



TECHNICAL UNIVERSITY OF MOMBASA

SCHOOL OF BUSINESS

DEPARTMENT OF ACCOUNTING AND FINANCE

UNIVERSITY EXAMINATION FOR:

BACHELOR OF COMMERCE/BACHELOR OF BUSINESS ADMINISTRATION

BAC 4402 BANKRUENCY AND INSOLVENCY ACCOUNTS

END OF SEMESTER EXAMINATION

SERIES: APRIL 2025

TIME: 2 HOURS

DATE: Pick Date Select Month Pick Year

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) Explain the powers of a liquidator (5 Marks)
- (b) Elaborate five ways in which a debtor is said to have committed an act of bankruptcy. (10 Marks).
- (c) Mapenzi Ltd makes its accounts each year on 31 December and has been trading at a loss. On 31 December 2024, a resolution for a voluntary liquidation was passed. The balance sheet as at that date was as follows.

	Sh. '000'	Sh. '000'	Sh. '000'
Non Current assets			
Freehold property			11,000
Plant and machinery			2,750
			13,750
Current assets			
Stock		8,750	
Debtors		13,375	
Cash		125	
		22,250	

Current liabilities:

Bank overdraft	3750		
Creditors	11250		
Interest payable (5% debentures)	500	(15,500)	<u>6,750</u>
			<u>20,500</u>

Paid up capital

10,000 10% cumulative preference shares of Sh.500 each fully paid			5,000
25,000 Ordinary shares of Sh.500 each fully paid			12,500
10,000 Ordinary shares of Sh.500 each. Sh.250 paid.			2,500
			<u>20,000</u>
Revenue reserves: profit and loss account			(9,500)

Non Current liabilities:

5% debentures			10,000
			<u>20,500</u>

Additional information:

- The debentures are secured by a floating charge on the asset and undertaking of the company.
- The bank overdraft is secured by a fixed charge on the company's freehold property.
- The preference shares carry a right to a fixed cumulative dividend of 10% per annum up to the date of liquidation and a repayment of Sh.500 per share in priority to all other classes of shares. No dividend has been paid on the preference shares for two years.

- The creditors include:

	Sh. '000'
Directors' fees for one year	1,000
Rates for six months to 31 October 2002	125
Manager's salary for October 2002 Wages for 15 employees Pay As You Earn (PAYE)	

- The assets realized the following amounts:

Freehold property	12,500
Plant and machinery	2,000
Stock	6,250
Debtors	12,250

- The expenses of liquidation amount to Sh.125,000 and the liquidator's remuneration was fixed at Sh.500,000.

Required:

The liquidator's statement of account showing in order of priority, the payments made and the computation of any calls to be made. (15 Marks)

Question TWO

A compulsory winding up order was made on 30 November 2023 against Filisika Ltd. A summary of the company's balance sheet as at that date was as follows:

	Sh. "000"	Sh. "000"	Sh. "000"
Goodwill			
Freehold property			2,689
Non-current assets:			4,940
Shares in subsidiaries			<u>14,620</u>
			22,249
Current assets:			
Stocks		19,180	
Debtors		9,040	
Cash in hand		<u>20</u>	
		28,240	
Current liabilities:			
Bank overdraft	22,790		
Creditors	20,900		
Customs and excise tax	200		
Accruals	399		
Debenture interest due	<u>100</u>	(44,389)	(16,149)
			<u>6,100</u>
Financed by:			
Share capital			
5,000,000 ordinary shares of Sh.20 each - fully paid			10,000
400,000 ordinary shares of Sh.20 each- Sh.12.50 paid			<u>5,000</u>
			15,000
Revenue reserves:			
Retained profits (losses)			(12,900)
Shareholders' funds			2,100
Non-current liability:			
10% debentures			<u>4,000</u>
			<u>6,100</u>

Additional information:

- The 10% debentures are secured by a first charge on freehold property and the bank overdraft is secured by a floating charge on the assets.
- The accruals consisted of:

	Sh. "000"
Directors fee, 6 months to 30 November 2023.	75
Managers salary, 2 months to 30 November 2023	80
Wages of 3 workmen, 4 weeks to 30 November	18

2023	
Rates – half year to 30 November 2023	20
Taxes for the year to 30 November 2021	120
Miscellaneous expenses	<u>86</u>
	<u>399</u>

- A holder of 20,000 of the partly paid shares was bankrupt and it was anticipated that his trustees would be in a position to pay a dividend of 25% to his unsecured creditors.
- The company's assets were estimated to be realized as follows:

	Sh. "000"
Freehold property	4,480
Plant and 14,000 machinery	
Stocks	18,760

- The debtors were considered to be good except as to Sh. 520,000 of which Sh. 400,000 were doubtful and were expected to realize Sh.110,000. The remaining Sh.120,000 were considered bad. Goodwill was regarded as valueless.
- Legal proceedings for breach of contract were pending against the company as at 30 November 2023. The company was considered to have a poor defence and attempts were being made to settle the claim out of court for Sh.100,000 plus costs estimated at Sh.80,000. No provision for this claim is included in the balance sheet.
- The company had incurred losses of Sh.3,040,000, Sh.3,840,000 and 6,020,000 respectively in each of the three years ended 30 November 2023. The aggregate of the sums charged to the profit and loss accounts during the three years in respect of depreciation, debenture interest and directors' remuneration were Sh.2,380,000, Sh.600,000 and Sh.1,800,000 respectively.

Required:

- Statement of affairs as at 30 November 2023. (10 marks)
 - Deficiency account as at 30 November 2023. (10 marks)
- (Total: 20 marks)**

Question Three

Shida Ltd. went into voluntary liquidation on 31 November 2023. Its balance sheet as at that date was as follows:

	Sh.
Assets:	
Land and building	5,000,000
Plant and machinery	12,500,000
Patents	2,000,000
Stock	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>34,875,000</u>

Equity and liabilities:

Issued and subscribed capital	
100,000 10% cumulative preference shares of Sh.100 each, fully paid	10,000,000
50,000 equity shares of Sh.100 each, Sh. 75 paid	3,750,000
150,000 equity shares of Sh.100 each, Sh. 60 paid	9,000,000
15% debentures secured by floating charge	5,000,000
Interest outstanding on debentures	750,000
Creditors	<u>6,375,000</u>
	<u>34,875,000</u>

Additional information:

1. Preference dividends were in arrears for two years and the creditors included preferential creditors of Sh.760,000.
2. The assets were realized as follows:

	Sh.
3. Land and building	6,000,000
Plant and machinery	10,000,000
Patents	1,500,000
Stock	3,000,000
Sundry debtors	4,000,000

Liquidation expenses amounted to Sh.545,000. The liquidator is entitled to a commission of 3% on assets realized except cash

4. The final payments (including those relating to debentures) were made on 31 May 2024.

Required:

The liquidator's final statement of account as at 31 May 2024. **(Total: 15 marks)**

Question FOUR

Citing examples where applicable, discuss the following terms as applied in the Insolvency Act 2016:

- a) Committee of inspection (4marks)
- b) Provable debts (4marks)
- c) Non-provable debts (4marks)
- d) Criminal acts of a bankrupt debtor (4marks)
- e) Duties of the official receiver (4marks)

Question FIVE

Silipi Kabisa filed his own petition in bankruptcy and the receiving orders were issued by the court on 31 March 2024. The balances extracted from his books of account as at 31 March 2024 were as follows:

	Assets		Liabilities
	Sh.'000'		Sh.'000'
Free hold land	1,250	Loan from bank	1,000
Furniture and fittings	710	Loans from a SACCO	500

Motor vehicle	290	Mortgage on freehold land	1,000
Stock	1,200	Sundry creditors	2,550
Sundry debtors	1,520	Bank overdraft	1,100
Bank balance	20		
Drawings	560		
Total assets	<u>5,550</u>	Total liabilities	<u>6,150</u>

Additional information:

- 2 The official receiver appointed by the court has established the realizable values of the bankrupt's assets to be as follows:

	Sh.'000'
Freehold land	1,800
Furniture and fittings	500
Motor vehicle	140
Stock	800
Sundry debtors: Good	1,000
Doubtful-of which Sh. 300,000 is estimated as realizable	400
Bad	120

- Private assets debtors other than personal effects 28

- 3 Silipi Kabisa private obligations amounted to Sh. 12,000.

- 4 The interest due on the mortgage amounting to Sh. 200,000 had not been recorded s at 31 March 2024.

- 5 The loan from bank and bank overdrafts were secured by a floating charge on assets and no interest was outstanding on 31 March 2024.

- 6 Sundry creditors as at 31 March 2024 comprise:

	Sh.'000'
- Assessed income taxes (2023-Sh.100,000, 2023-Sh.85,000 and 2022-Sh.120,000)	305
- Rent due to Government (Sh.50,000 per annum)	300
- Nairobi City Council rates for the year ended 31 December 2023.	20
- 5 months wages due to 5 employees at Sh. 5,000 per employee	125
- 3 months salary due to Silipi's uncle.	24
- Employees NSSF contributions for 36 months at Sh. 12,000 per annum	36
- Loan from Kopesha for purchase of trading stock.	100

- 7 The loan from Kopesha attracted interest of 5% per annum plus 10% interest based on the net profit made by Silipi Kabisa. The unrecorded interest due as at 31 March 2023 was Sh. 7,500.

- 8 During the year ended 31March 2023, Silipi Kabisa made business losses of Sh.830,000.

Required:

- a) A detailed statement showing the order of priority in which the sundry creditors would be paid

(6Marks)

- b) Statement of affairs as at 31 March 2023.

(8 Marks)

c) Deficiency accounts as at 31 March 2015.

(6 Marks)



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