1,000,000; household furniture shs 500,000.

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

Year ended March 31st 2012 – profit shs 620,000

Year ended March 31st 2013 – loss shs 180,000

Year ended March 31st 2024 – loss shs 430,000

Failure's drawings for household expenses were shs 520,000 each year.

You are required to prepare:

- a) Failure's Statement of affairs as at March 31st, 2024; **(12 marks)**
- b) Deficiency Account commencing April 1st 2024. **(8 marks)**

QUESTION TWO

The sales of Ushirika Ltd have been declining over the last three years resulting in huge trading losses as at 30 September 2021. The directors in a meeting held on 2 October 2021 resolved to undertake a scheme of reduction of the share capital of the company.

The scheme of reduction was thereafter approved by the shareholders of the company and other interested parties.

The balance sheet of Ushirika Ltd as at 30 September 2021 is given below:

Assets	Sh. '000'
Non-current assets:	
Freehold property	18,800
Plant and equipment	8,200
Motor vehicles	<u>8,700</u>
	<u>35,700</u>
Current assets:	
Inventory	10,080
Receivables	9,740
Cash and bank balances	<u>1,460</u>
	<u>21,280</u>
Total assets	<u>56,980</u>
Equity and liabilities:	
Capital and reserves:	
150000 ordinary shares of sh. 200 each	30,000
60000 10% preference shares of sh. 200 each	12,000
Share premium	8,200
General reserves	7,240
Retained earnings	<u>(9,480)</u>
	47,960
Non-current liabilities:	
Loan	5,000
Current liabilities:	
Payables	<u>4,020</u>
	<u>56,980</u>

The terms of the scheme of capital reduction were:

1. Assets were revalued as follows:

Sh. '000'

Freehold property	16,800
Plant and equipment	6,600
Motor vehicles	7,200
Inventory	10,400

2. Provision for bad and doubtful debts amounting to sh. 720,000 and discounts receivable of sh. 120,000 were to be made on the balances of receivables and payables respectively as at 30 September 2021.
3. The 150,000 ordinary shares of sh. 200 each were replaced with 260,000 ordinary shares of sh. 100 each issued at par.
4. The 60,000 10% preference shares of sh. 200 each were replaced with 100,000 8% preference shares of sh. 100 each issued at par.
5. The accumulated losses were written off.

6. The share premium and general reserves balance were utilized in writing off losses arising from the scheme of capital reduction.
7. The cost of the scheme of capital reduction which amounted to sh. 1,380,000 was to be paid in cash.
8. The scheme of capital reduction was successfully completed on 6 October 2021.

Required:

- (i) Capital reduction account as at 6 October 2021. **(12 Marks)**
- (ii) Balance sheet as at 6 October 2021. **(8 Marks)**

QUESTION THREE

- (a) Discuss FIVE objectives of bankruptcy proceedings **(10 marks)**
- (b) Discuss the duties of the Insolvency practitioner as stipulated by the Insolvency Act. **(10 Marks)**

QUESTION FOUR

Filisika Ltd went into voluntary liquidation on 30 November 2021. Its balance sheet as at that date was as follows:

	Shs.
Assets:	
Land and buildings	5,000,000
Plant and machinery	12,500,000
Patents	2,000,000
Inventory	2,750,000
Sundry debtors	5,500,000
Cash at bank	1,500,000
Profit and loss account balance	<u>5,625,000</u>
	<u><u>34,875,000</u></u>
 Equity and liabilities:	
100,000 10% preference shares, fully paid	10,000,000
50,000 equity shares of sh. 100 each, sh. 75 paid	3,750,000
12% bank loan secured by a charge on plant and machinery	9,000,000
15% debenture secured by floating charges	5,000,000
Interest outstanding on debentures	750,000
Accounts payables	<u>6,375,000</u>
	<u><u>34,875,000</u></u>
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Additional information:

1. The assets were realized as follows:

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.

Required:

- (a) Statement of affairs as at November 30th, 2022; **(12 marks)**
(c) Deficiency Account . **(8 marks)**

QUESTION FIVE

- (a) Differentiate between a statement of affairs and balance sheet in bankruptcy **(10 Marks)**
(b) Give a concise account of the order settlement in liquidation. **(10 Marks)**