



MACHAKOS UNIVERSITY

University Examinations 2021/2022 Academic Year

SCHOOL OF BUSINESS, ECONOMICS AND HOSPITALITY AND TOURISM
MANAGEMENT

DEPARTMENT OF BUSINESS ADMINISTRATION AND FINANCE

THIRD YEAR FIRST SEMESTER EXAMINATION FOR

BACHELOR OF COMMERCE

BAC 306: BANKRUPTCY AND LIQUIDATION/REORGANIZATION

DATE: 1/9/2022

TIME: 11.00-1.00 PM

INSTRUCTIONS

Answer question one and any other two questions.

QUESTION ONE (20 MARKS)

- a) Explain the difference between the two terms: *receivership and liquidation* (6 marks)
- b) Explain the following costs/debts in the distribution of the intestate according to the Bankruptcy Act :
- i. Pre-preferential creditors
 - ii. Unsecured creditors
 - iii. Deferred creditors
 - iv. Secured creditors
 - v. Preferential creditors
 - vi. Costs and expenses (12 marks)
- c) Musau & CO. sold its enterprise to John several years ago. Its financial position on 1st January 2020 was as follow:
- Stock in Trade: Kes.18,000, Debtors: Kes.15,000, Furniture and Fixtures: Kes.17,500, Cash at Bank: Kes.12,500, Sundry Creditors: Kes.13,500, Outstanding Salaries: Kes.2,200.
- The financial position of the business on 31st December 2020 was as follows:
- Stock in Trade: Kes.24,000; Debtors: Kes.19,500, Furniture and Fixtures: Kes.15,000, Plant: Kes.10,000, Sundry Creditors: Kes.12,000, Bank Overdraft: Kes.8,000.

During the year, John withdrew Kes.3,500 for his personal expenses. Charge interest on capital @ 5% p.a.

Required:

- i. A statement of affairs for John for the years ended December 31, 2019. (5 marks)
- ii. A statement of affairs for John for both the years ended December 31, 2020. (5 marks)
- iii. A profit and loss account for the period ended December 31, 2020. (2 marks)

SECTION B

QUESTION TWO (20 MARKS)

- a) Explain six points that distinguish between balance sheet and statement of affairs. (12 marks)
- b) Define the following:
 - i. Receivership
 - ii. Scheme of arrangement (8 marks)

QUESTION THREE (20 MARKS)

- a) Contrast the two terms: bankruptcy and liquidation. (8 marks)
- b) Explain the following terms:
 - i. Assignment of property to trustee
 - ii. Fraudulent conveyance
 - iii. Fraudulent preference
 - iv. Absenting
 - v. Execution against goods
 - vi. Petition by debt (12 marks)

QUESTION FOUR (20 MARKS)

- a) Explain any four consequences of making a receiving order. (8 marks)
- b) State and list any five-priority order of paying debts of a bankrupt. (12 marks)

QUESTION FIVE (20 MARKS)

- a) The process of bankruptcy is not only a necessary evil but a beneficial one. Briefly compare and contrast this statement as far the law of bankruptcy is concerned. (10 marks)
- b) As any law, one becomes convicted by this law if he or she commits any acts of specific provisions of bankruptcy. In your own words, you are required to explain any five acts a

debtor may contravene.
marks)

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