



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

SPECIAL AND SUPPLEMENTARY EXAMINATION

SERIES: JULY 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

The following is the summarized balance sheet of Witu Ltd. as at 30 June 2024:

	Sh.'000	Sh.	Sh.'000'
	'	'000'	
Non-current assets			
Tangible: Freehold property			85,000
Plant			<u>10,000</u>
			95,000
Intangible: Patents		10,500	



TUM is ISO 9001:2015 Certified

Goodwill		<u>28,000</u>	<u>38,000</u>
			133,500
Current assets:			
Stock		85,000	
Debtors		97,000	
Investments (market value Sh.25 million)		11,000	
Deferred advertising		<u>20,000</u>	
			213,000
Current Liabilities:			
Bank overdrafts		39,000	
Creditors		50,000	
Debenture interest		4,500	
Accruals		10,000	
Directors loans		<u>20,000</u>	<u>(123,500)</u>
			<u>89,500</u>
			<u>223,000</u>
Financed by:			
Share capital:			
6% 8 million cumulative preference shares of Sh.10 each			80,000
15 million ordinary shares of Sh.10 each			<u>150,000</u>
			230,000
Revenue reserves:			
Profit and loss account			<u>(82,000)</u>
Shareholders' funds			148,000
Non-current liabilities:			



6% Debentures

75,000

223,000

1. The court approved a scheme of re-organization submitted by the debenture holders and agreed upon by other interested parties to take effect on July 2024 as follows:
2. The preference shares to be written down to Sh.7.50 each and the ordinary shares to Sh.2.00 each; each class of shares then to be consolidated into shares of Sh.10 each. The rate of dividend on preference shares to be increased 10%.
3. The preference dividends are four years in arrears of which three-quarters are to be waived and ordinary shares are to be allocated at par the balance. The debenture holders to have their interest paid in cash, to take over freehold property (book value Sh.20 million) at a valuation of sh.24 million secured by a floating charge on the company's assets at an interest rate of Sh.12% per annum.
4. Patents, goodwill and deferred advertising to be written off, Sh.15 million to be written off stock.
5. Investments to be realized.
6. The directors to accept settlement of their loans as to 90% thereof by allotment of ordinary shares at par and so to 5% in cash, the balance of 5% being waived.
7. The trade creditors to be paid Sh.0.10 in every shilling to maintain and obtain an extension of the credit period
8. The bank has sanctioned an overdraft limit of Sh.10 million to provide working capital.
9. There are capital commitments amounting to Sh.75 million, which are to be cancelled on payment of 3 1/3% of the contract price as penalty.
10. The authorized capital was restored to its original amount.

Required

- a) The capital reduction account to record the scheme of capital re-organization. (18 Marks)
- b) The balance sheet of Tabuba Limited as at 1 July 2024 immediately after effecting the scheme. (12Marks)

Question TWO

The following information is extracted from the books of Dube Ltd. On 31st July, 2024 on which date a winding up order was made.



TUM is ISO 9001:2015 Certified

	Kshs.
Unsecured Creditors	350,000
Salaries due for five months	20,000
Managing Director's Remuneration due	30,000
Bills payable	106,000
Debtors - Good	430,000
- Doubtful (estimated to produce Kshs.62,000)	130,000
- Bad	88,000
Bills received (Good Kshs. 10,000)	16,000
Bank Overdraft	40,000
Land (estimated to produce Kshs.500,000)	360,000
Stock (estimated to produce Kshs.580,000)	820,000
Furniture and Fixtures	80,000
Cash in hand	4,000
Estimated liabilities for bills discounted	60,000
Secured creditors holding first mortgage on land	400,000
Partly secured creditors holding second mortgage on land	200,000
Weekly wages unpaid	6,000
Liabilities under Workmen's Compensation Acts, 1925	2,000
Income-tax due	8,000
5,000 9% Mortgage Debentures of Kshs.100 each interest payable to 30 th June and 31 st December, paid to 30 th June, 2024	500,000

Share Capital:

20,000 10% preference shares of Kshs. 10 each
200,000

50,000 Equity Shares of Kshs 10 each 500,000
General Reserve since 31st December, 2020 100,000

In 2020, the company earned profit of Kshs.450, 000 but thereafter it suffered trading losses totaling Kshs.584, 000. The company also suffered a speculation loss of Kshs.50, 000 during the year 2021. Excise authorities imposed a penalty of Kshs. 350,000 in 2006 for evasion of tax which was paid in 2023.

Required

- a) Prepare the Statement of Affairs and (12 Marks)
- b) The Deficiency Account as at 31st July, 2024. (8Marks)

Question THREE



TUM is ISO 9001:2015 Certified

- a) Discuss receivership and explain the functions of a receiver? (6Marks)
- b) Section 212 (1) of the Companies Act provides that a company can be liquidated in any three ways, state and distinguish these ways? (6Marks)
- c) The amounts realized from the assets not specifically pledged and the amounts contributed by the contributories must be distributed by the liquidator in a certain order, which is this order of payment? (8Marks)

Question FOUR

Due to the serious problems with the export market, Jamuhuri Retail Shop on 31st December 2024 received a compulsory order for winding up. 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	

Additional information

1. Estimated liability for bills discounted was Sh.60, 000 estimated to rank at Sh.60, 000.



TUM is ISO 9001:2015 Certified

2. Other contingent liabilities were Sh.120, 000 estimated to rank Sh.120, 000.
3. The company was formed on 1st January 2022; and had made losses of Sh.250, 000.

Required:

- a) Prepare a Statement of Affairs as at 31st December 2024. **(10marks)**
- b) Deficiency Account as at 31st December 2024. **(10marks)**

Question FIVE

Kamutu and Kajitu are in partnership trading as Jitu and they present their petition in Bankruptcy. The following statement have been presented to you

	DR			CR		
	JITU Sh.	KAMUTU Sh.	KAJITU Sh.	JITU Sh.	KAMUTU Sh.	KAJITU Sh.
Mortgage on Freehold Property	9,000	6,400				
Bank Overdraft	6,000					
Freehold property				12,000	8,000	
Plant				4,000		
Sundry Creditors	35,000	1,600	5,400			
Capital	2000					
Capital	2000					
Surplus		6,000	600			
Furniture etc.				2,000	2,400	2,800
Stocks				12,000		
Debtors				24,000		
Partnership and					3,600	3,200



TUM is ISO 9001:2015 Certified

other investment						
	<u>54,000</u>	<u>14,000</u>	<u>6,000</u>	<u>54,000</u>	<u>14,000</u>	<u>6,000</u>

Additional information:

- (i) The bank overdraft was secured by a second mortgage on the freehold property and by the deposit of Kamutu's investments and his personal guarantee.
- (ii) The estimated realizable value of the assets was as follows:

	JITU Sh.	KAMUTU Sh.	KAJITU Sh.
Freehold property	13,000	9,400	
Plant	1,600		
Furniture etc.	1,000	1,600	2,200
Stock	8,600		
Debtors, Good	14,000		
Doubtful, estimated 0.60cents in Ksh1 recoverable	6,000		
Bad	4,000		
Investments		3,400	2,600
Of the sundry creditors the following amounts were preferential	1,000	400	200

Required:

- a) Prepare the Statement of Affairs of the Joint and separate estates an (12Marks)
- b) Deficiency Account of the Joint and separate estates. (8 Marks)



TUM is ISO 9001:2015 Certified